



Economic Development and Main Street

A Guideline for Preparing a Business Plan

Reading the entire text of this document is the first step in preparing your business plan.

There are two basic reasons for preparing an extensive business plan. First, it requires the entrepreneur to thoroughly investigate the factors that will have a bearing on the success of the business. Second, it will enhance the ability of the entrepreneur to secure financing by providing an organized overview of the venture for lenders and investors. It also provides insight into the entrepreneur's ability to define and develop strategies for critical areas of the business.

The following outline has been prepared to help the entrepreneur assemble the facts that are essential to good business planning. Complete your business plan using the accompanying outline to ensure that the necessary details are included. Keep in mind that thoroughness, clarity, and rationality of the plan are all factors that will play key roles in successfully financing, starting, and operating your business.

Because these guidelines were written to cover a variety of businesses, rigid adherence to them is not possible or even desirable for all businesses. Not all parts of all sections will be necessary for each individual's business plan.

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I. EXECUTIVE SUMMARY

An executive summary should be written to summarize the important components of the business plan. Ironically, this is the first section of the business plan, but it is the last section written. Its purpose is to convey to the potential financial lender or investor, in two pages or less, the relevant points of the business venture. Therefore, it is written after the entire business plan has been prepared.

The executive summary is a written version of a one to two minute pitch. In other words, imagine that you are "pitching" your idea to a potential investor and only have one to two minutes of their time. To convince the potential investor that this is a good investment, you must condense your message into a package of key points about the business.

The executive summary must capture the reader's attention. If you cannot capture the investor's attention within the first two pages, then the chances of the remainder of the business plan being read are not very good. The following information should be included in the executive summary:

- Company name, address, and telephone number
- Brief description of the business
- Brief description of your target market
- Brief description of your strategy to make the business succeed
- Brief description of the owners and key people, including names, addresses, phone numbers, and managerial / technical experience
- Brief analysis of the financial needs of the business, including the planned use of any borrowed / invested funds

II. THE INDUSTRY, THE COMPANY AND ITS VISION, AND ITS PRODUCTS

The purpose of this section is to assist you in describing your business venture in a detailed but concise manner. You must clearly present the nature of the industry, the business you are in, the vision for the company, and the product you will offer.

1. The Industry

Present a brief description of the background of the industry, the current status and the outlook for the future in which the business will operate. Discuss new products and developments, new markets and customers, and any other new trends that could affect the business. Identify all sources of information used to describe these trends.

2. The Company and Its Vision

Briefly describe the business area your company is in, or intends to enter, and your company's overall mission; also known as the mission statement. This section should discuss your general business goals and objectives. Goals address the question, "Why am I in business?". Objectives are the specific targets aimed at obtaining those goals. Next, briefly describe what makes your business unique, including any factors that will distinguish your company from others in the same industry. This section should also discuss the ownership and legal form of the company. Consult an attorney for the form (such as sole proprietorship, partnership, or corporation) that is best for your business.

3. The Products or Services

Description: Describe in detail the products or services to be sold, including all features. This section should also describe how customers will use your product or service, as well as what benefit it will provide or need it will fulfill. Emphasize any unique features of your product or service and highlight differences between what is currently on the market and what you will offer. Define the current state of development of the product or service; include a photograph, if applicable.

If you will be manufacturing a product, describe the production process, raw materials required, and the amount of time required to manufacture the product. You should also describe the plant layout and how the overall manufacturing process will flow from raw materials to finished product.

Proprietary Position: Describe patents, trade secrets, or other proprietary features. Discuss any advantage that you might have that would enable you to achieve a favorable position in your industry.

III. BUSINESS ANALYSIS

The purpose of this section is to guide you through the process of analyzing your business as compared to the competition. In Section II, you discussed why you are in business. This section should discuss "How to get there."

1. SWOT Analysis

In order to compare your business to the competition, you must analyze the business internally and externally. You must determine your Strengths, Weaknesses, Opportunities, and Threats.

Strengths are positive internal factors a company might possess that can be used to help accomplish the overall mission, goals, or objectives. Examples include a strong sales force, specialized skills or knowledge, etc.

Weaknesses are negative internal factors that might interfere with the accomplishment of the overall mission, goals, or objectives. Examples might include a weak sales force, lack of capital, poor management skills, and lack of knowledge.

Opportunities are positive external forces that can help a company's ability to achieve its mission, goals, or objectives. Examples include a niche in the market, trends in the market, etc.

Threats are negative external forces that interfere with a company's ability to achieve its mission, goals, or objectives. Examples include an economic recession, rising interest rates, government regulations, etc.

