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# THE PLAN: A STEP-BY-STEP BUSINESS PLAN WORKBOOK



# Illinois Small Business Development Centers

*"Experts, networks, and tools to transform your business"*

Illinois Small Business Development Centers (SBDC) provide information, confidential business guidance, training and other resources to early stage and existing small businesses.

Illinois International Trade Centers (ITC) provide information, counseling and training to existing, new to-export companies interested in pursuing international trade opportunities.

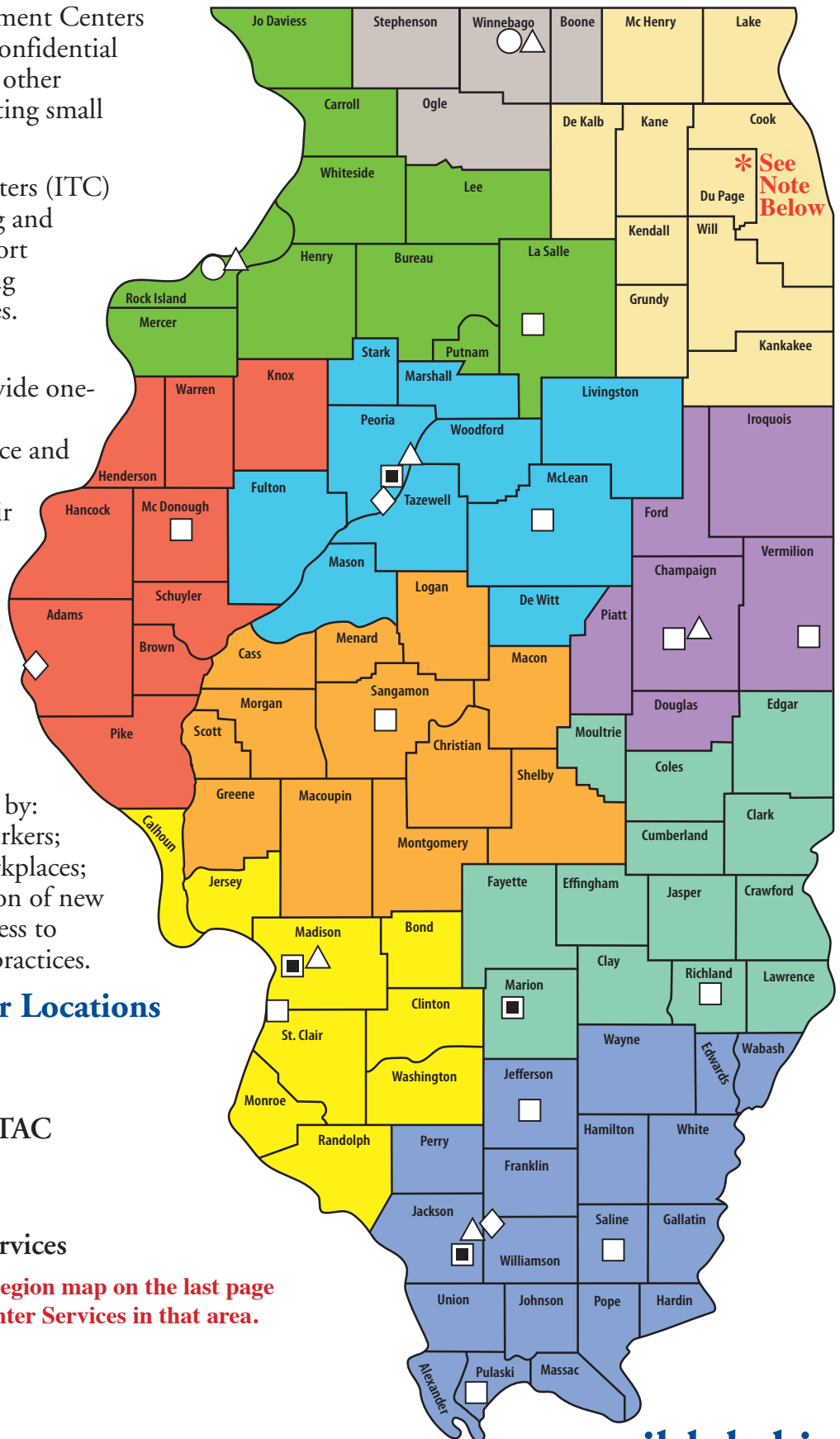
Illinois Procurement Technical Assistance Centers (PTAC) provide one-on-one counseling, technical information, marketing assistance and training to existing businesses that are interested in selling their products and/or services to local, state, or federal government agencies.

Technology, Innovation and Entrepreneurship Specialty (TIES) ten SBDC locations help Illinois businesses, entrepreneurs and citizens to succeed in a changing economy by: developing the skills of their workers; promoting safe and healthy workplaces; assisting in the commercialization of new technologies; and providing access to modernizing technologies and practices.

## Business Center Locations

- SBDC
- SBDC/ITC
- SBDC/ITC/PTAC
- SBDC/PTAC
- ◇ PTAC
- △ Technology Services

**\*See the Northeast Region map on the last page for the Business Center Services in that area.**



# THE PLAN

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## A Step-By-Step

## Business Plan

## Guidebook

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### I N T R O D U C T I O N

Planning is your map to success in the business world. You need to write a business plan if you are:

- **starting or buying a business**
- **financing or refinancing your business**
- **raising debt or equity capital**

Much money is made then lost because one area of a business fails, dragging the positive parts down with it.

**THE PLAN** helps you find hidden business flaws and makes you think carefully about each phase of your business.

It is important that **you** write your business plan. Why? You will gain in-depth knowledge about your business which will make it easier to answer lenders' questions. The process of writing your business plan will clarify what is involved in making your business work successfully.

# How To Use This Workbook

Divide your business plan into sections that match the “contents” outline shown on the next page. There is no set length for your answers — they will range from a paragraph to a few pages long.

Once it’s written, your business plan will need editing. Ask other people to read and critique your plan. Include a statement on the inside cover that says its contents are confidential, and making copies is prohibited.

Your business plan should be neat and organized to make a professional impression. After your text is written, use a spelling and grammar check feature to be sure your work is error free. For financial data, use a spreadsheet program.

Once you’re done, make copies for your lender and for others who are interested in your business. Make sure all the copies you submit are readable and include original signatures. Lenders keep your presentation even if you are rejected, so make copies for yourself of everything you submit. Number the business plan copies and make a list of each person you’ve given one to.

It’s a good idea to put your loan presentation in a 3-ring binder with tabs and indexes.

## ► Business Loan Basics

### ASK YOURSELF THESE QUESTIONS:

- How much money do I need? \_\_\_\_\_
- What type of lender do I need? (*bank, state or federal agency, venture capitalist firm, or other investor*) \_\_\_\_\_
- What is the lender’s minimum and maximum loan size? \_\_\_\_\_
- Can the lender meet my present and future needs? \_\_\_\_\_
- What types of businesses will the lender finance? \_\_\_\_\_
- What collateral does the lender accept? \_\_\_\_\_

### BEFORE MEETING WITH A LENDER:

- Call to find out the rules for their business loans.
- Make sure the lender is looking for loans of your size and type.
- Ask for a loan application.
- Make an appointment.
- Rehearse your presentation.
- Remember, the lender is like a customer. You have to convince the lender that your business has merit.

### BASIC QUESTIONS A LENDER WILL ASK YOU:

- How much money do you want? \_\_\_\_\_
- How much are you investing in the business? \_\_\_\_\_
- Exactly how will the money be used? \_\_\_\_\_
- How long do you need to repay the loan? \_\_\_\_\_
- How will the loan be repaid? \_\_\_\_\_
- What collateral do you have to offer? \_\_\_\_\_

### LENDERS USE THE EIGHT “C’s” RULE:

1. Credit (*must be good*)
2. Capacity (*ability to repay*)
3. Capital (*money going into the business*)
4. Collateral (*your assets that secure the loan*)
5. Character (*you*)
6. Conditions (*economy, finances, anything that affects your business*)
7. Commitment (*your ability and willingness to succeed*)
8. Cash Flow (*can it support the business’ debt and expenses?*)

# ► Business Loan Basics

## WHEN MEETING WITH A LENDER:

- Bring your business plan, a completed loan application, and any other materials you need.
- Keep the entire presentation to 30 minutes.  
Give an overview or outline at the beginning.  
Know how you are going to end the presentation.
- Invite your lender for a tour of your current or proposed operation.
- Answer all negative questions with positive answers.  
Be prepared to back up your answers.
- Find out when you can expect a decision.
- Ask that your lender's decision be sent in writing, even if you received the decision on the phone.
- Follow up with a thank you letter and a phone call, even if your loan request was rejected.

## The Appendix

The **APPENDIX** comes at the end of your business plan and includes all details and documents that support the plan.

Items that need to be included in the **APPENDIX** are indicated throughout this workbook. On page 31, you'll find a comprehensive list, which you can use as a guide.

