



# **BUSINESS PLAN OUTLINE GUIDE**

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## **WHY DO A BUSINESS PLAN?**

A business plan is a statement of what the business is, how it operates, how it is managed, how it interacts in the marketplace, how it functions financially and what its strengths and weaknesses are. Through financial and operational projections, the plan describes where the business is going and what is needed for it to get there safely. The business plan is a planning tool that details the goals of the business and gives the owner a path to follow. It can help the owner make judgments and decisions by forcing consideration of all the important areas of business operation. In addition, a business plan is almost always required by lenders considering a business loan request.

Lack of planning is often the cause of serious business problems or outright failure. Poor management and planning are estimated to account for over 90% of business failures. The most common mistakes made are: poor initial planning; not understanding market position; not knowing costs; not properly pricing; not planning cash flow in advance; not monitoring financial position at all times; not controlling costs; and, not planning and managing growth.

Following is descriptive detail to the business plan outline. The outline itself is a very detailed guide to assist Chuuk SBDC's clients in preparing one of the most important business documents for their business, large or small. In some sections of this outline, a fictional business is followed for illustrative purposes. The fictional company's analysis is not complete, but enough detail has been included to provide guidance

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# Executive Summary

The executive summary is potentially the most important section of your business plan. It is normally the first section of your business plan that investors will read, and could be the last if it is poorly written. An executive summary should briefly describe the company, the product or service, and the unique opportunity your company is offering. It should also provide a short description of your key management team members and an outline of the investment you are seeking. Don't forget to tell the reader why you need the money and how and when they can expect to be paid back!

A good executive summary is essentially a condensed but powerful summary of your entire business plan. It creates a first impression in your reader's mind of both you and your business. Use clear and concise language - although this applies to your entire business plan, it is especially important in your executive summary. Use words that command attention, and that get your reader excited about the opportunity you are presenting.

The following excerpt is from David Gumpert's book, "How to Really Create a Successful Business Plan". His insight clarifies the importance of a powerfully written executive summary:

Certainly the most significant part of any business plan is its executive summary. What is an executive summary? Probably the best way to begin defining it is to explain what it isn't.

The executive summary is not an abstract of the business plan.  
The executive summary is not an introduction to the business plan.  
The executive summary is not a preface.  
The executive summary is not a random collection of highlights.

Rather, the executive summary is the business plan in miniature. The executive summary should stand alone, almost as a kind of business plan within the business plan. It should be logical, clear, interesting - and exciting. A reader should be able to read through it in four or five minutes and understand what makes your business tick. After reading your executive summary, a reader should be prompted to say, "So that's what those people are up to."

Limit the length of your executive summary to no more than 2 to 3 pages and stick to the facts. Investors are searching for evidence that justifies the soundness of your opportunity, and that gets them excited about what you intend to achieve. If your executive summary is clear and concise, you are one step closer to impressing your reader, and on your way to a terrific business plan.

**The following are several common mistakes that lessen the effectiveness of your executive summary:**

- Lacking a specific focus
- Too long and wordy, and failing to get to the point
- Trying to be all inclusive (it should be a powerful summary)
- Failing to demonstrate a special or unique opportunity
- Failing to outline the terms of the investment sought
- Failing to generate enthusiasm in the reader

**Some suggestions to combat these problems:**

- Limit your executive summary to a maximum of 3 pages (at the very most).
- If possible, attempt to present your executive summary on a single page.
- Focus on the opportunity you are presenting your investor and explain why it is special.
- Make certain that the opinions and claims in your executive summary are fully supported in the other - sections of your business plan.
- Attempt to use only concrete facts and figures that explain your business concept, market niche and financial projections.
- Don't forget to include the details of your investment (the amount you need, what you will spend it on, and the return you offer your investor).
- Also consider who your reader is most likely to be, why they are reading your business plan, and the response you hope to generate.

# Table of Contents

A well-designed table of contents ensures that the readers of your business plan don't waste time searching through your plan for the information they are most interested in. Very few investors will read your plan from front to back. Instead, they will normally jump around looking for the details they need to make an informed investment decision. Keep this in mind when you create your table of contents, and organize it to make it as easy as possible for readers to find their way around your plan.

BizPlanIt.Com suggests inserting the table of contents immediately after the executive summary in your business plan. Most readers will start with your executive summary, and then want to locate specific information that they want to address first.