2. Market Positioning and Image

Briefly describe the company's overall position in the overall market place. In other words, determine how your business will capture its place in the market and compete effectively. Some things to consider might be price and quality. This section should also describe the image your company plans to project. Will you be a low cost, discount store, a high-end upscale store, or somewhere in the middle?

3. Business Strategy

This section describes how a business will gain a competitive edge in the market place, and what distinguishes the business from the competition. In other words, determine what will make you unique according to your potential customers. This section should also describe "How" to obtain the goals and objectives described in Section II. For example, if one of your goals is to be a low cost leader with your specific product or business, this section should describe how you are going to reach that goal.

IV. MARKET RESEARCH AND ANALYSIS

The purpose of this section of the business plan is to present enough facts to determine if your product or service has a substantial market in a growing industry and can achieve sales despite a competitive market. This section is one of the most challenging to prepare and also one of the most important. Almost all subsequent sections of the business plan depend on sales estimates that are developed in this section. The sales levels you project, based on the market research and analysis, directly influence the size of the operation, the marketing plan, and the amount of debt and equity capital required. Market research defines the need for the product, aids in predicting market share, identifies competition, provides direction for efficient use of advertising and promotional dollars, identifies problems and opportunities, and establishes benchmarks by which to measure progress and success.

Basic research need not be expensive. Examples of primary (non-published) sources include personal focus group interviews, customer surveys and questionnaires, telephone surveys,

traffic counts, and daily transaction reports (example includes information on personal checks you receive in your business). Examples of secondary (published) research sources include business directories, advertising media, demographic data, census data, local government sales tax data, chamber of commerce information, and forecasts.

The three main types of information that you will need to collect:

- Geographic - "Where are my customers located?"
- Demographic - "What are the characteristics of my potential customers?" i.e.; age, education, income, gender, marital status
- Psychographic - "What makes my customers buy a product?" and "What are they looking for?" i.e.; price, quality, location, convenience, status.

Because of the importance of market analysis and the dependence of other parts of the plan on the sales projections, you may want to prepare this section of the business plan before you do any other. Allow enough time to do extensive research and analysis and check all sources of market data. As already mentioned, this is a challenging section to prepare, but a good place to start is your local library or chamber of commerce.

1. Target Market

One of the main objectives of market research is to identify the small business' target market, which is the group of customers whom the company plans to market its products to. Who and where are the major purchasers? What is the basis for their purchase decision: price, quality, service, personal contact, or some combination of these factors? Are you trying to target a specific age group or status of customer? Basically, who is going to buy your product?

2. Market Size, Makeup and Trends

Describe the primary market for your product in terms of total potential sales volume. In other words, how many customers does the market contain, and what are their potential annual purchases? Also, describe the seasonal fluctuations and the potential annual growth of the total market for your product or service, and discuss the major factors affecting the growth (industry trends, economic trends, government policy, population shifts). Is this a one-time purchase or a product that is repurchased on a regular basis?

3. Market Share and Sales

Summarize what it is about your product or service that will make it saleable in the face of current and potential competition. Identify major customers who are willing to make purchase commitments and if possible attach their commitment letters to your plan. Discuss which customers would be major purchasers in the future and why. Based upon your assessment of the advantages of your product or service, market size and trends, customers, the competition and their product, and the sales trend in prior years, estimate your share of the market and your sales in units and dollars for a minimum of two years. Be sure to state any assumptions upon which your projections are based.

4. Pricing

The pricing policy is one of the most important decisions you will have to make. The price must be right to penetrate the market, maintain market position, and produce profits.

To determine price, calculate production cost and add a percentage for profit. Consider overhead, promotional and advertising expenses, and delivery cost. Remember that inherent price limitations in the marketplace, as well as variations of internal costs, weigh heavily in determining price. Pricing must be in line with that of major competitors offering similar products and services.

There is a distinct difference between value and price. While some customers do not look beyond a price tag, others also consider service, dependability, and convenience. You must know what motivates the customer to buy before determining what he is willing to pay for merchandise or services.

Finally, when determining price, decide what image you want to project. Describe if you will have a low end priced product, high end product or somewhere in the middle.

5. Sales Tactics/Distribution

Describe the methods that will be used to make sales and distribute the product or service. Analyze the effectiveness of everything available within the sales system. Traditional channels include salespeople, agents, distributors, direct mail services, and dealers. Additional distribution methods involve warehouse clubs, electronic shopping, telemarketing, trade shows, temporary space in shopping malls, vending machines, franchising, or large volume sample sales to hotels for free distribution to guests. Offering discounts to wholesalers or dealers who assist in distribution is also an effective channel.