The first page of the **APPENDIX** should be a listing of its contents. Be sure to separate and organize the documents logically, perhaps in the order they are referred to in the plan.

The **APPENDIX** will grow, so it is a good idea to use a 3-ring binder with tabbed dividers. Some people prefer using an expandable file.

## FORMULAS

Generally, lenders like to simplify the process used to screen loan requests. Take your business through the same exercise that lenders do. The complexity or size of the loan request doesn't matter; the basic formula is as simple as **1-2-3**.

## CONTENTS

### BREAK DOWN YOUR BUSINESS PLAN INTO SECTIONS SIMILAR TO THOSE IN THIS BOOK.

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# EXECUTIVE SUMMARY

## The **Executive Summary** (your *Cover Letter*)

briefly explains the contents of your business plan in about *one or two pages*.

Page two is the **Table of Contents**. It shows the lender on which page each section can be found (*see page 5 for the breakdown of sections*).

The Executive Summary should include:

- the owners' names and their credentials
- your products or services
- your market(s) and the competition
- the amount of money needed
- how the loan will be repaid
- how long you want the loan to last

## YOUR COVER LETTER SHOULD READ SOMETHING LIKE THIS ONE:

Leave off your return address if the letter is on your company's stationery.

List the purpose of the loan (*starting, buying, or expanding a business*). Include owners' names and experience. Mention your products and services.

Briefly mention your markets and customers.

Include key facts about your competition.

Tell the lender who should be contacted and provide a phone number and email address.

Include all signature(s) and typed name(s).

The Green Rose  
456 Oak Street  
This Town, USA 67890

Mr. John Nelson  
ABC Bank  
123 Main Street  
Anytown, USA 12345

Re: Loan Request for \$300,000

Dear Mr. Nelson,

With 20 years of management experience in the residential landscaping business, we are requesting a loan to start our own landscaping business, called The Green Rose.

The climate for a successful landscaping business is perfect. Last year, the number of new homes built in Pembroke Pines increased by 15%. Just this quarter, new building permits are up 10% over last year. Of the 45,000 homes in the area, 3,000 were built last year.

Our target market is owners of new and older homes. We plan to reach them with focused marketing, which you will read about in our plan. In addition, we have good working relationships with many building contractors, who have indicated they will refer us to their clients.

Two of our six local competitors have filed Chapter 11. Two are family-owned businesses who concentrate on commercial contracts. The last two are healthy competition, though they lack our marketing and management expertise.

We are investing \$75K from our savings, and are requesting a \$300K loan from your bank. We would like five years to repay the loan, using the cash flow of the business. Our secondary source of repayment will be from collateralized equipment. Our homes and business assets, valued at \$300K, are offered as collateral for the loan.

Our business plan is attached. In it you will find the information you need. If you have any questions or need more information, please contact Mr. Green at (321) 234-5678.

Respectfully submitted,

*Ed Rose*  
Ed Rose

*Tim Green*  
Tim Green

To build the lender's enthusiasm, make references to what's included in your business plan

Mention how much money you would like to finance and the terms (how many years). List the source of re-payment (*loans should be repaid by the business' cash flow*). Also include how much **you** are investing and where your money will come from.

List the secondary source of repayment. This is usually collateral which includes business and personal assets (see page 18). Also, fill in the equity value of these assets.

## EXECUTIVE SUMMARY (YOUR COVER LETTER)

Date \_\_\_\_\_

Your address \_\_\_\_\_

\_\_\_\_\_

Lender's name, bank name, and address

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Re: Loan Request for \$\_\_\_\_\_ (fill in amount)

Dear (fill in lender's name) \_\_\_\_\_:

I (or we) am requesting a loan of \_\_\_\_\_. The owner(s) (fill in names) \_\_\_\_\_ have experience in this industry including... (mention experience in industry or training that would qualify you to run this business).

The industry we are entering... (include one brief paragraph about the industry and its growth)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Our target market is... (include one brief paragraph about your target market/customers)

\_\_\_\_\_

\_\_\_\_\_

The competition includes.... (include one brief paragraph about your competition and how your business will attract their customers)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

We are investing \$\_\_\_\_\_ of our own money. Our collateral consists of business assets having a fair market value of \$\_\_\_\_\_ and personal assets (if applicable) with a value of \$\_\_\_\_\_

Attached is our business plan which backs up our request. If you have any questions, please contact (name) \_\_\_\_\_ at \_\_\_\_\_ (include phone number and email address).

Sincerely,

\_\_\_\_\_

Your signature(s) and printed name(s) here

# BUSINESS DESCRIPTION

## General:

List the business name, location, mailing address, telephone, fax, e-mail and web site address.

## Legal Business Description:

Sole proprietorship, partnership, limited liability, "C" or "S" corporation. List the state where the business is incorporated.

## Purpose:

Describe the intent of your business.

## Type of business:

Retail, wholesale, service, manufacturing, contracting, professional, importing/exporting.

## Goals:

Include both current and long-term projections.

## Industry:

Talk about what's going on in your industry, including economic trends, outlook, growth patterns and forecasts. Keep this section short. Explain more fully in your Marketing section.

### GENERAL

Name: MRJ Design  
Address: 21 Longwood Drive, Orlando, Florida 32751  
Phone: (407) 123-4567 Fax: (407) 123-4789  
E-mail: smith@MRJ.com, Web Site: www.MRJ.com

### OWNERS:

Bob Smith: 10 Brookfield Rd., Orlando, FL 32751  
Phone: 407-456-7891 Social Security: 367-89-7088  
Over 20 years of experience in creative management. Worked for several design firms. Mr. Smith owns 60% of the business.  
Linda Jones: 96 Elm St., Orlando, FL 32751  
Phone: 407-567-1234 Social Security: 234-56-7891  
Ten years of experience as manager of large marketing communications department within Fortune 1000 corporation. Ms. Jones owns 40% of the business.

LEGAL STATUS: Florida S Corporation

PURPOSE: Produce superior marketing communications material for other businesses.

STATUS: Start-Up.

BUSINESS TYPE: Service

PRODUCTS AND SERVICES: Graphic design, illustration, and artwork production. Other services, supplied by vendors/suppliers, include writing, photography, printing, and mailing.

REASONS: Both partners have over 30 years of industry experience that will be put to profitable use in our own firm. The demand for graphic communications is ...etc.

## Owners:

List each owner's name, business title, home address, telephone number, email address and social security number. Include a brief description of owners and managers (*experience and credentials in running the business*) and their ownership percentage of the business.

## Business Status:

New/start up, ongoing, expansion, or buying a business. Include the date your business started or will start. *If buying a business, include a detailed business history in this section.*

**Reasons** for starting, buying, or expanding business.

### GOALS:

CURRENT: Bring to profitable status that will equal or exceed current income levels. Create relationships with clients. Build ...etc.  
LONG-TERM: In four years, we will have 50-100 clients. Hire administrative person ... etc.

### INDUSTRY:

100 design firms and designers exist in our territory. Advertising agencies (about 235) are also competitors but their specialty is not design. Many companies have relocated to Orlando so the demand for our services is growing. The number of start-up companies numbered 6,000 last year...etc.

### PROFESSIONAL RELATIONSHIPS:

#### ACCOUNTANT:

Larry Stuart, CPA, 123 Main St., Winter Springs, FL 32751. Ph: 407-678-9012, Fax: 407-678-7890

#### ATTORNEY:

Linda Johnson of Johnson and Smith, 456 Elm St., Winter Park, FL 32789.  
Ph: 407-234-5678, Fax: 407-345-6789

#### BANKER:

John Nelson, Heritage Bank, 678 Oak St., Orlando, FL 32908. Ph: 407-123-4567. Fax: 407-0987-6543.

#### INSURANCE AGENT:

Linda Doe, Doe Insurance, 321 Grove Ave., Winter Park, FL 32789. Ph: 407-432-7654. Fax: 407-876-5432

#### PROFESSIONAL ADVISORS:

Claire Velleca, Velleca Consultants, 1 Park St., Orlando, FL 32701 Ph: 407-222-1456, Fax: 407-419-1989

## Professional Relationships:

Include name, address, and telephone/fax numbers and email address for your accountant, attorney, banker, insurance agent, and professional advisor(s).

Business name \_\_\_\_\_

Location \_\_\_\_\_

Mailing address \_\_\_\_\_

Phone number \_\_\_\_\_ Fax \_\_\_\_\_

Tax identification number \_\_\_\_\_

E-Mail address \_\_\_\_\_

Web Site address \_\_\_\_\_

Include name, address, and telephone/fax numbers for your:

Accountant \_\_\_\_\_

Attorney \_\_\_\_\_

Banker \_\_\_\_\_

Insurance agent \_\_\_\_\_

Professional advisor(s) \_\_\_\_\_

## OWNERS

Provide the following information for each principal in the company.