Your table of contents should list all the major sections within your business plan, and can also be broken down into important or clarifying sub-sections. Be sure to include a page number for each section and subsection.

Possible numbering systems include simply numbering the pages in sequence or a sub-section system such as: This format may provide better organization for a lengthy or complex plan.

Company Description	A
Legal Description	A-1
History	A-2
Current Status	A-3

The table of contents should be completed after the rest of your business plan is finalized. Make sure your table of contents page is organized, clear, neat, and properly numbered. Mistakes, sloppiness, or misspellings in the table of contents give your reader the impression that you are unorganized and careless.

## I. THE BUSINESS DESCRIPTION

### A. Name and Address of Business and Owner, Type of Business

The exact legal name of the business and the physical address and general location of the business. Is the business primarily engaged in wholesale or retail trade, service, manufacturing, agriculture/forestry/fishing, construction or transportation? For example,

*"Mama Mia Hot Sauce, Inc., 123 Tomato Alley in the center of downtown Missoula, manufactures and sells wholesale three types of hot sauce. The primary shareholder and principal manager is Izzy Gelato who resides at 123-B Tomato Alley in Missoula, MT."*

### B. Date Founded, By Whom, Why

*"Mama Mia Hot Sauce, Inc. was founded by Isabella Fiat in 1930, in New York City. Isabella, grandmother to the current owner Izzy, founded the company because of the popularity of her hot sauce with her neighbors. She gave bottles of hot sauce to the neighbors and they kept telling her it was so good they bet she could sell a million bottles. Isabella started the business in her kitchen in order to help her immigrant family maintain hearth and home during the Depression years. After Isabella retired in the 1950's, the company was handed down to her daughter Carlotta Milano who then moved the company to Missoula, MT, where she could take advantage of the lower cost of production and a small town atmosphere for her family. After Carlotta retired in 1989, the company was passed to Izzy, Carlotta's daughter. Izzy wants to expand the company and its product line. She spent several years working for another food manufacturer, General Foods, and wants to continue her family's legacy and make her own contribution to the company."*

### C. Form and Ownership

What is the legal form of the business and who owns it?

*"Mama Mia Hot Sauce, Inc. is a C-corporation owned 20% by Gina Fiat, Secretary, 30% by Carlotta Milano, Treasurer, and 50% by Izzy Gelato, President. Izzy has the authority to enter the corporation into debt agreements provided one other corporate officer signs the borrowing resolution. Articles of Incorporation, By-Laws and Borrowing Resolution are included in the Appendix to this plan."*

D. Mission Statement, Business Goals

The mission statement is practical and philosophical. It is extremely important because everything the business does in the future must be consistent and in compliance with its content. It is the business's marching orders. The mission statement can include: the purpose for which the company exists; what the company does; the company's goals; quality; its role in the community; ethical practices; profitability; customers; shareholders; the environment.

*"Mama Mia Hot Sauce, Inc. will prepare and sell a superior product at a fair price at all times. It will provide an equitable wage for its employees and a family-friendly workplace. It will employ no production processes that pollute the environment and engage in no business with unethical suppliers or distributors. It will retain enough earnings to ensure the company's viability, but distribute the remaining net profits equally to its shareholders and charitable community organizations."*

Business goals should be summarized for one, three and five years.

*"First Year Goal: Mama Mia plans to purchase new bottling equipment to increase production capacity by 10,000 bottles per day. Mama Mia plans to add 50 new customers. Test marketing on a new hot sauce to be completed and, if feasible, a marketing plan developed for the product. Billing and collection procedures updated.*

*Third Year Goal: To have entire plant modernized and production capacity increased by 100,000 bottles per day. To have expanded hot sauce line to include three new sauces. To have added 300 new customers and distribution to all 50 states.*

*Fifth Year Goal: To have debt reduced to \$100,000 and retained earnings of \$1 million. To have funded several new community projects. To have profit sharing plan and full medical and dental plans for all employees. To be the number one hot sauce company in the United States."*

E. Key Officers, Management

Who will put the business plan into action? The reader (financier) will need to be persuaded that the people running the company have the qualifications to get the job done and done well. Include resumes and job descriptions of all key employees in the business in the Appendix.

F. Products/Services Offered

Describe the product/service in enough detail so that it is readily understandable and the reader has the impression that it works or will be ready to go.