Each distribution method must be evaluated as to cost, coverage, and performance. Many of these channels are geared only to large or very small volume, or lend themselves only to specialized merchandise. Choose what works best for your particular business and maintain an awareness of developing sales methods.

Selective distribution is the key to effective distribution. Most start-up businesses are most successful when operating out of one location or geographic area, even though they may employ several sales techniques.

6. Advertising and Promotion

Describe approaches the company will use to bring its product to the attention of prospective purchasers. The schedule and cost for advertising and promotion should be presented. If advertising and promotion will be a significant expense item, an exhibit of how and when these costs will be incurred should be included.

Though distinctly different functions, advertising and promotion work hand-in-hand to generate sales. Both are communication strategies designed to affect buyers' behavior patterns and habits. Advertising concentrates on delivering a message through print and electronic media, while promotion relies on direct customer involvement and response. In both advertising and promotion, it is important to narrow the target audience, concentrating as specifically as possible on the group most likely to purchase the product or service advertised or promoted.

The key to a large return from a small advertising budget lies in the media chosen. Cost varies according to locale and competition among media sources. For example, a 30-second radio spot may cost \$25 on one station and \$50 at another station in the same town. The same size ad might cost three or four times as much in one newspaper as another. Rates for cable television and independent stations might be affordable for small businesses that cannot buy expanded network programming. Each advertising situation is different, and rates vary from town to town and from region to region.

To select the best media for the business and to effectively negotiate rates, it is important to examine the advantages and disadvantages of each type. Selection should never be based on price alone, but on what the media can do for your business image and sales. A more expensive station or newspaper might very well target your customer exactly and be well worth the investment. On the other hand, some businesses do quite well with strong customer service, and little purchased advertising. The needs of each business are unique.

NOTE: See Appendix A for the advantages and disadvantages of each type of media. Bartering and cooperative advertising are effective methods of stretching an advertising budget. Bartering is often called "trade-out." For example, a small business may be able to trade some of its goods or services to a radio station in exchange for an equal amount of air time. All media will not barter, but if your goods are useful to them, it is worth a try. Cooperative advertising refers to sharing expenses. Two or more businesses may share the cost of advertising or one of your company's vendors may supply advertising dollars as well as camera ready copy to which you only need to add your company logo. This not only increases the advertising placement budget, but decreases or even eliminates production cost. As advertising costs grow, it is important that small business owners be creative with cooperative and bartering techniques.

Some businesses have discovered that setting up an in-house ad agency will save 15 percent of media cost. This is a simple procedure and can save substantial amounts, but the small

business person needs to consider the extra time spent in dealing with advertising sales people and additional paperwork.

Any event held to increase sales and traffic is a promotion. Promotional efforts include coupons, contests, sampling, point-of-purchase merchandising, visual displays, gift-with-purchase incentives, seasonal sales, special events, trade shows, imprinted specialty items and demonstrations.

Creativity and originality are the keys to successful promotional efforts and there are many low-cost and effective ways to do it. For example, a well known pizza chain has developed a technique called "banner-shaking" which involves one or two employees standing near major intersections during evening rush-hour "shaking" painted banners at traffic. These banners highlight a special price on pizza immediately ready for take-out. The promotion costs nothing but the price of the banner, and the results are great because it targets working people, tired after a long day and provides an immediate solution for dinner with no cooking. Creativity is the most effective way of promoting any business.

Promotional activity should always be based on recognizing customer needs and making them feel special. Providing exceptional service, using friendly words and smiles, using their names, giving them advance sales information and sending them your business newsletter are just a few low-cost or no-cost promotions to use. Superior store or office appearance, cleanliness, business reputation and even good landscaping and signage are all important promotional tools that sell. Promotions are not just sales events, but anything that improves the image of the business.

Another form of advertising is publicity. Publicity, often referred to as "free advertising", means getting the company's name, product or service in the media at no charge. Publicity is especially important for entrepreneurs with limited advertising and promotional budgets.

Press releases are effective only if they are genuinely newsworthy and should be accompanied by a photograph if possible. Company newsletters, sponsorships of local athletic teams, donations of gifts for charitable functions and participation in civic organizations are all good sources of positive publicity. Capitalize upon every opportunity to get your company's name in front of the public at no charge.

7. Packaging

Describe how the product will be packaged. Packaging refers to the presentation of goods or services. Proper packaging attracts the customer, effectively communicates product attributes, identifies the brand and seller, lists ingredients, and makes the product easier to handle. Effective package design decreases costs associated with storage, labor, shipping and pilferage. Poor packaging, however, creates an impression of inferiority and significantly lessens sales.

