



We're Taking You To School

Planning to Succeed: How to Develop a Business Plan

March 22, 2011

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**BANK OF
COMMERCE**



AGENDA

- Introduction
- What is a Business Plan
- Why is a Business Plan important?
- Where do I get information?
- What do I need in my Business Plan?
- Financial information
- Who should I get to review and advise me on my Business Plan?
- How often should I update my Business Plan?
- Wrap-up



INTRODUCTION

- Many ways to approach business planning
 - You can hire someone to do it
 - You can do it yourself, or
 - You can choose not to do a business plan
- What are the pros and cons?



INTRODUCTION

- Pros

- Reduce the risk of overlooking an important factor and not dealing with it on the front end
- Forces you to articulate your business model and thus makes it easier for you to see exposures
- Should improve a third party's understanding (bank or equity players) of your business model and likely your passion for the business.
- Most lenders and equity players will require a written business plan
- Should demonstrate the financial feasibility
- If you wait to plan until you need the capital, you likely will be busy, and won't have time
- Cash flow is king. You need it in the plan and it needs continuous updating to reflect significant changes
- How do you know if you achieved your objective / goal, if you never set the objective / goal



INTRODUCTION

- Cons
 - Plans don't sell a business to investors / bankers, people do - But a plan is necessary to give information to the investor / banker.
 - Plans can be too detailed or flowery.
 - 20 key points is about 16 too many!!
 - Limit key objectives to about 3 or 4 points.
 - Have hard targets.
 - Beware - THE HOCKEY STICK.
 - Too hard to prepare. Key is to tell your story in simple and focused statements. The mechanical requirements can come from a checklist, or hire an advisor such as your accountant for the financial schedules.



INTRODUCTION

- In Summary - Why?
 - Start up business, SBA will require as well as most bankers
 - Ongoing business, may not be required, but likely will improve chances of financing
 - Other reasons:
 - Support loan application
 - Raise equity funding
 - Road map to how you will do it
 - Create regular business review and course correction
 - Can help define agreement between partners
 - Evaluate new product line or expansion



WHAT IS A BUSINESS PLAN

- Should show that your business will generate profit and cash flow to cover debt and give a return to shareholders
- It is your story about your dream/passion. Tell it that way and then add the required points and financial schedules
- The story of your vision from start up to stabilization
- The mechanics of:
 - How
 - What
 - Why
 - When
 - Where
 - Who



WHY IS A BUSINESS PLAN IMPORTANT

- How do you know you achieved your objective without a plan
- Why would I lend or invest money on you without a written plan
- Written plan helps identify risks – you can then mitigate
- Shows cash flow position and need
- Required by SBA
- Likely by lender



WHERE DO I GET INFORMATION

- Depends on what you don't know
- If selling a product or service, visit the competition and price shop
- Find a similar business away from your likely market and talk to the owner, they will usually share their successes and problems
- Scan paper/internet for similar businesses up for sale.
 - Are you better to start from scratch or buy an existing business?
- Robert Morris – Library
- Internet – for business statistics by industry
- Franchisor material
- Suppliers and service providers for estimates of cost
- Business plan format
 - Visit www.sba.gov and click on “Writing a Business Plan”



WHAT DO I NEED IN MY BUSINESS PLAN “THE LIST”

- Can be brief or not so brief depending on scale and complexity:
 - Executive Summary
 - Company summary
 - Products, services or both
 - Market Analysis
 - Strategy Implementation
 - Risks
 - Management
 - Financial Plan



EXECUTIVE SUMMARY

- Key two or three selling points
- Keep it brief – no more than 2 pages
- Your passion needs to show here
- Financial:
 - Total capital needed
 - Total sales
 - Net income
 - Cash flow



COMPANY SUMMARY

- Factual description of your business
- Structure and ownership
- History
- Location



PRODUCT / SERVICE OR BOTH

- Describe product or service
- Why will it sell
- Why will your business be competitive



MARKET ANALYSIS

- Typical customer
- Competitive landscape
- Market size
- Your share and how you will grow



STRATEGY IMPLEMENTATION

- How will you sell/deliver product or service
- Processes needed
- Timeline of events
- Key milestones



RISKS

- 2 or 3 key risks to the business
- How will you mitigate



MANAGEMENT TEAM

- AB The AMCO Transmission Man
- Experience – Bio's
- What key skills – who has them
- Role in the business



FINANCIAL PLAN

- Start up to stabilization
- Sources and uses
- Balance sheet
- Income Statement
- Cash Flow
- Key metrics – business drivers



SOURCES AND USES TO STABILIZATION

Sources & Uses	
Equity	70,000
Debt	<u>160,000</u>
Total Sources	230,000
Uses	
Property & Equipment	100,000
Lease / Deposits	10,000
Working Capital	
accounts receivable	30,000
inventory	50,000
accounts payable	<u>-30,000</u>
net working capital – Sub total	50,000
cash	30,000
losses to breakeven	40,000
Total Uses	230,000



BALANCE SHEET

BALANCE SHEET	12/31/2011	12/31/2012
CASH	30,000	30,000
ACCOUNTS RECEIVABLE	30,000	60,000
INVENTORY	50,000	80,000
PROPERTY / EQUIPMENT	100,000	100,000
OTHER ASSETS	<u>10,000</u>	<u>10,000</u>
TOTAL	220,000	280,000
ACCOUNTS PAYABLE	30,000	60,000
ACCRUED EXPENSES		
DEBT	160,000	150,000
EQUITY CAPITAL	70,000	70,000
RETAINED INCOME/LOSS	<u>-40,000</u>	<u>0</u>
TOTAL EQUITY – Sub total	30,000	70,000
TOTAL LIABILITIES & EQUITY	220,000	280,000





INCOME STATEMENT

INCOME STATEMENT	START TO 12/31/2011	YEAR ENDED 12/31/2012
SALES	400,000	800,000
COST OF SALES – INVENTORY	<u>260,000</u>	<u>480,000</u>
GROSS MARGIN	140,000	320,000
SALARIES	120,000	200,000
GENERAL & ADMINISTRATIVE EXPENSE	<u>60,000</u>	<u>80,000</u>
PRE-TAX INCOME	-40,000	40,000



CASH FLOWS

CASH FLOW	START TO 12/21/2011	YEAR ENDED 12/31/2012
OPERATIONS		
PRE-TAX INCOME	-40,000	40,000
DEPRECIATION		
WORKING CAPITAL	-50,000	<u>-30,000</u>
OTHER ASSETS	<u>-10,000</u>	
TOTAL OPERATING	-100,000	10,000
INVESTING		
PROPERTY & EQUIPMENT	<u>-100,000</u>	0
TOTAL INVESTING	-100,000	
FINANCING		
DEBT	160,000	<u>-10,000</u>
EQUITY	<u>70,000</u>	
TOTAL FINANCING	230,000	-10,000
TOTAL CASH FLOW	30,000	0
CASH BEGINNING	0	30,000
CASH ENDING	30,000	30,000





KEY METRICS

- What are the one or two key metrics that drive the business
- CPA Firm - Utilization
 - Bank – Net Interest Margin
 - Restaurant – Fast Food
 - Average ticket \$
 - % Food cost, % paper cost, % labor cost
 - Your business



WHO SHOULD I GET TO REVIEW OR ADVISE ME

- CPA
- Banker
- Attorney
- Good friend who knows you



SUMMARY

- Tell your story with passion
- Keep it brief and to the point
- Style points are not that important