*"Mama Mia Hot Sauce at the present time manufactures three different hot sauces. One hot sauce is designed especially for meat dishes and is made from a beef stock base. Another sauce is tomato based and is used primarily for pasta dishes. The third sauce has a garlic/olive oil base and is used primarily for baked flour goods. New products in the testing phase include a chili condiment sauce, fish stock pepper sauce and a mango pepper hot chutney style sauce. All products are sold wholesale at this time in bulk containers. The feasibility of offering specialty sauces in consumer-ready containers is being explored now with distributors and retailers."*

G. Markets/Customers Served

Who buys the product/services and what markets does the business serve?

*"Food distributors on the East and West Coasts, in Chicago and in Spokane are the buyers of Mama Mia's sauces. The distributors in turn sell the product to major restaurant chains, specialty frozen food manufacturers, large commercial bakeries and some specialty restaurants and delis. Mama Mia's sauces are not sold at the retail level, but the feasibility of broadening the product line and end-users is being tested now. Preliminary results indicate favorable reception with established wholesale buyers because Mama Mia's sauces have always sold well and there have been few, if any, complaints over the years."*

H. Distribution of Products/Services

How does the product/service reach the customer?

*"Throughout the years, Mama Mia has developed strong relationships with major food distributors in the major population corridors of this country. Because the sauces have sold well, the distributors are willing to help promote the sauces to other accounts so that new customers are added every year. When the sauces were manufactured in New York, only New York, Boston, Washington D.C. and Atlanta food distributors were selling them. The sauces were loaded on trucks at night three times weekly and were taken to Kennedy International for flights to the cities. When Mama Mia relocated to Missoula, the city's Trade Port Authority helped arrange special flights out of Missoula four times weekly with a private commercial carrier to distributors in the East and West, Chicago and Spokane."*

## II. THE MARKETING PLAN

The marketing plan is the critical link between product/service and customers. Oftentimes, the marketing plan is the hardest section of the business plan to put together. This section requires extensive research be completed before any financing is contemplated because the financier will want to be sure that there are enough customers willing and able to purchase the product/service to repay debt. A clear cut delineation of target markets is a critical part of the marketing plan. Much hinges on the reader being convinced that there will be a large enough market for the product/service. High potential business opportunities have a specific market niche for a product/service that meets an important customer need and provides a high value-added benefit to customers.

### A. Industry Profile

What industry is the product/service in? What is the current phase of the life cycle of the industry (starting, emerging, growing, mature, declining)? What is its competitive profile (one or two, several, many)? What is the size of this industry (an indicator of size such as \$ volume of sales, number of households reached, etc.)? What are the growth trends and product/service outlook for this industry? What are the profitability characteristics of this industry (high or low margins, high overhead, high capital investment)? Will this particular product/service have any impact on the industry?

*"Mama Mia is in the food industry, which is in the mature stage of its life cycle. This industry, fiercely competitive, is characterized by many different competitors, from huge companies with over \$1 billion in sales annually to one-person, one-product proprietors. Excluding agricultural sales, the processed food industry's most current sales data reflect total sales of \$700 billion, \$500 billion in domestic and \$200 billion in international sales. Domestically, the food industry affects every person in every household in the United States and many countries overseas. While the processed food industry is mature, product growth continues in that more and more families purchase ready-made foods. The industry adapts to changing consumer tastes and preferences. This industry has relatively low profit margins, large overhead and is capital intensive. Mama Mia alone has no significant impact on this industry, but is an important niche player in its market segment."*

### B. Competitive Analysis

How many competitors, direct and indirect, are there in the marketplace and what are their competitive characteristics? Where does the business fit in; what market segment niche will be pursued? How will the business gain a competitive advantage over the competition? A competitive matrix is attached to summarize the competitive analysis.

The relationship of supply and demand will affect the entire marketing plan in that high demand coupled with low supply usually indicates fewer competitors and lower marketing costs. Caution must be exercised to scan the current environment because new entrants will be drawn to the marketplace and their presence will change the market and affect the profit and cost dynamics of the product/service. Conversely, low demand and high supply indicates market saturation and the need for higher marketing costs. In this situation, market share must be gained by taking away customers from competitors and there will be a competitive reaction which must be addressed in the marketing plan.