8. External Market Influences

Describe how each of the external forces impacts your ability to sell your product.

a. Economic Factors:

Economic analysis requires data on employment levels, inflation, interest rates, recession, and high or low unemployment. Free sources of this information include libraries, banks, educational institutions, investment houses, government agencies, newspapers, business publications and trade associations. Compare and contrast several sources before drawing conclusions or implications.

b. Political and Social Factors:

Depending upon the nature of the business, operations may be affected by local, state, regional, national and world political situations. National deregulations, tax increases, or elimination of trade barriers, for example, can have a profound impact. At the state or local level, the acceptance or rejection of bond issues, election of new officials, or renovation plans might affect a company's marketing philosophy. The media, periodicals, trade journals and general business publications are good references.

Social analysis includes a study of the demographics of the customer base. Important factors include the age groupings, income level, type of employment, mobility, marital

status and leisure habits of customers, as well as the number of women and teenagers in the local work force. Chambers of commerce is helpful in gathering local information.

c. Technological Factors:

Technology is growing and changing at an alarming rate. The World Wide Web has enabled small companies to advertise their product, and compete effectively with the larger companies. Describe the impact the internet will have on the sales of your product. Also, describe if you will use the internet to order your products for resale, or raw materials for manufacturing.

V. COMPETITOR ANALYSIS

Describe who your current competitors are, and why customers buy from them. Compare your own product to that of your competition on the basis of price, performance, service, warranties, and other pertinent features. Know the similarities, the differences, and the ways in which your product is unique. Develop reasons why customers should choose your product over that of another company.

An effective marketing strategy cannot be developed without a thorough knowledge of the competition. Read all annual reports, newspaper articles, advertising, company literature, and published statistics related to the competition. Question suppliers and attend trade shows and business fairs. Continually seek information on competitors' products, research and development activities, production methods and costs, organizational designs, financial status, marketing strategies and general strengths and weaknesses. If the business is a retail establishment, remember that location is a prime consideration.

Use information about the competition as a tool for bettering your own business. Look for trends in their advertising, pricing, or promotion and for variances from the usual, which could indicate new strategies or test marketing. Do not overreact to a change in operations by the competition, but always be prepared to make adjustments based on their actions if necessary.

VI. OPERATING PLAN

The operating plan should describe facilities, location, space requirements, capital equipment, and labor force that are required to provide the company's product or service.

The discussion guidelines given below are general enough to cover different businesses. Only those that are relevant to your particular business should be addressed in your business plan.

1. Location

Describe the planned location of the business and discuss the advantages and disadvantages of the site in terms of wage rates; labor availability; proximity to customers and suppliers; access to wholesalers, distributors, and transportation; state and local taxes and laws; utilities; and zoning.

2. Facilities and Improvements

If yours is an existing business, describe the facilities currently used. If your firm is new, describe how and when the facilities to start business will be acquired. Discuss how and when space and equipment will be expanded to the capacity required for future sales projections. Discuss any plans to add to or improve existing space. Explain future equipment needs and indicate the cost and timing of such acquisitions.

3. Strategy and Plans

Describe the process involved in production of your product or service. Also present a plan that shows cost-volume information at various sales levels of operation with a breakdown of material, labor, purchased components, and overhead. Manufacturers should briefly describe their approach to quality control, production control, and inventory control. Explain the quality control and inspection procedures the company will use to minimize service problems and ensure customer satisfaction.

4. Labor Force

Exclusive of management functions, does the local labor force have the necessary skills, in sufficient quantity and quality, to produce the product? If their skills are inadequate, describe the training that you would use to upgrade them.

VII. MANAGEMENT TEAM

The management team is the key to turning a good idea into a successful business. Bankers and investors look for a committed management team with a balance of technical, managerial, and business skills. The proposal should include a description of the organizational structure, key management personnel and their primary duties, and the board of directors, if applicable.

1. Organization

In a table, present the key management roles in the company and the individual who will fill each position. Discuss any current or past situations where the management personnel have worked together and indicate how their skills complement each other and result in an effective management team.

2. Key Personnel

Describe the exact duties and responsibilities of each key member of the management team. For each individual, include a brief statement of career highlights that focuses on his or her ability to perform the assigned role. A complete resume for each member should be included as an exhibit to the business plan.

3. Management Compensation and Ownership

State the salary that is to be paid to each member. Set forth stock ownership planned for key personnel, the amount of their equity investment, and any performance-dependent stock options or bonus plans that are contemplated.