Name \_\_\_\_\_

Business title \_\_\_\_\_

Home address \_\_\_\_\_

Telephone number \_\_\_\_\_

Social security number \_\_\_\_\_

Include a brief description of owners and managers (*experience and credentials in running the business*) and their percentage of ownership

**Legal Business Description** (sole proprietorship, partnership, corporation, etc.) \_\_\_\_\_

**State** What state is your business organized in? What states will you operate in? \_\_\_\_\_

**Type of business** (retail, wholesale, service, manufacturing, contracting, etc.) \_\_\_\_\_

**Business Status** New, ongoing, expanding, or buying a business \_\_\_\_\_

**Date** your business started or will start \_\_\_\_\_

for starting, buying, or  
expanding business.

Current goals (within the next year)

Long-term (over the next five years)

**To Do Done** ● **Products and Services**

Provide a summary.

**To Do Done**  
☐ ☐ ● **Industry**

Provide a brief summary of what's going on in your industry. Include economic trends, outlook, growth patterns and forecasts. Include details in the **APPENDIX**.

**To Do** **Done**

Describe the intent of your business.

**To Do** **Done**

☒ ☐

## KEEP TRACK

**Use this check box as a reminder system. Some answers will be short and some will be long.**

# MANAGERS & EMPLOYEES

## Managers

☐ To Do ☐ Done

● How many departments and managers do you need? What are their functions?

☐ To Do ☐ Done

● If there are gaps in your management team, explain how they will be filled. Lenders also like to see a back-up plan. If you die or can no longer work, who will run the business and repay the company's debts? One solution is to buy enough life insurance to cover the business debt.

## Employees

☐ To Do ☐ Done

● How many part-time and full-time employees are needed to run the company? *It's a good idea to develop an organizational chart (example below).*

☐ To Do ☐ Done

● How and where will you find employees and keep them?

## Costs

☐ To Do ☐ Done

● Include managers' job descriptions, salaries, benefits and résumés in the **APPENDIX**.

☐ To Do ☐ Done

● How much are you going to pay each employee?

☐ To Do ☐ Done

● What are the employee benefits and their costs?

☐ To Do ☐ Done

● What employee training is needed and how much will it cost? How will it occur?

## General

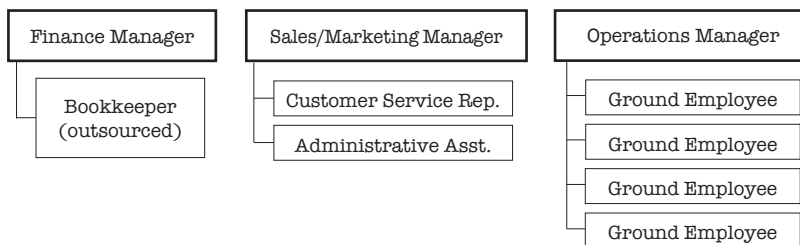
☐ To Do ☐ Done

● Describe any resources available from outside the business. *For example, you may use an accountant for financial reporting.*

☐ To Do ☐ Done

● The cost for outsourcing some services should be included in the **APPENDIX**. *For example, you can outsource a direct mail program to a marketing firm.*

The Good Earth Organizational Chart



### Finance

MIKE JONES (accountant and owner)  
20 years of accounting experience in various industries...

A bookkeeper will be outsourced.

### Sales & Marketing

LEE MYERS  
10 years of marketing experience. Myers will be responsible for the sales staff (estimators), customer service, promotional plans...

Two office staff: One full-time customer service representative and one full-time administrative assistant. Each will be paid \$40,000 annually. They will receive health insurance, ten paid sick days, paid holidays, and two weeks of vacation. These benefits will cost ...

### Operations

JOHN SMITH  
20 years of operational experience in landscaping industry. Smith will supervise the grounds staff and handle ...

Four full-time grounds employees starting at minimum wage for working Monday- Friday, 7:00 a.m. to 3:30 p.m. A two-day training program is required before joining the company. Employees will receive paid health insurance, five paid sick days, paid holidays, and one week of vacation. These benefits will cost ...

# OPERATIONS & LOCATION

## HOW WILL YOUR BUSINESS OPERATE?

To Do ☐ Done ☐

- How will the product be produced and sold?  
How will your services be rendered?

To Do ☐ Done ☐

- What months, days, and hours will your business be open? Is the business seasonal? If so, show how you will adjust your time, schedule, inventory, and personnel.

To Do ☐ Done ☐

- What furniture, fixtures, equipment and machinery is needed? Will it be bought, leased, or rented? Include proposed purchases in your **APPENDIX**.

## SUPPLIERS

To Do ☐ Done ☐

- If you need suppliers and other companies to complete your product or service:
  - › What and how much will you need?
  - › Where will you get these products and services?
  - › How much will they cost?
  - › What system will you use for materials processing and inventory control?

To Do ☐ Done ☐

- In the **APPENDIX** include details about your suppliers, including names, addresses, products or services supplied, costs/quotes, delivery/shipping fees and turnaround, terms of sales, contracts, and a purchasing plan.

To Do ☐ Done ☐

- If you've requested financial, managerial, or technical assistance from your suppliers, include details in the **APPENDIX**.

## LOCATION

To Do ☐ Done ☐

- What kind of space does your business need?
  - › Why is the area and location desirable?
  - › Does this location affect your costs?
  - › How much are utilities, taxes, and other expenses?
  - › Is it easily accessible?  
Is public transportation available?  
Is there adequate parking?
  - › Does your business comply with zoning laws?
  - › Do you own or lease the building? In the **APPENDIX** include zoning statements from local government and approval letters from local and state inspectors. If owned, provide

a copy of the deed in the **APPENDIX**. If leased, the term of the lease must be renewable to match the loan period you are requesting. Include a copy of the lease (or proposed lease) with terms, conditions, length, and cost in your **APPENDIX**.

- › Are improvements, renovations, furniture, fixtures, equipment or machinery necessary? Show quotes in the **APPENDIX**.
- › Retailers:
  - > Research and show traffic patterns in the **APPENDIX**.
  - > What other businesses are in your immediate area?
- › Wholesalers, manufacturers and other businesses:
  - > Are you located near your customers and suppliers?
  - > Do you have easy access to major highways, railways, and airports?
- Provide photos and a summary of your location including a floor plan, blueprint or plot plan (if building) in the **APPENDIX**.

### CLOTHES WITH CLASS

We are a school uniform shop. Business hours will be from 10 to 6, Monday through Saturday. Our plan is to purchase fixtures to display uniforms and furniture to create a relaxed retail atmosphere. A computer system to track customer purchases and inventory will be leased. These costs are included in the Appendix.

Our stock will come from three suppliers — two national and one local. Local supplies will be delivered by truck, with the remainder of goods coming via UPS. Information on our proposed suppliers and purchases may be found in the Appendix.

The five-year lease we have signed on a 1,500 sq. ft. building is included in the Appendix. The building is located within 15 miles of 22 private and parochial schools who require uniforms that we will stock. Our building is on a major thoroughfare, conveniently located right off Highway 93.

A floor plan of the building is included in the Appendix. We have divided the area into retail space and warehousing/office space. 700 sq. ft. will include retail displays, three dressing rooms, restroom facilities and two purchasing counters. The remaining 800 sq. ft. will warehouse stock. It includes a delivery receiving area, two offices, and a small employee lounge with restroom. The 20-space parking lot is adjacent to the building.

# MARKETING

Your business plan needs to show that you have thought carefully about how you will market your business. Thinking like a marketer is necessary in order to identify the right product and service to offer, at the right price. Beyond that, you also need to implement the right mix of traditional and digital marketing tools.

**PRODUCT, PRICE, PLACE, PROMOTION and PLAN** are the “**FIVE Ps**” of marketing.

## Product

- What are the benefits of your products and services? Is there a demand?
- Who are your customers and what do they want? Think about their age, income, gender, education, marital status, and lifestyle. If you’re selling to businesses, learn about the companies you’re targeting.
- How do your products and services differ from the competition? Research their weaknesses, strengths, pricing, service, creativity and marketing.
- Are research and development needed?
- What are the licensing requirements and regulations?
- What about legal issues? Do you need patents, copyrights, and trademarks?
- If your business is seasonal, how will it fare during the rest of the year?

## Price

Nothing is more important than the price you get for your products or services. You must offer them at prices your market is willing to pay (called perceived value), yet ensure that you make a profit.

It helps to approach this question from the customer’s point of view. For example, your company designs cell phone cases, and your top-seller costs \$20. You raise the price to \$25 and sales plummet. The good news is, you now know “the tipping point” for what your market will bear.

Your expenses are the other big piece to the price puzzle. Divide them into two categories: fixed expenses (like your rent) are unchanged whether sales are up or down, and variable expenses (like sales commissions) do not stay the same.