*"While there are many hot sauce makers, Mama Mia is most directly in competition with five commercial providers, the major one being "Aieeee Chihuahua". Many exclusive restaurants make their own sauces and no commercial hot sauce manufacturer has broken into that market. Mama Mia's market niche is with well-established food purveyors who must have consistent quality and taste delivered quickly. Mama Mia is not trendy and in that sense has not followed every move in the food industry, but the company does respond to changes. For example, the current sauce recipes have included less and less oil and salt over the last several decades. By addressing the health concerns of end-consumers and always providing a quality product on time at a mid-level price, Mama Mia has very strong customer loyalty and reputation. There are always new entrants into the market, but barriers to entry have been significant (high capital costs, customers reluctant to switch suppliers) and not many competitors in this particular market segment have survived over the years."*

C. Products/Services Differentiation

What is different about the business from other competing businesses? Successful businesses provide something that is unique. Ways products/services are differentiated include: higher quality; better customer service; quicker responsiveness; safer/healthier; more attractive; more convenient; lower cost.

*"Mama Mia's Hot Sauces, Inc. differentiates its products by making them with higher quality, fresh, organic ingredients than the competition. The company differentiates itself from its competitors in customer service by responding quickly to emergency orders and has, upon request from its best customers, made special sauces."*

D. Target Market/Customer Profile

After completing the competitive and market analysis, the next step in the marketing plan is to target markets and customers who are most likely to benefit from and therefore purchase the company's products/services. The 80/20 rule is that 80% of a company's revenues are generated by 20% of its customers. To make the business more profitable and competitive, it is important to try to reach market segments whose general characteristics indicate a highly probable usage and purchase of the company's products/services. A customer profile worksheet is attached to record the results from the analytical assumptions and conclusions. For business-to-business sales companies, the chart can be modified and sales levels and phases of life cycles should be analyzed.

*"Mama Mia's target markets include middle income, two-earner households; young urban professionals and single retired middle to upper income persons. These groups want well-prepared and seasoned food that can be quickly accessed because there is not time or inclination to do much cooking at home. They tend to eat out at least four times a week and buy frozen entrees and deli items for other meals. This group tends to be college-educated and located in major population centers in the country. They are health-conscious and involved in activities outside of the home. They don't buy very high-end consumer items, but tend to purchase solid value, name brand goods."*

E. Market Demographics/Size

How large is the market (population, number of businesses)? What are the growth trends and potential for the market? Are there any market concentrations? Demographic information is usually available from county and city planning offices Census data. This information includes the number of persons in age ranges, income levels, education levels, in households, residences, etc.

*"There are 5,000 food distributors throughout the United States serving a population of approximately 270 million. The population is growing at one to two percent per year, but the number of distributors has remained the same for over five years and will most likely not change during the planning period. Food distributors are concentrated in large city markets on the East and West Coasts and in Chicago. Seattle and Denver are picking up more distributors as some older ones in population loss centers in the east have moved to the west."*

F. Marketing Strategy/Market Share

What are the specific plans and action steps to be taken to capture customers and market share during the planning period? How and who will sell the product/service? What is the advertising strategy? It is important that all promotional activities be consistent with the position and image of the business. For example, a fast food restaurant would not advertise in Architectural Digest or cater a black tie charity ball. What will the company do in terms of public relations?

*"Mama Mia intends to increase its market share from 15% to 20% over the planning period. It will introduce new sauces in 19XX and further penetrate the prepared-food market. It will be poised to accomplish this with a modernized facility ensuring quality production and control to maintain the company's service quality reputation. Sales calls will be made by Izzy in all mid-west and western states. Carlotta will assist her daughter in the sales effort to have Mama Mia sauces in all 50 states by preparing and executing a product promotion campaign in the south. A written direct marketing piece on the company and its product line will be sent to all food distributors. Institutional ads will be placed in industry publications. A new initiative to market to foreign markets will be undertaken in year five of the plan by contacting international food brokers and sending selected sample product. Mama Mia will continue to donate 50% of net profits to community projects with a focus on a group housing and community center project in Missoula by the end of the fifth year of the plan."*

### III. OPERATING AND CONTROL SYSTEMS

This section of the business plan describes how the business will internally function in order to produce, deliver, monitor its products/services and the results therefrom. According to one well-respected national business consulting firm, "one mark of the incompetent entrepreneur is a disdain for all the details involved in operating a business and controlling its activities." Without operating and control systems fully thought out and presented in the plan, a financier and/or investor will question whether the business can actually realize the goals set out in the business plan.