VIII. THE FINANCIAL PLAN

Developing financial pro formas or projections is a vital aspect of your business plan. It is important that you take the time to thoroughly research your projections so that they will be as realistic as possible. Be liberal with your expenses and conservative with your revenues. It is much better if your financial surprises are pleasant ones.

Too often people try to determine their start-up costs without considering their costs of operation after the business has opened. In order to finance the business properly, determine whether you will need additional cash at the outset to support periods of operating losses that often occur during the early months of operation. With that thought in mind, let us start our pro forma work with the cash flow statement.

A cash flow statement is nothing more than a presentation of the monthly cash receipts and cash disbursements that you expect to incur while operating your business. It is important to address this on a monthly basis because many businesses pay for their goods and expenses in one month but do not collect the money until the following month, or longer. Numerous businesses fall into this cash flow trap. Also, many of your expenses are going to be fixed expenses; those expenses that stay the same regardless of your sales level. Fixed expenses might be rent, insurance, salaries or contract obligations.

1. The Cash Flow Worksheet (Appendix C)

While some businesses may generate "unearned" revenues such as rents, interest, or similar incomes, the primary concern of most small businesses is sales.

Sales revenue is income your business receives by selling its goods and services to others. Your business may sell more than one type of goods or services, so you should keep your sales figures separated by product or service. Notice on the Cash Flow Worksheet how sales are typically lower during the early months of operation. It will take time to develop a customer base

for your business, so it will be necessary to borrow enough at the outset to carry the business through this building period. Your first step is to post your projected monthly revenues to your cash flow statement.

Cash receipts reflect when you actually receive the cash for the goods that you sold. Some of your sales may be for cash, meaning that you receive those funds at the time of sale. However, some of your sales may be on credit, and you may be required to mail invoices for your sales. If this is true, then you have to "carry" the outstanding cash as accounts receivable. Some of this cash may be received in 30 days, some in 60 days, some longer; some of your accounts receivable may never be collected. All of these considerations must be taken into account when preparing the cash receipts section of your cash flow statement. It is the actual receipt of the cash that determines whether you have the cash available to pay your bills.

Next, identify the payments you will have to make each month for your expenses. Be careful and realistic while considering these disbursements. The Cash Flow Worksheet identifies some of the more common expense categories, but each business will experience its own specific expenses.

In this example, "material purchases" is the amount that will be paid to suppliers to replace the goods that were sold. It is based upon "sales" and the cost of those sales. Your research should have identified a "cost of goods sold" percentage for you. If that percentage was 50 percent, for example, then your cost of goods sold will be exactly one-half of your gross sales. If your cost was 25 percent, then your cost of goods sold will be one-fourth of your gross sales.

Be sure to remember that an increase in sales may bring about an increase in certain disbursements. Sales increases may mean a need to hire additional labor, thus creating higher wages and benefits; it may also mean higher utility costs, higher material costs and increases in other variable costs.

Net cash flow reflects the difference between receipts and disbursements, positive or negative, for the current month. The cumulative cash flow, or current position, is determined by adding the present month's cash flow to that of the previous months.

Note that the numbers in the narrative match the numbers on the worksheet. For example, "Disbursements," number three in the text is also number three on the worksheet.

2. Sources and Uses of Funds

Having completed your cash flow worksheet, you now have some idea of what your sales and operating expenses might be and you can determine how much financing you will need.

a. Sources and Uses of Funds:

After you have identified your financing needs, address where the funds must come from. Either the investor or investors must provide the necessary capital, or the business must make arrangements to borrow the funds. In most cases, you will use both sources of funds.

b. Uses of Funds:

Make a list of what you will need to purchase in order to begin operation, and determine the cost of each item. Bids need to be secured for any construction, while pricing lists should be provided for equipment, machinery and inventory. Be sure to ask your local utility company if any deposits are required. Also, refer to your cash flow statement to see if you must prepare for a period of cash shortage.

c. Cash Balance (Working Capital):

Obviously, the funds remaining after the initial purchases represent your working capital. As shown by the cash flow statement, this additional capital is necessary as a cushion to absorb the negative operating cash flow you have in your first seven months of operation. With the cash flow worksheet completed, the income statement is easy to compile.