## Place

How will you connect your product or service with your customers? There are many ways to do so, besides maintaining a retail store and/or website:

- Sell to a wholesaler who buys a large quantity from you to resell.
- Let sales reps sell your products for a commission.
- Enter a consignment partnership with another company that sells your products, with the price divided between the two of you. The split is negotiable, but it’s usually 60% for you and 40% for the consignee.
- Create partnerships with other companies, even if they’re different from yours. For example, your landscaping design business offers new customers a \$25 coupon to a popular local coffee shop.

## Promotion

How will you create awareness of your products and services? Make it your business to know what your audience is looking for, and gear your promotion accordingly. See pages 13-15 for ideas.

## Plan

Without a marketing plan as part of your business plan, your efforts could become scattered, diluted and difficult to measure. You should think of marketing as an investment, not an expense, so include money for it in your annual budget. Industry trends, consumer sentiment and the economy are always changing, so your marketing plan should grow, adjust and evolve. Include detailed plans and costs in the **Appendix** (see page 31).

# MARKETING

Even small companies need professionals to make them look and sound their best. A graphic designer will create your logo, packaging, signage and website, working closely with your website programmer/developer/host. A copywriter can create persuasive, interesting text to help your website, ads and other promotional material get noticed.

## YOUR IMAGE

**Name** Getting customers to remember your name is a mighty hurdle! Think about standing out. If you repair computers, Click Fix is a better choice than JB Computer Repair.

**Logo** The symbol or type treatment that represents your business should be memorable. Choose colors and use them consistently. Your logo belongs everywhere, from business cards to signage to emails, and it can be used, unchanged, for years.

**Tagline** Your company may not require a tagline or slogan, but if you decide to use one, make it short, catchy and, if necessary, functional. If your company is called Ocean State Restoration, it's unclear what you restore. So a tagline like "New Life for Old Boats" serves an important purpose. If possible, your logo and tagline should be inseparable.

**Packaging** A beautiful gold watch in a rumpled brown bag will never be given the same value as that same watch presented in an elegant velvet box. Presentation and packaging is branding, so everything customers see – from bags to menus – represents you.

**Printed Material** If it's on paper, it matters. Ads, direct mail and brochures represent your image, so never compromise when it comes to being sure they look polished and professional. Even emails, invoices and letters to your customers should be given attention.

**Public Relations** is a great way to build a brand identity, and to influence the attitudes of your audience. For example, if you sell and repair computers, you could sponsor a local robotics convention. To create a buzz, send press releases to area newspapers, online publications and radio/TV stations.

## TRADITIONAL TOOLS

In a digital world, traditional marketing tools are still vital to your overall marketing mix. It may take a little time to find the combination that works best for you, but with patience and persistence, you'll master the mix.

**Advertising** can take the form of print ads in local or trade publications, or media ads on radio and TV. If you're unsure where to advertise, consult with professional organizations. Talk to your local radio and TV stations about affordable packages. Analyze websites where ads for your product or service would make the most sense. For example, you could advertise your dog boarding business on a local travel agency's website.

**Direct Marketing** uses traditional mail, email or phone to contact prospects "directly." Be focused, yet fluid, in the methods you use. Measuring response is crucial, to help you determine the cost of gaining an order or a client. If you're "blasting," (see page 15) you could include a proven tool like "Mention this email and get 10% off." If you're mailing postcards, you can buy databases, or develop your own list from existing customers and referrals. If you have a retail location, keep a book for customers to sign or a place to leave their business cards (with an incentive).

**Trade Shows and Networking Events** offer a chance to meet existing and potential customers, introduce products, get leads and write orders. Communicating and sharing information with others in your industry can uncover unexpected insights and connections.

# MARKETING

In today's world, your website is as basic as a business card. Attracting visitors to your site is just half the goal – giving them a reason to return is the other half. Your website must be dynamic (changing constantly). Your content (graphics, photos, text, news and upcoming events) must convey that your business is current and responsive.

## INTERNET MARKETING

**Website Basics** You'll find that maintaining a vital online presence does require some time and effort. It's a task you should tend to on a regular basis, creating and sharing news and information to increase your brand's visibility. Be sure that your web developer gives you the ability to manage your website's content. If a potential customer sees that you're promoting an event that happened last month, that's a negative impression, and quite difficult to reverse.

Log on to your competition's websites on a regular basis. Are they boring or interesting? Easy to navigate? What's the balance between words and photos? These questions will help you develop a clearer idea of what you want – or don't want – for your own site.

When messaging, try to avoid overworked language and visuals that deliver little energy. Give thought to what your customers want to hear. What matters to them? What do you offer that your competitors don't? Simply put, why would someone do business with you?

It's always best to work with professionals, like a web designer/developer and a copywriter. In addition, once your site is "live," you'll need a "host" to help you create traffic, measure activity, collect data and ensure security.

**SEO Matters** Getting search engines (like Google) to recognize your website for its relevance to searches – and appearing in the highest possible "results position" – has everything to do with SEO or Search Engine Optimization. Content can be optimized in many ways:

- Use highly relevant "key" words and phrases in the copy.
- Post to social media on a regular basis.
- Keep an active, consistent and current blog.
- Urge your web developer to handle codes in a way that will optimize searches.

**Online Feedback** Years ago, customers shared their opinions with two or three people, in person. Today, feedback – positive or negative – reaches hundreds or thousands of readers. Don't make the mistake of getting defensive when you receive a negative review. Give careful attention to all customer reviews, using them to correct your weaknesses and bolster your strengths.

**Cross Marketing** can be quite effective, and websites are the perfect vehicle for it. Suppose you make organic pet treats. Why not approach a local dog grooming business and ask to be featured on their website – and you, of course, return the favor. Get creative in partnering with your business community!

# MARKETING

If websites are a one-way street (information “flows out” to your readers), think of social media as a two-way street (they contribute, participate and interact). Using social media to your advantage requires strategic thinking, but the rewards can be invaluable. Social media sites offer you a powerful platform – and results are more easily measurable, especially if your content is shared.

## SOCIAL MEDIA

### WHERE CAN YOU CONNECT?

**Facebook** is the social media “go to” site, with over a billion users! This open forum can be a marketer’s dream, offering an easy way to get a message out, talk about promotions, and engage customers. Today, most readers are on mobile devices, so the shorter your post, the higher the readability. Train yourself to write energetic, “punchy” posts that cut through.

**LinkedIn** is the site that means business, where professionals visit to network, post résumés and read industry news. You should establish profiles for yourself and your staff, and don’t be afraid to brag a little. It is a good site to find vendors and resources, too.

**Instagram** is a media-centric platform, giving original images and videos center stage. Limiting communication to photos and videos challenges you to be creative, so take time to see how others are using this billion-user site.

**Twitter** is a microblogging network, where tweets (messages) are sent out to your followers. The word “immediacy” captures the essence of Twitter; it’s a buzz generator. Images and videos are allowed, but tweets and captions are limited to just 280 characters – including spaces. Studies show that tweets under 100 characters get the most engagement.

**YouTube** is the world’s TV channel, making it easy to post videos that will educate, inform, market to and entertain your audience. You should begin with a healthy respect for the skill it takes to create even a short video. The last thing you want is to represent your company in a less than professional way. Don’t enter this arena until you’re proud to do so.

### HOW CAN YOU CONNECT?

**Blasting** is sending one email to a large audience. Recipients can be active, interested customers who have signed up, or prospective clients who you’re targeting. It never hurts to extend a special offer, to encourage recipients to click through to your website, but it’s not the only reason to send an email. You could highlight a new blog post or video, introduce a new staff member or invite recipients to your podcast. Keep messaging lively and short. Companies (like Constant Contact) can make your emails look great, send them for you and then provide valuable analytical data. How many people opened the email? How many clicked through to your website? How many unsubscribed?

**Blogging** is keeping an online journal (“web” + “log” = blog). Start by subscribing to relevant blogs, especially from competitors. Think about the content your audience would find interesting and, if possible, hire a writer. If not, remember that blogs with high readability are fairly short, written in a positive, chatty tone. It’s a good idea to end by asking for comments. Blogging with regularity – even once a month – will help move you higher up in search results ranking. Ask your website developer to incorporate a blog into your website, or check out do-it-yourself sites (like WordPress).

**Vlogging** is video blogging. This can be a powerful social media tool, but producing professional videos requires a certain level of proficiency. There are tutorials online to help you add text and edit footage. Keep your videos short (2-3 minutes) and focused. For example, if you want to highlight what your new printing press can do for your customers, don’t include shots of your staff or building. Post the video to your website, as well as the appropriate social media sites. Ask for comments – and view them as valuable feedback to help you improve.

# BUYING A BUSINESS

## QUESTIONS THAT NEED ANSWERS:

- Why is the business for sale?
- What is the value of the business?
- What are the company's products and services?
- Who started the business? What is the history of the business? Where is it located and where are its customers located?
- Has the competition increased or changed? (see page 15.)
- What sales and marketing plans have you seen? What are the business' sales trends? How will you increase sales?
- Will you hire new employees and managers or use the existing staff?