#### A. Personnel

How many employees will there be over the planning period? What types of functions will they perform? What are the skills required to fulfill job responsibilities? What will their hours be (part-time, shift, etc.)? What will be the pay scale and benefits offered by the company?

#### B. Production/Service Methods

How is the product/service actually produced? Describe the production process. To illustrate the process, a day in the life of the company can be depicted from opening to closing. How is service performed? Do the clients come to an office or is the service performed on the customer's site? What are the hours the business is open?

#### C. Quality Control

How will consistent quality of product and service delivery be assured? What specific quality control measures will be implemented?

*"Mama Mia employs one person who has very sensitive taste buds who tests every batch of sauce. If the sauce is not up to her taste standards, the sauce is sent back to production for re-mixing. If the re-mixed sauce does not pass the taste test, the sauce is sent to a homeless shelter. This quality control procedure has been in effect for years and has always been reliable."*

#### D. Facilities

Describe the physical facilities in which the business will be located. Is it owned or leased? What are the terms (price and term) of the lease? What is the size (square feet) of the building and the age? Is there enough space to accommodate growth? Can the facilities be upgraded or will the business have to move if it grows during the planning period? Are the mechanicals (electric, plumbing, sewer, telecommunications) up to code and adequate for intended usage? Is there adequate parking and street access?

#### E. Suppliers

What materials are used to produce the product/service and who are the suppliers? Is there more than one source of supply? Are these suppliers reputable and reliable? Do they supply the best quality at the most competitive prices?

F. Billing and Collection Policies and Procedures

Describe the business credit plan and explain why this plan was chosen. How is credit worthiness determined? Describe billing procedures. Are accounts receivable monitored? How often? When is a receivable considered delinquent? Outline the steps followed from the time an account becomes delinquent until the delinquency is resolved. Are formal collection policies in place? Describe collection procedures. Who is responsible for billing receivables and for collections?

*"Because granting credit is an industry standard, Mama Mia's offers a 2/10/net 30 credit policy to customers who meet credit standards determined by a review of their Dunn & Bradstreet report. Billing is done upon delivery of product. Accounts receivable are monitored and aged monthly. A receivable is considered delinquent when it is 60 days past due and a collection letter is mailed to the customer. At 90 days the account is referred to JAH Collection Services. This service has a strong collection recovery record and Mama Mia's has worked with this service for two years."*

G. Recordkeeping Policies and Procedures

Business owners are responsible for maintaining a universally accepted method of recordkeeping. The system should be simple to use, accurate, timely, and consistent. It provides business management information for the owner but must also be designed for understanding by others with an interest in the business -- business consultants, lenders or government entities, for example. What recordkeeping tools or systems are in place? Identify the types of records kept. Who is responsible for recordkeeping? What is this person's background or experience with recordkeeping? Does the business use professional recordkeeping outside services? If so, from whom and what aspects of business recordkeeping do they perform? Describe daily, weekly or monthly recordkeeping routines. Identify financial reports used to measure and monitor the business condition. How often are these reports prepared?

*"Mama Mia's uses a standard accounting software program for all financial recordkeeping. The program provides a daily income/expense ledger and inventory control reports; bi-weekly payroll reports; monthly A/P and A/R aged reports and profit and loss statement; and quarterly balance sheet statements. Recordkeeping functions are performed by office staff under the supervision of the office manager who has worked with the company for over three years. Our books are audited annually by Moyle, Beveny & Deyer, a top local accounting firm, which also prepares the company's federal income tax returns."*

## IV. THE FINANCIAL PLAN

The financial section of the business plan is the numerical expression of the marketing analysis and operating plans. The financial projections indicate if the business idea is attractive enough to secure investments and financing. The thoroughness of the financial plan will indicate to the reader that the business will be well managed. According to the SBA, "businesses do not fail for the lack of money as much as for the lack of money management." Entrepreneurs need sound records and financial management to keep track of assets and liabilities. And, they must always know the company's current and future cash positions.

The cash flow projections and analysis are the most important section of the business plan. The need for cash flow planning comes from the time discrepancy that usually exists between the expenditure of funds for inventory, payroll, rent, debt payments and other overhead and the actual receipt of cash from sales. "Profits are great, but cash pays the bills." Cash flow planning is simple in concept, but involves considerable effort to develop. Time is the critical ingredient in cash flow planning. The company may have considerable money coming in the future, but it could become insolvent if cash is paid out in the present. At any time, a negative cash balance must be covered either with equity or debt.