3. Income Statement.

a. Sales:

Total your monthly sales for each category as shown on your cash flow statement. This figure reflects your total projected annual gross sales. From this figure, deduct any

refunds that you gave to customers for returned merchandise. This sum represents your total net sales.

b. Costs of Goods Sold:

This is the cost of the products that you sold to your customers. Your beginning inventory is added to any purchases you made during the report period to identify the amount of goods available for sale. Suppose you did not sell everything you had available for sale. At the end of this period you counted your inventory on hand and found that you still had inventory on the date that you prepared this report. Your goods available for sale minus your ending inventory produces the total cost of goods sold (total material costs).

c. General and Administrative Expenses:

These are the annual totals of the expenses as listed on the cash flow statement. Note that there are some changes. Payment of the principal portion of your notes is not considered an expense. It will be accounted for later on your balance sheet but does not appear on the income statement. Also, note the addition of an expense category termed "depreciation." This is not considered on your cash flow statement because you don't write a check to depreciation. The purpose of depreciation is to account for the economic deterioration of your assets as they wear out with use. A certain piece of equipment may be expected to last for 10 years, for example. If that equipment cost you \$1,000 at purchase and will be worn out or worthless in 10 years, it is said to "depreciate" \$100 per year. Your assets will devalue by this amount.

d. Net Income (Pre-Tax):

Net sales minus material costs and operating costs gives us the net income of the business. However, this amount does not include the payment of taxes on the profit made.

e. Tax:

If you have made a profit operating your business, you will be expected to pay both state and federal income taxes. This aspect of your business should be discussed thoroughly with your accountant. And in some cases, City taxes as well (Philadelphia Business Privilege Tax).

f. Net Income (After-Tax):

After taxes have been paid, the remaining profit belongs to your business in the form of retained earnings.

4. The Balance Sheet

The balance sheet is a comparison of the assets, liabilities, and equity of your business.

a. Current Assets:

These are assets that are considered to be liquid or easily converted into cash. The cumulative cash of the business is listed along with the ending inventory and accounts receivable – as well as other similar assets – to form the current assets portion. The ending inventory is a listing of the goods held for sale at the end of your accounting period, and the accounts receivable is a listing of what is owed to you by your customers for previous purchases.

b. Fixed Assets:

The second category of assets is fixed assets. This is a listing of the assets that are long-term in nature (brick-and-mortar-type assets). It is these assets that depreciate in value over a longer period. Depreciation for past periods is therefore deducted from the sum of these assets and shown on the balance sheet as accumulated depreciation.

c. Other Assets:

This is a catchall section for other assets such as deposits held by utility companies.

d. Total Assets:

This is simply the sum of current, fixed and other assets.

e. Current Liabilities:

Current liabilities are bills and accounts that you must pay within the next year. (Short-term notes or accounts payable are examples.) Also considered to be a current liability is that portion of any long-term note that must be paid during the upcoming year. This

figure can be provided by your banker, accountant, or your amortization schedule of notes payable.

f. Long Term Liabilities:

Long-term liabilities are the long-term financial commitments your business has made to the bank or other debt holders. If additional debt is not incurred, the "loans payable" section will decrease each year by the amount of principal payments made during the period

g. Total Liabilities:

This is the sum of current and long-term liabilities.

h. Equity:

The equity section reflects your original investment as well as the accumulation of profits of the business (retained earnings).

i. Total Liabilities and Equity:

The sum of your liabilities and equity when added together should equal your assets. Do they balance? If not, you have an error in one of your sections.

APPENDIX A
Media Types and Advantages / Disadvantages of Each

MEDIA	ADVANTAGES	DISADVANTAGES
Newspaper	Broad market coverage. Immediacy. Short lead time. Flexible ad size. Visibility of product. Color. Use of coupons to measure direct results. People believe what they read.	Inconsistent reproduction. One-day life span. Limited demographic selection. "Lost in the crowd" placement. Lack of movement and sound.
Radio	Demographic selection. High frequency. Immediacy. Sound reinforcement. Quick flexibility.	Restrictive message length. Need for repetition. Short recall factor. Cluttered placement.
Television	Use of sight, sound, motion, color. Mass coverage. Immediacy. Demographic selection.	Short exposure. Expensive production. Expensive air time. Cluttered placement. Viewing time drops as income rises.
Direct Mail	Demographic selection. Unlimited message length. Consistent reproduction. Direct response by order form or coupon.	Expensive. Difficulty in obtaining "pure" mailing lists. Long lead time. Negative reaction to "junk" mail.
Outdoor	Reaches large audience. Long-term exposure. Color and graphics. Forms include billboards, posters, illuminated signs, moving vehicle signs, bench ads.	Expensive to produce and place. Difficulty in obtaining the best locations. Legal restrictions for use. Limited message length.

APPENDIX B

Preparing the Marketing Budget

Initial budgets are difficult to prepare without a previous record or guide, but it is imperative that adequate money be set aside for marketing. There are several methods of determining budget dollars: "percentage of sales," "objective and task," and "per unit." Each is appropriate for certain types of business. All are defined in the Glossary section. Choose the one that best suits your company's needs.