## CHECKLIST for buying a business

To Do Done

☐ ☐

- Talk to the business' customers and suppliers.

To Do Done

☐ ☐

- Review financial statements and tax returns from the last 3 years.

To Do Done

☐ ☐

- Develop a purchase and sale agreement which shows:

- › the purchase price components - down payment, allocation of the price, and how it will be financed
- › how the business will be conducted until purchased
- › the liabilities you are assuming including accounts payable, loans, leases, contracts, taxes, and legal
- › the value of the assets you are buying including Accounts Receivable (quality and the age of the invoices), inventory (value and age), machinery/equipment/furniture/fixtures (age, condition, and value), patents/trademarks, and real estate.
- › that the purchase and sale agreement is subject to financing and inspections

To Do Done

☐ ☐

- Know how you will finance the business. Is the seller willing to finance all or any of the business (especially the goodwill - the difference between the value of hard assets and the business' purchase price)? What are the terms, rates, and conditions? Develop a Loan Request (see page 18).

To Do Done

☐ ☐

- Determine who will pay for closing costs including legal services, points, appraisals and environmental inspections.

### ORANGE DOT MACHINE

PRODUCT: machining services for the seller's railroad product line

OWNERS: Jack Reich and Tom Wallis, both of whom want to retire

LOCATION: Western Connecticut. The building's landlord is Reich Holdings, LLC (see Appendix Section 9, "Business Location")

LEGAL STATUS: S Corporation registered in Connecticut

HISTORY: Started in 1982 as a division of a larger corporation.

CLIENTS: 200 companies in Connecticut and southern New England. (Commercial companies: 60%; military-related: 25%; railroad: 15%)

SALES: \$1.4 million in sales last year — a 30% increase over the previous fiscal year, due to an expanded product line and aggressive marketing. The quality of the equipment and caliber of the staff present an excellent growth opportunity.

MARKETING: The redesign of the company website, along with a formal marketing program, is expected to increase the customer base and expand the service area.

PURCHASE PRICE: \$500,000 includes \$475,000 in assets (see appraisals in the Appendix) and \$25,000 in good will. An additional \$50,000 is needed for working capital. Refer to our Loan Request and Cash Flow Analysis.

TRANSFER TERMS: As of the closing, all Accounts Receivable and Payable will be the current owners' responsibility. Work-in-progress inventory will be consigned to the buyer, then completed on a labor-only basis. When the product is completed, future revenue will be kept by the new owners.

LIABILITIES: The assumption of capital lease obligations (see Appendix)

In your **APPENDIX**, include pictures of the business location, a detailed description and appraised value of the building, inventory and equipment, assets and liabilities, inspection reports, and any patents/trademarks. Also include the purchase-and-sale agreement and any legal documents.

# BUYING A FRANCHISE

## BUYER, BE AWARE

A franchise is a legal business relationship between a franchiser (Burger King, for example) and the franchisee (you). The franchiser owns the right to the business name, and sells that right to you. In return, you sell products and services supplied by the franchiser.

The advantages of buying a franchise can be appealing. You get an established business presence. And since many of the decisions and products come from the franchiser, your risks are reduced. You are also provided with a range of support services, such as site selection, training, supplies and advertising/marketing plans.

## THE DISCLOSURE DOCUMENT: READ IT CAREFULLY

The Federal Trade Commission (FTC) requires sellers of franchises and other business-opportunity ventures to provide a Disclosure Document to prospective buyers. In it, you should find detailed information that explains how business between you and the franchiser will be conducted.

It is crucial that you read this document very carefully, as many times as you need to, because it contains important information — audited financial statements, your start-up and ongoing costs, and locations of other franchises. It will clearly explain the responsibilities of the buyer and the seller. Have your attorney read through it as well.

The Disclosure Document must be given to you in advance so you can gather and consider any and all information you need to be sure your decision is an informed one.

## Top Ten Questions To Ask Before Buying a Franchise

- 1 How many franchises are there and how many in your area? Don't be afraid to ask for a list, then to visit as many as you can. If possible, speak with the owner(s) about some of the real-world realities of running the business.
- 2 How long has the franchiser been in the industry? Ask how long they have been selling franchises.
- 3 How financially healthy is the franchiser? You have a right to see their financial statements, which should be included in the Disclosure Document. Make sure you are comfortable with all the numbers.
- 4 What does your initial cost cover? Discuss things like the licensing fee, training, equipment, starting inventory and promotional fees. Find out if the land will be purchased or leased, and whether the building will be constructed or renovated.
- 5 Will the franchiser help finance the business? If so, you still need to develop a business plan with financial projections.
- 6 What ongoing costs will you pay the franchiser? Discuss royalties, training, insurance and advertising.
- 7 Will you be required to buy supplies from the franchiser or their designated suppliers? Will prices be competitive?
- 8 Do any restrictions apply when competing with the competition?
- 9 What is the length of the partnership? Be clear about the terms covering renewal rights.
- 10 Do you have the right to resell the franchise?

# LOAN REQUEST

## HOW MUCH WILL YOU NEED?

You must invest 25% - 50% of your own money.

Show how much and where your money will come from. Also provide information about money coming from investors. Show how much money you are requesting from the lender.

## HOW WILL THE MONEY BE USED?

Uses include inventory, furniture, fixtures, equipment, machines, repairs and improvements, and working capital (money for the business' day-to-day activities). Your business' income (and other money) must cover your expenses. You need more money if your expenses are more than your income. Use of funds must be fully documented with quotes in the **APPENDIX** (include a breakdown of machinery, equipment, fixtures and furniture).

## HOW LONG ARE YOU ASKING FOR REPAYMENT?

- **Short Term** (*less than a year*): Short-term loans are called Lines of Credit (LOC) or Revolvers and work like a credit card, with a pre-determined amount. Lines of credit are primarily used for working capital and must be paid in full within that year.
- **Intermediate Term** (*1-10 years*): Like a car loan, payments are monthly. Use for buying the business, equipment, or for long-term working capital.
- **Long Term** (*10 years or more*): Like a mortgage, used to buy commercial real estate, commercial vehicles, and heavy equipment.

### Loan Decisions

*The "1-2-3 Method" on page 30 helps you calculate your maximum loan amount.*

## HOW WILL THE LOAN BE REPAYED?

The lender wants to see the loan repaid from the business' income. If necessary, the lender needs to know that the loan could also be repaid by selling an asset or by a cash infusion from an investor.

## IF YOUR LOAN REQUEST IS REJECTED, ASK:

- Why it was rejected.
- If you can correct the problems and re-submit the request.
- If you should go to another lender or seek alternative financing.

## WHAT COLLATERAL ARE YOU OFFERING?

Collateral is assets the bank has a lien on and will take if you can't repay the loan. Collateral can be personal (*savings, stocks and/or equity in personally owned real estate*) or business (*receivables, inventory, equipment*).

Lenders require appraisals of your collateral and they discount the value of your assets. The total *discounted* collateral amount must equal the total loan amount requested.

Typical discounts include: saleable inventory at 50% or lower, fixed

assets at 50% or lower, collectable accounts receivable at 25% or lower, and furniture/fixtures/machinery/equipment at fair market value of book value. In the **APPENDIX** include the, model, year, serial number and fair market value.

| EXAMPLE:              | Market Value     | Discount Percentage | Discounted Value |
|-----------------------|------------------|---------------------|------------------|
| • Inventory           | \$100,000        | 50%                 | \$50,000         |
| • Fixed Assets        | \$50,000         | 50%                 | \$25,000         |
| • Accounts Receivable | \$80,000         | 25%                 | \$60,000         |
| <b>Total</b>          | <b>\$230,000</b> |                     | <b>\$135,000</b> |

A maximum loan request of \$135,000 is based on the collateral value of their assets.

# FINANCIALS

FOUR FINANCIAL STATEMENTS ARE INCLUDED IN THIS SECTION:

1

## Personal Financial Statement

Your own personal financial health will be carefully examined by the lender. See page 20.

2

## Balance Sheet

This is a snapshot of your business. A moment frozen in time. See page 22.

3

## Income Statement

Think of this as your business' "report card" over a period of time. See page 24.

4

## Cash Flow Statement

This will show how much money comes in and how much goes out. See page 26.

## ACCOUNTING METHODS

Accrual

vs.

Cash

### HINTS FOR DEVELOPING FINANCIALS:

- Make realistic assumptions. Lenders know there are risks, so explain how they will be handled. They like to see business owners who recognize and solve them. Make a record of your assumptions so you can prove to the lender that your projections are realistic.
- Show reasonable links between past (if buying a business), actual, and future projections.