### A. Historical Financial Statements

For existing businesses, attach the past three years of Balance Sheets, Income Statements and Cash Flow Statements to the business plan. In this section discuss any relevant trends and variances in: assets, debts and equity; revenues, cost of goods sold (COGS), overhead and net income; cash received, cash paid out and net cash balances. Financiers will spread and analyze these statements and use them as a basis for evaluating the cash flow projections, break-even analysis and pricing and margins. If there are large unexplained differences between the past and the future, the projections will be discounted and the loan request may be denied or the loan amount reduced.

### B. Current Balance Sheet

The Balance Sheet is a statement of assets, liabilities and equity at a specific date. For existing businesses, include a Balance Sheet from the most current period. For start-up businesses, include an estimated opening Balance Sheet. Discuss significant balance sheet items.

C. Pricing Strategy

Pricing is the single most important factor affecting profits. Pricing a product/service includes consideration of the following assumptions: the customer is central to the business; the business operates in a competitive marketplace; pricing is a reflection of the business's position in the marketplace; it is a criteria by which consumers evaluate the product/service; and, pricing must be adequate to return a profit to company owners and investors. Pricing is not done in a vacuum; price is what a business gets not what it wants. The prices of other products/services limit pricing freedom. To set prices, (1) determine floor and ceiling prices, (2) evaluate price sensitivities of customers, (3) select a strategy and (4) set the price

*"Mama Mia's total fixed costs for the year are \$240,000. The average sales price per unit of hot sauce is \$3.50. It costs a total of \$2.27 per unit for ingredients, labor, machine usage and freight. The resulting gross profit margin is \$1.23 per unit, or a 35% gross profit margin. In order to break-even, Mama Mia must have annual sales revenues of \$686,000 ( $\$240,000/0.35$ ). The number of units that must be sold to break-even is 195,120 ( $\$240,000/\$1.23$ ). With the expansion of the physical plant, total fixed costs for the year will rise to \$350,000 per year. The gross profit margin of 35% is projected to remain the same, although labor costs will go down but machine costs per unit produced will rise. The new break-even point in units for Mama Mia will be 284,550 ( $\$350,000/\$1.23$ ) translating into \$1 million in sales revenue ( $\$350,000/0.35$ ). Mama Mia currently sells over 300,000 units of hot sauce, indicating a feasible expansion project which First City Bank of Missoula will be eager to finance."*

D. Break-even Analysis

How many units must be sold to cover all costs? A break-even analysis pinpoints how changing prices, increasing or decreasing expenses will affect profitability and unit sales. A break-even analysis tests the feasibility of achieving the level of unit sales necessary to pay for all costs. Break-even in units is calculated: Break-even units = total fixed costs/(unit sales price - unit cost of goods sold). Break-even dollars = break-even units x selling price. Break-even sales revenue = total fixed costs/gross profit margin percentage.

*"Mama Mia's total fixed costs for the year are \$240,000. The average sales price per unit of hot sauce is \$3.50. It costs a total of \$2.27 per unit for ingredients, labor, machine usage and freight. The resulting gross profit margin is \$1.23 per unit, or a 35% gross profit margin. In order to break-even, Mama Mia must have annual sales revenues of \$686,000 ( $\$240,000/0.35$ ). The number of units that must be sold to break-even is 195,120 ( $\$240,000/\$1.23$ ). With the expansion of the physical plant, total fixed costs for the year will rise to \$350,000 per year. The gross profit margin of 35% is projected to remain the same, although labor costs will go down but machine costs per unit produced will rise. The new break-even point in units for Mama Mia will be 284,550 ( $\$350,000/\$1.23$ ) translating into \$1 million in sales revenue ( $\$350,000/0.35$ ). Mama Mia currently sells over 300,000 units of hot sauce, indicating a feasible expansion project which First City Bank of Missoula will be eager to finance."*

E. Projected Cash Flow Projections, Income Statements and Balance Sheets

Prepare monthly cash flow and income statement projections for the next fiscal year. Prepare annual cash flow projections, income statements and balance sheets for the next two to four years, check with your local bank for their requirements. The cash flow projection is a critical tool for a new and growing business. It indicates how much cash is needed and when it is needed so that investing and borrowing needs can be arranged in advance. It is important to understand and arrange for cash infusions in advance because financing and equity may not be available on short notice.