Initial Preparation

The easiest budget method and the one most commonly used by small business is "percentage of sales."

Calculate projected sales and set aside a percentage of the total figure for marketing expenses, keeping in mind that three percent of sales is an average figure for advertising and promotional costs alone. Higher percentage allowances generally produce greater results if dollars are wisely used. The marketing fund must also cover general administrative expenses, travel, supplies, postage, resource development training, sales force expenses, marketing research, subscriptions, and professional memberships. Although the budget must be flexible enough to allow for miscellaneous expenditures, it is necessary to live as closely as possible within the confines of the predetermined allowance.

The market budget may be prepared monthly or quarterly, depending upon the individual business. Begin by planning a monthly budget. After a year of operation, you may determine that a quarterly breakdown is adequate.

Annual Revision

The marketing budget is only effective when implemented around annual business and development objectives, and may be increased or decreased each year depending upon sales and changing needs. Developing subsequent marketing plans is a far simpler process with a previous plan available as a measuring stick. Good marketing requires research, commitment, and the ability to be flexible as the market changes. The written plan must be a constant business tool, not constructed then shelved until the next year. Use marketing to make things happen for your business.

APPENDIX C
Cash Flow Worksheet

1. CASH ON HAND

Cash Sales
Collections Acct Rec
Other Cash Income

2. TOTAL CASH

3. CASH PAID OUT

- a. Purchases
- b. Gross Wages
- c. Payroll Expenses
- d. Outside Services
- e. Supplies
- f. Repairs & Maint.
- g. Advertising
- h. Car, Delivery, Travel
- i. Acctg & Legal
- j. Rent
- k. Telephone
- l. Utilities
- m. Insurance
- n. Taxes (Real Estate)
- o. Interest Expense
- p. Owner's Withdrawal
- q. Loan Principal Pymt
- r. Other (Specify)
- s. Misc (Unspecified)

4. TOTAL CASH PD
(Total 3a through 3s)

5. CASH SURPLUS
(2 MINUS 4)

6. BORROWINGS

7. LOAN RPYMT

8. CASH ON HAND

APPENDIX D

Terms of Business / Glossary

Advertising - A paid form of communicating a message by the use of various media. It is persuasive, informative, and designed to influence purchasing behavior or thought patterns.

Amortize - To pay a debt gradually through scheduled periodic payments; the process of writing off against expenses the cost of an intangible asset over the period of its economic usefulness.

Assets - The items on a balance sheet showing book value of a business.

Balance Sheet - A financial statement listing the assets, liabilities, and equity of a business.

Balloon Payment - The final bulk payment that retires a loan when minimal previous payments have not fully amortized it.

Bartering - A system of trading goods and services for advertising time or space. For example, a hotel might trade-out the value of one or two nights stay to the newspaper in return for the same value in advertising space.

Benchmarks - Standards or averages by which similar items can be compared.

Book Value - The value of something as shown on the books of account as distinguished from the market value; the value of an asset equal to cost less depreciation.

Business Support Organization - Federal, state, county, city, and community organizations which assist small business people. Examples: Small Business Administration (SBA), Small Business

Development Centers (SBDC), chambers of commerce, economic development foundations and groups, junior and senior colleges, city hall, county courthouse, etc.

Capital - Net worth of the individual or business; also, the excess of total assets over total liabilities; the funds used to start a business.

Cash Flow Statement - A listing of cash receipts and cash disbursements that occur over a specific period of time. Note that non-cash expense items such as depreciation are not included.

Collateral (Security) - Personal or real property possessions that the borrower assigns to the lender to secure debt payment. If the borrower does not repay the loan, the lender may take ownership of the collateral to pay the loan balance.

Cooperative Advertising (Co-Op advertising) - An arrangement between manufacturer and retailer to reimburse the retailer in full or in part for local placement of manufacturer-produced ads and commercials. These ads would include the addition of the retailer's name in the copy. Co-op advertising might also mean a joint effort between two or more businesses to pool advertising money for more buying power. The ads would feature both company names and benefits.

CPT (Cost Per Thousand) - Divides the cost of an advertising medium by the number of persons in the target audience who are reached by the medium.

Cumulative Cash Flow - The balance in your checking account at the end of each accounting period.

Debenture - A corporate security other than an equity security bond; a bond backed by the general credit of the issuer rather than a specific lien on particular assets.

Demographics - The statistical study of populations, particularly as it relates to the age, race, sex, income, and other pertinent socioeconomic factors of a specific area.