### WATCH FOR THESE COMMON FINANCIAL PROBLEMS:

#### • Limited capital

Capital is just another word for money, and if there's not enough of it, it can lead to insufficient working capital (money for day-to-day activities). Don't try to make money stretch too far. Ask for more loan money, or cut down on liabilities and expenses.

#### • Little or no record keeping

You must keep meticulous records for yourself, the IRS, and your lender.

#### • Failure to seek outside help

Consult an accountant, gain business advisors, contact the Small Business Administration/SBA ([www.sba.gov](http://www.sba.gov)) or your state's Department of Economic Development (a quick google search will locate them). Your advisors' input is valuable but don't be totally dependent on them. Educate yourself. You should have a basic understanding of your company's finances. Know how to read your own financial statements and reports.

#### • Poor management

A business needs a good financial manager (within the company or an outside advisor). It's your money, so be very self-disciplined.

#### • Reluctance to invest in the business

Why should the lender stand behind you if you won't invest any of your own money? You must put a percentage of *your own money* into the company (usually 25% to 50%).

#### • Failure to personally guarantee the loan repayment

If the business fails for any reason, the owners must repay the loan. Lenders need to be assured of your total commitment.

THERE ARE TWO WAYS TO HANDLE YOUR ACCOUNTING  
**ACCRUAL OR CASH.**

1. The **CASH** method means you don't record a sale until you collect money, and you don't record an expense until you pay for it.
2. The **ACCRUAL** method, means:
  - › Sales are made but payments are not immediately collected. Your customers pay later, which creates "accounts receivable."
  - › Business purchases are made, but paid for later, creating "accounts payable."
  - › Assets (like equipment) are depreciated over their life-time. This is tax deductible.
  - › Net Income does not always mean cash, since money is tied up in accounts receivable and inventory.

## 1

# PERSONAL FINANCIAL STATEMENT

Personal financial health is carefully examined by the lender or investor. Complete a Personal Financial Statement for each person listed in the business plan who will be guaranteeing the loan (partners, officers, stockholders). It's a good idea to order your credit report from the three credit bureaus and review it because lenders will scrutinize it. Be prepared to explain any negative reports.

Most lenders will supply you with their own Personal Financial Statement form, but the information they usually request is shown in this sample.

**Life Insurance:**  
In the **APPENDIX**, provide face amount and cash surrender value of policies, name of insurance companies and beneficiaries.

**Other Property:**  
Describe in the **APPENDIX**. If any is pledged as security/collateral, include name and address of lien holder, lien amount, and payment terms.

**Notes Payable:**  
In the **APPENDIX**, include the name and address of the noteholder, original loan balance, current balance, payment amount, and what collateral is used for security.

## PERSONAL FINANCIAL STATEMENT

Date \_\_\_\_\_  
 Your Name and Address \_\_\_\_\_  
 Business Name and Address \_\_\_\_\_  
 Social Security \_\_\_\_\_ Date of Birth: \_\_\_\_\_  
 Phone: \_\_\_\_\_ Fax: \_\_\_\_\_ E-mail: \_\_\_\_\_

### ASSETS & LIABILITIES

#### ASSETS (what you own)

|                                      |          |
|--------------------------------------|----------|
| Cash                                 | \$ _____ |
| Savings Accounts                     | \$ _____ |
| Retirement Accounts                  | \$ _____ |
| Accounts & Notes Receivable          | \$ _____ |
| Life Insurance, cash surrender value | \$ _____ |
| Stocks & Bonds (market value)        | \$ _____ |
| Real Estate (market value)           | \$ _____ |
| Automobiles (market value)           | \$ _____ |
| Other Property                       | \$ _____ |
| Other Assets                         | \$ _____ |
| <b>TOTAL ASSETS</b>                  | \$ _____ |

#### LIABILITIES (what you owe)

|                                 |          |
|---------------------------------|----------|
| Accounts Payable                | \$ _____ |
| Notes Payable                   | \$ _____ |
| Residential Mortgage, balance   | \$ _____ |
| Investment Mortgage, balance    | \$ _____ |
| Installment Loan Balance, auto  | \$ _____ |
| Installment Loan Balance, other | \$ _____ |
| Unpaid taxes                    | \$ _____ |
| Other liabilities               | \$ _____ |
| <b>TOTAL LIABILITIES</b>        | \$ _____ |

|                                            |          |
|--------------------------------------------|----------|
| <b>NET WORTH (assets less liabilities)</b> | \$ _____ |
| <b>TOTAL LIABILITIES + NET WORTH</b>       | \$ _____ |

### Stocks & Bonds:

The total is included here. In the **APPENDIX**, include the number of shares, name of securities, cost, market value with date.

### Real Estate:

The total is included here. In the **APPENDIX**, include type of property, date purchased, original cost, and the present market value. Also include the mortgage account number, balance, and monthly payment.

### Unpaid taxes:

The total is included here. In the **APPENDIX**, specify the type of tax, who it's owed to, when it's due and whether there is a lien on any property

# YOUR PERSONAL FINANCIAL STATEMENT

**Annual Expenses:**  
Multiply your monthly  
expenses by 12.

**Contingent liabilities:**  
Are you an endorser,  
co-maker or guarantor  
of other loans? If so, are  
there any legal actions  
or contested taxes?

## INCOME & EXPENSES

### ANNUAL INCOME:

|                                        |          |
|----------------------------------------|----------|
| Salary, Bonuses, and Commissions       | \$ _____ |
| Dividends, Interest, Investment income | \$ _____ |
| Real Estate Income                     | \$ _____ |
| Other Income                           | \$ _____ |
| <b>TOTAL ANNUAL INCOME</b>             | \$ _____ |

### ANNUAL EXPENSES:

|                                        |          |
|----------------------------------------|----------|
| Mortgage/Rental payments               | \$ _____ |
| Loans and notes payable                | \$ _____ |
| Taxes: Federal, State, Local, Property | \$ _____ |
| Insurance premiums                     | \$ _____ |
| Alimony and child support              | \$ _____ |
| Tuition                                | \$ _____ |
| Medical Exp./Insurance                 | \$ _____ |
| Contingent liabilities                 | \$ _____ |
| Other Debt or Liabilities              | \$ _____ |
| <b>TOTAL ANNUAL EXPENSES</b>           | \$ _____ |

This statement is true and accurate.

I authorize any inquiries necessary to verify its accuracy.

(your signature and date) \_\_\_\_\_

In the **APPENDIX**, include copies of:

- Assets: life insurance statements, stocks and bonds, real estate, and personal property.
- Liabilities: notes payable, mortgages on real estate and unpaid taxes.
- Loans/mortgages: monthly payment amount and a copy of the last statement.
- Three years of tax returns for each owner.
- Copies of credit reports for each owner.

## 2

## BALANCE SHEET

The **Balance Sheet** is like a picture of your business, frozen for a second. The numbers change every day.

In the **APPENDIX**, include fiscal year-end statements for the last three years, and an interim statement not more than three months old. Start-up companies: Include an opening Balance Sheet (what the balance sheet will look like the day after the loan closes).

**Depreciation:**

Except for land, assets wear out. The value goes down and can be deducted. Values for assets are presented via a reserve for depreciation. Market value the price you could sell it for will differ from this figure.

**Owners Investment:**

Also called capital or common stock in a corporation

**Total Capital:**

Also called net worth

## YOUR BALANCE SHEET INCLUDES THE FOLLOWING:

**ASSETS**

*What the company owns*

**Current Assets**

*Can be converted into cash in one year*

**Accounts Receivable**

*Sales made but not collected*

**Inventory**

*Inventory on hand, waiting to be sold*

**Total Current Assets**

*Add up all of the Current Assets*

**Non-Current Assets**

*Takes one year or more to turn into cash*

**Fixed Assets**

*This includes property, plant, and equipment*

**Less Depreciation**

*Subtract Accumulated Depreciation*

**Fixed Assets (net)**

*Fixed Assets minus Accumulated Depreciation*

**Advances to Owners**

*Money that owners take out of the business in the form of a loan to be repaid*

**Total Non-Current Assets**

*Add up all the Non-Current Assets*

**Total Assets**

*Add Current Assets and Non-Current Assets*

**LIABILITIES**

*How much the company owes*

**Current Liabilities**

*Liabilities due within one year*

**Current Portion of Long-Term Debt**

*One year's worth of loan payments*

**Note Payable**

*Due within one year*

**Accounts Payable (A/P)**

*Purchases not paid for*

**Total Current Liabilities**

*Total all the Short-Term Liabilities*

**Long-Term Liabilities**

*Due for more than one year*

**Loan Payable**

*Due after one year's worth of payments*

**Total Long-Term Liabilities**

*Total all the Long-Term Liabilities*

**Total Liabilities**

*Add the Current and Long-Term Liabilities*

**CAPITAL OR NET WORTH**

*The business' equity*

**Owners Investment**

*Amount of money owners have invested*

**Retained Earnings**

*Income earned and kept in the business*

**Total Capital**

*Add Owners Investment and Retained Earnings*

**Total Liabilities & Capital**

*Add Liabilities and Capital. Equal to Total Assets*

Max Computer Company  
**BALANCE SHEET**

**ASSETS****Current Assets:**

|                                   |                |
|-----------------------------------|----------------|
| Cash .....                        | 10,000         |
| Accounts Receivable .....         | 75,000         |
| Inventory (ending) .....          | 85,000         |
| <b>Total Current Assets .....</b> | <b>170,000</b> |