F. Forecasting Assumptions

No reader can understand any projections without an explanation of the forecasting assumptions behind the numbers. The assumptions need to be written out on a line by line basis, explaining any seasonal variations. If the assumptions are credible and supported by the research in the marketing plan, the projections are likely to be accepted by lenders and investors.

G. Risk Analysis and Alternative Plans of Action

What steps will be taken if some or all of the assumptions in the plan change? There are always differences between a plan and what actually happens in the business and the business needs to be flexible and quickly adapt to changes in the marketplace. By careful, thorough planning, big surprises can be avoided, but uncontrollable external factors (oil shortages, drought) are always present. How will the company respond if sales drop? What if product costs go up? What if a new competitor unexpectedly enters the market? Consumer preferences shift: how can the product/service be adapted to meet new/changing needs?

## V. REQUEST FOR FINANCING

### A. Amount, Purpose of Request, Collateral

How much money does the business need to borrow? What is the purpose of the borrowing? What are the business and owners offering for collateral to secure the loan and the estimated value of the collateral?

*"Mama Mia is requesting a \$500,000 loan. The purpose of the request for financing is to provide funds for plant expansion and new equipment. The collateral offered to secure the loan is all business assets which are valued at \$750,000. There is no current company indebtedness and the business assets do not secure any other debt."*

### B. Sources and Uses of Funds

To undertake any business venture, funding is required. Sources of funding usually come from two places: a lender and the business owner (equity). Total Uses of Funds = Total Sources of Funds. What are the total costs of the project? How much equity will be put into the project? Fill in the attached Sources and Uses chart.

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#### MAMA MIA HOT SAUCE, INC

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	Uses of Funds		Sources of Funds		
	Project Costs		Financing	Equity	Total
Working Capital		\$ 10,000	\$	\$ 10,000	\$ 10,000
Inventory		50,000		50,000	50,000
Machinery/Equipment		150,000	150,000		150,000
Furniture/Fixtures		40,000	40,000		40,000
Real Estate					
Land					
Existing Improvements					
Construction		310,000	310,000		310,000
Business Purchase					
Debt Refinance					
Other					
<b>TOTAL</b>		<b>\$560,000</b>	<b>\$500,000</b>	<b>\$ 60,000</b>	<b>\$560,000</b>

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C. Repayment Plan

How long will it take the business to repay the debt? What are the requested repayment terms? The projected cash flow spreadsheets should show that the business is generating enough cash to repay monthly principal and interest according to the debt amortization schedule.

*"Mama Mia is requesting a seven year term loan with level principal amortization payments. At an 11% interest rate, monthly principal and interest payments are \$8,565, \$102,780 annually. Current cash flow levels and projected cash flow balances indicate cash available to repay debt of \$150,000 at a minimum."*

D. Debt Repayment Contingency Plan

If there is a cash shortfall, where will cash come from to repay debt?

*"If for some reason there is a cash shortfall in any month, one of Mama Mia's certificates of deposit would be liquidated to make the debt payments. Mama Mia has a liquid investment portfolio of \$100,000."*

## VI. BUSINESS PLAN ATTACHMENTS

Below is a list of possible attachments to support the business plan. These attachments must be included if applicable to the business.

- Loan Application which includes personal financial statement and credit history/report
- Three years personal tax returns
- Three years tax returns for business
- Leases
- Contracts
- Letter of Intent to Purchase
- Business licenses, permits
- Insurance information
- Resumes
- Organization Chart and job descriptions
- Personal and business references
- Samples of marketing materials - business cards, brochures, statements, ads, flyers, price lists, etc.
- Schematic of floor plan, signage and/or picture of business location
- Product endorsements
- Proof of fulfilling legal requirements for your type of business--for example, insurance and authority for transportation businesses; medical license for health care provider.
- Articles of Incorporation, Corporate By-Laws, Partnership Agreement, Borrowing Resolution

### SOURCE AND USE CHART

Uses of Funds		Sources of Funds		
	Project Costs	Financing	Equity	Total
Working Capital	\$	\$	\$	\$
Inventory				
Machinery/Equipment				
Furniture/Fixtures				
Real Estate				
Land				
Existing Improvements				
Construction				
Business Purchase				
Debt Refinance				
Other				
<b>TOTAL</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>