Depreciation - The process of writing off against income the decrease in value of a fixed asset over its useful life. See IRS Publication 946 – **How** to Depreciate Property

Entrepreneur - One who organizes and assumes the risk of business.

Equity - The money value of property or of an interest in a property in excess of claims or liens against it; a risk interest or ownership right in property.

Gross Margin - The percentage difference between the cost and the selling price of goods (e.g., an item purchased for \$ 1.00 and sold for \$ 1.25 has a gross margin of 20 percent).

Gross Profit - The monetary difference between the sale price and the actual cost of the item sold.

Logo - A unique symbol or design that represents a company. Also called a trademark.

Market - The demand for one's goods. Available customer base.

Market Niche - The unique advantage or benefit a product or service offers a particular group of customers. Marketing success is dependent upon establishing how a product stands out from similar ones.

Market Research and Analysis - The determination of the following: the size of your market, who your customers are, who your competitors are and what their pricing policies are, what their promotional activities are, and an analysis of their product.

Marketing Activities - Includes identifying unmet needs; producing products and services to meet those needs; and pricing, distributing, and promoting those products and services to produce a profit.

Marketing Mix - Includes a combination of product, packaging, price, channels of distribution, advertising, promoting, and personal selling to get the product in the hands of the customer.

Markup - The percent of increase from the cost to the selling price of goods (e.g., an item purchased for \$ 1.00 and then sold for \$ 1.25 has a markup of 25 percent).

Media - The print (newspaper, magazine, etc.) and electronic (radio and television) communication devices used for advertising.

Media Frequency - The number of times the target audience is exposed to an advertising message.

Media Reach - The percentage of a target audience that is exposed to an advertising medium.

MSA (Metropolitan Statistical Area) - The U.S. Bureau of Census' term for an area consisting of one or more counties around a central urban area with 50,000 or more inhabitants and with minimal agricultural employment.

Net Cash Flow - Gross receipts minus gross expenditures as stated on a monthly basis.

"Objective and Task" Budgeting - The determination of the desired advertising result, the costs of the tasks to be done, and determining the amount required to achieve those results.

"Percent of Sales" Budgeting - One of the easiest and most commonly used methods of determining an advertising budget total. Percentages vary, by three to five percent of past sales or a forecast of future sales is a general rule of thumb to use. The assigned percentage may be even higher for a grand opening, introduction of a new product or other very special promotional reasons. An example of "percent of sales" budgeting would be a firm planning to do \$100,000 worth of business next year and allocating five percent of sales or \$5,000 for all annual advertising budget.

Per-Unit Budgeting - Determines the size of the marketing or advertising budget and allocates it for specific products or services. With this method, each product or service has its own individual budget.

Positioning - The attempt to control the public's perception of a product or service as it relates to competitive products.

Prime Rate - An interest formally announced by a bank to be the lowest available at a particular time to its most credit-worthy customers.

Pro Forma - Projected; provided in advance to prescribe form or describe items (e.g., pro forma balance sheet).

Psychographics - Personal and mental concepts that are measured in terms of attitudes, beliefs, opinions, perceived benefits, self-concepts, and lifestyles.

Public Relations - A form of communication primarily directed toward gaining public understanding and acceptance. Public relations usually deals with issues rather than products or services, and is used to build goodwill with the public or employees. Examples of public relations are employee training, support of charitable events, or a news release about some positive community participation.

Purchase Cycles - The time periods between purchases of a product, which is important in estimating product or service demand.

SBA - The U.S. Small Business Administration was created by Congress in 1953 to help America's entrepreneurs form successful small enterprises. Today, SBA offers training and educational programs, counseling services, financial programs, and contract assistance for small business owners. The SBA also has publications and videos on a variety of business topics.

SBDC - The Small Business Development Centers provide counseling, training, and technical services to current and prospective business owners who cannot afford the services of a private consultant. Help is available when beginning, improving, or expanding a small business.

SCORE - Service Corp of Retired Executives provides small business counseling and training to current and prospective small business owners. SCORE is made up of current and former business people who offer their expertise and knowledge to help people start, manage, and expand a small business.

S Corporation - A corporation that elects, by unanimous consent of its shareholders, not to pay any corporate tax on its income (except capital gains, certain passive investment income, and certain investment credit recapture) and, instead, to have the shareholders pay taxes on it, even though such income is not distributed.

Segmentation - The process of directing all marketing efforts at a particular group of potential customers.

Target Market - The specific group of customers that a company aims to capture. They have been identified as people with needs or wants that can be met with the products or services from this company.

Test Marketing - A limited introduction of a product or service to test public reaction for a full market strategy. Giving the public a small sample of what is to be offered is a form of test marketing.