**Non-Current Assets**

|                                       |                |
|---------------------------------------|----------------|
| Fixed Assets .....                    | 140,000        |
| Less Accumulated Depreciation .....   | (25,000)       |
| Fixed Assets (net) .....              | 115,000        |
| Advances to Owners .....              | 6,000          |
| <b>Total Non-Current Assets .....</b> | <b>121,000</b> |
| <b>Total Assets (170 + 121) .....</b> | <b>291,000</b> |

**LIABILITIES****Current Liabilities**

|                                         |                |
|-----------------------------------------|----------------|
| Current Portion of Long-Term Debt ..... | 6,000          |
| Note Payable .....                      | 100,000        |
| Accrued Taxes .....                     | 3,000          |
| Accounts Payable (A/P) .....            | 41,000         |
| <b>Total Current Liabilities .....</b>  | <b>150,000</b> |

**Long-Term Liabilities**

|                                           |                |
|-------------------------------------------|----------------|
| Loan Payable .....                        | 54,000         |
| <b>Total Long-Term Liabilities .....</b>  | <b>54,000</b>  |
| <b>Total Liabilities (150 + 54) .....</b> | <b>204,000</b> |

**CAPITAL OR NET WORTH**

|                            |               |
|----------------------------|---------------|
| Owners Investment .....    | 20,000        |
| Retained Earnings .....    | 67,000        |
| <b>Total Capital .....</b> | <b>87,000</b> |

|                                                         |                |
|---------------------------------------------------------|----------------|
| <b>Total Liabilities &amp; Capital (204 + 87) .....</b> | <b>291,000</b> |
|---------------------------------------------------------|----------------|



Think of the balance sheet as a seesaw. The assets and liabilities alone are out of balance. Capital, the last weight you put on the scale, makes a perfect balance.

Assets      Liabilities + Capital

These numbers should be the same.

# YOUR BALANCE SHEET

Your Company Name

## BALANCE SHEET

Date of Statement \_\_\_\_\_

### ASSETS

#### Current Assets

|                            |          |
|----------------------------|----------|
| Cash .....                 | \$ _____ |
| Accounts Receivable.....   | \$ _____ |
| Inventory (ending).....    | \$ _____ |
| Other Current Assets.....  | \$ _____ |
| Total Current Assets ..... | \$ _____ |

#### Non-Current Assets

|                                |          |
|--------------------------------|----------|
| Fixed Assets .....             | \$ _____ |
| Less Depreciation .....        | \$ _____ |
| Fixed Assets (net) .....       | \$ _____ |
| Advances to Owners .....       | \$ _____ |
| Other Non-Current Assets ..... | \$ _____ |
| Total Non-Current Assets ..... | \$ _____ |
| Total Assets.....              | \$ _____ |

### LIABILITIES

#### Current Liabilities

|                                        |          |
|----------------------------------------|----------|
| Current Portion of Long-Term Debt..... | \$ _____ |
| Note Payable.....                      | \$ _____ |
| Accrued Taxes.....                     | \$ _____ |
| Accounts Payable(A/P).....             | \$ _____ |
| Total Current Liabilities.....         | \$ _____ |

#### Long-Term Liabilities

|                                   |          |
|-----------------------------------|----------|
| Loan & Notes Payable.....         | \$ _____ |
| Total Long-Term Liabilities ..... | \$ _____ |
| Total Liabilities.....            | \$ _____ |

### CAPITAL OR NET WORTH

|                                   |          |
|-----------------------------------|----------|
| Owners Investment .....           | \$ _____ |
| Retained Earnings .....           | \$ _____ |
| Total Capital .....               | \$ _____ |
| Total Liabilities & Capital ..... | \$ _____ |

These numbers should be the same.

## 3

## INCOME STATEMENT

## YOUR INCOME STATEMENT INCLUDES THE FOLLOWING:

**The Income Statement**

is your company's report card. Expenses are subtracted from income, which gives you the business' financial performance or net profit (or loss). Other names for the Income Statement are Operating Statement, Earnings Statement, or Profit and Loss Statement.

**SALES**

Net Sales  
*Revenue or income. Gross sales is before returns and allowances. Net sales is after returns and allowances.*

Less Cost of Goods Sold  
*Cost to make products including materials and labor.*

Beginning Inventory  
*Comes from the Ending Inventory of the previous year.*

Purchases  
*Used to make product.*

Labor  
*Used to make product only. Other labor-related expenses are included in the Operating Expenses section.*

Less: Ending Inventory  
*This number becomes the beginning inventory for the next year's Income Statement.*

Total Cost of Goods Sold  
*Compute the Cost of Goods Sold.*

Gross Profit  
*Sales less cost of goods sold. This is your profit margin.*

**EXPENSES**

Selling Expenses  
*Salaries and expenses related to sales only.*

General and Administrative  
*All other expenses used to run the company.*

Operating Income (or Loss)  
*Shows how the business performed.*

Interest Expense  
*Subtract interest expense.*

**PROFIT**

Net Profit before taxes

Less: Income Taxes  
*Tax rates depend on your business' legal status.*

Net Profit  
*Profit left after all expenses (including taxes) have been paid.*

**Net vs. Gross Sales**

Gross sales is the amount before adjustments like returns and allowances. After these adjustments you have Net Sales.

**Operating Income:**

Gross Profit less Selling Expenses and General/Administrative Expenses.

In the **APPENDIX**, include three years' fiscal year end statements plus an interim statement (not more than three months old).

Start-up companies: Project month by month for the first year, quarterly for the second year and one whole year for the third year.

Max Computer Company  
**INCOME STATEMENT**

**SALES**

|                                        |          |
|----------------------------------------|----------|
| Net Sales .....                        | 900,000  |
| Less Cost of Goods Sold:               |          |
| Beginning Inventory .....              | 75,000   |
| Purchases .....                        | 350,000  |
| Labor .....                            | 200,000  |
| Total .....                            | 625,000  |
| Less: Ending Inventory .....           | (85,000) |
| Cost of Goods Sold (625 less 85) ..... | 540,000  |
| GROSS PROFIT (900 less 540) .....      | 360,000  |

**EXPENSES**

|                                       |         |
|---------------------------------------|---------|
| Operating Expenses:                   |         |
| Selling Expenses .....                | 90,000  |
| General & Administrative .....        | 170,000 |
| Total Expenses .....                  | 260,000 |
| Operating Income (360 less 260) ..... | 100,000 |
| Interest Expense .....                | 20,000  |

**PROFIT**

|                                             |        |
|---------------------------------------------|--------|
| Net Profit before taxes (100 less 20) ..... | 80,000 |
| Less: All Income Taxes .....                | 27,000 |
| Net Profit (80 less 27) .....               | 53,000 |

\$75,000 was the ending inventory for the previous year and became the beginning inventory for the next year.

This number is pulled from the Balance Sheet on page 22.

**Important Note:** Compare numbers in the current year's Income Statement with the previous year. You should know whether income/profits and expenses are going up or down.

# YOUR INCOME STATEMENT

Your Company Name

## INCOME STATEMENT

Date of Statement \_\_\_\_\_

### SALES

|                                                    |     |
|----------------------------------------------------|-----|
| Net Sales .....                                    | \$  |
| Less Cost of Goods Sold:                           |     |
| Beginning Inventory .....                          | \$  |
| Purchases .....                                    | \$  |
| Labor .....                                        | \$  |
| Total .....                                        | \$  |
| Less: Ending Inventory .....                       | -\$ |
| Cost of Goods Sold.....                            | \$  |
| GROSS PROFIT (sales less cost of goods sold) ..... | \$  |

### EXPENSES

|                                 |    |
|---------------------------------|----|
| Operating Expenses:             |    |
| Selling Expenses .....          | \$ |
| General and Administrative..... | \$ |
| Total Expenses .....            | \$ |
| Operating Income .....          | \$ |
| Interest Expense .....          | \$ |

### PROFIT

|                               |    |
|-------------------------------|----|
| Net Profit before taxes ..... | \$ |
| Less: All Income Taxes .....  | \$ |
| Net Profit .....              | \$ |

## 4

## CASH FLOW STATEMENT

**WHAT'S THE BIG IDEA?**

The Cash Flow Statement is your cash “register.” It shows money that comes into the business and what goes out. Profits do not guarantee positive cash flow. You need to know or estimate income and expenses based on the direct and variable costs of your products or services. Cash must be available to pay bills on time and for day-to-day activities. This statement will also show an important figure, the breakeven point, when cash income equals the cash outflow (see page 30).

**Tips for preparing Cash Flow Statements:**

Numbers in the Cash Flow Statement will also appear in the Income Statement. However, the Cash Flow Statement differs because it records when cash is received, when cash is paid, and how much cash you have reserved.

- Begin with income at the top, followed by expenses and repayment of the loan.
- Show realistic assumptions. If sales increase 80% every year, this may seem unrealistic. Prove assumptions and include them in the **APPENDIX**.
- Cash jumps up from year one to two, because start-up costs are large in the first year.
- Negative balances are common in the first year. They must be covered by providing more cash (loans or owners’ investments), or by reducing expenses.
- Increased sales can cause a cash drain (due to increased costs or labor). Show how you will overcome this.
- Show monthly figures in the first year, quarterly figures in the second year, and a lump sum in the third year.

| Name of Business                                                                             | Start-Up Costs | Month 1<br>FIRST MONTH'S REVENUE | Month 2 | Month 3 | Month 4 |
|----------------------------------------------------------------------------------------------|----------------|----------------------------------|---------|---------|---------|
| <b>A. CASH ON HAND</b><br>(Beginning of month)                                               |                |                                  |         |         |         |
| <b>B. CASH RECEIPTS</b>                                                                      |                |                                  |         |         |         |
| 1. Cash Sales                                                                                |                |                                  |         |         |         |
| 2. Collections from Credit Accounts                                                          |                |                                  |         |         |         |
| 3. Loan or Other Cash Injection (Specify)                                                    |                |                                  |         |         |         |
| <b>C. TOTAL CASH RECEIPTS</b> (B1+B2+B3)                                                     |                |                                  |         |         |         |
| <b>D. TOTAL CASH AVAILABLE</b><br>(A + C, before cash paid out)                              |                |                                  |         |         |         |
| <b>E. CASH PAID OUT:</b>                                                                     |                |                                  |         |         |         |
| 1. Purchases (Merchandise)                                                                   |                |                                  |         |         |         |
| 2. Gross Wages                                                                               |                |                                  |         |         |         |
| 3. Payroll Expenses (Taxes, vacations, etc.)                                                 |                |                                  |         |         |         |
| 4. Outside Services (Outside labor)                                                          |                |                                  |         |         |         |
| 5. Supplies (Office & operating, not for re-sale)                                            |                |                                  |         |         |         |
| 6. Repairs and maintenance                                                                   |                |                                  |         |         |         |
| 7. Advertising                                                                               |                |                                  |         |         |         |
| 8. Car, Delivery and Travel                                                                  |                |                                  |         |         |         |
| 9. Professional Services (Accounting, legal, etc.)                                           |                |                                  |         |         |         |
| 10. Rent (real estate only)                                                                  |                |                                  |         |         |         |
| 11. Telephone                                                                                |                |                                  |         |         |         |
| 12. Utilities (Water, heat, electricity, etc.)                                               |                |                                  |         |         |         |
| 13. Insurance (on business property & products)                                              |                |                                  |         |         |         |
| 14. Taxes (Real estate, sales, inventory, etc.)                                              |                |                                  |         |         |         |
| 15. Interest (on loans)                                                                      |                |                                  |         |         |         |
| 16. Other Expenses (Specify each)                                                            |                |                                  |         |         |         |
| 17. Miscellaneous (small expenses)                                                           |                |                                  |         |         |         |
| <b>18. Subtotal</b>                                                                          |                |                                  |         |         |         |
| <b>F. OTHER OPERATING COSTS:</b>                                                             |                |                                  |         |         |         |
| 1. Loan Principal Payment (include equipment)                                                |                |                                  |         |         |         |
| 2. Capital Purchases (Specify)                                                               |                |                                  |         |         |         |
| 3. Other Start-up Costs                                                                      |                |                                  |         |         |         |
| 4. Reserve and/or Escrow (Insurance, tax, etc.)                                              |                |                                  |         |         |         |
| 5. Owner's Withdrawal (income tax, etc.)                                                     |                |                                  |         |         |         |
| <b>G. TOTAL CASH PAID OUT</b><br>(E18 + F1 through F5)                                       |                |                                  |         |         |         |
| <b>H. CASH POSITION</b><br>(End of month, D minus G.<br>Becomes cash on hand for next month) |                |                                  |         |         |         |
| <b>ESSENTIAL OPERATING DATA</b><br>(Items explained on page 27)                              |                |                                  |         |         |         |
| 1. Accounts Receivable (End of month)                                                        |                |                                  |         |         |         |
| 2. Bad Debt (End of month)                                                                   |                |                                  |         |         |         |
| 3. Inventory on Hand (End of month)                                                          |                |                                  |         |         |         |
| 4. Accounts Payable (End of month)                                                           |                |                                  |         |         |         |
| 5. Monthly Depreciation                                                                      |                |                                  |         |         |         |

## ESSENTIAL OPERATING DATA

*The five items shown at the bottom of the Cash Flow Statement can be kept separately and included at the bottom of your monthly cash flow projections. They are important planning and cash flow projection tools.*

### ***1. Accounts Receivable***

*Previous unpaid credit sales, plus current month's unpaid credit sales.*

## 2. *Bad Debt*

*Should be deducted from the month. This figure is based on past history or industry standards.*

### 3. Inventory on Hand

*Any products available  
for sale at the end of  
the month.*

#### 4. Accounts Payable

*Any accounts due at the  
end of the month.*

## 5. Depreciation

*Assets wear out and lose value. The monthly depreciation value is established by your accountant (as allowed by the IRS).*

# RATIOS

Ratios are your business' scores. Even though ratios are not included in your business plan, they will be calculated by lenders to make decisions.

Lenders and investors compare your ratios to:

- acceptable bank ranges
- a company's prior years
- your business' history
- other companies in your industry

Industry averages are found in the RMA Annual Statement Studies, your industry's associations, trade magazines and Small Business Administration/SBA.

## 1 ASSET MANAGEMENT RATIOS

### Accounts Receivable Turnover

Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)

Accounts Receivable (\$75,000 on pg. 22) X 365 days

| F O R M U L A                    |   |      |
|----------------------------------|---|------|
| $\frac{\$27,375,000}{\$900,000}$ | = | 30.4 |

It takes 30 days to collect bills

Net Sales Figure (pg. 24)

**NOTE:** Shows how many days it takes to collect money owed to you. Lower answers are better.

### Inventory Turnover

Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)

Inventory Figure (\$85,000 on pg. 22) X 365 days

| F O R M U L A                    |   |      |
|----------------------------------|---|------|
| $\frac{\$31,025,000}{\$540,000}$ | = | 57.4 |

57 days to turnover or sell the inventory

Cost of Goods Sold (pg. 24)

**NOTE:** Shows how many days it takes you to turnover (or sell) your inventory. Lower answers are better.

## 2 LIQUIDITY RATIOS

### Working Capital

Number Source: Balance Sheet (pg. 22)

Current Assets (pg. 22)

| F O R M U L A                 |   |          |
|-------------------------------|---|----------|
| $\frac{\$170,000}{\$150,000}$ | = | \$20,000 |

Working Capital

Subtract Current Liabilities (pg. 22)

**NOTE:** Shows if a company has enough cash to pay bills. This example shows an excess amount after paying all current liabilities. The answer must be positive. More money is needed to meet expenses if the answer is negative.

### Quick or Acid Test

Number Source: Balance Sheet (pg. 22)

Total Current Assets of \$170,000 (pg. 22) less Inventory of \$85,000 (pg. 22)

| F O R M U L A                |   |     |
|------------------------------|---|-----|
| $\frac{\$85,000}{\$150,000}$ | = | .56 |

The answer should be 1 or more. In this example, the answer, \$0.56, is less than 1. The company could not pay all its current liabilities without selling some inventory.

Total Current Liabilities (pg. 22)

**NOTE:** Shows current assets and cash after inventory is eliminated. (Inventory can become obsolete.) It's called "quick" because it includes items that can be turned into cash.

### Current

Number Source: Balance Sheet (pg. 22)

Total Current Assets (pg. 22)

| F O R M U L A                 |   |      |
|-------------------------------|---|------|
| $\frac{\$170,000}{\$150,000}$ | = | 1.13 |

Number of times you can pay current liabilities

Total Current Liabilities (pg. 22)

**NOTE:** Shows a company's short-term debt paying ability. This means there is \$1.13 in cash and current assets available to pay every \$1 of current liabilities.

# RATIOS

## 3

### DEBT MANAGEMENT RATIOS

#### Leverage (or Debt-to-Worth)

Number Source: Balance Sheet (pg. 22)

Total Liabilities  
(pg. 22)

Total Capital  
(pg. 22)

$$\frac{\text{Total Liabilities}}{\text{Total Capital}} = \frac{\$204,000}{\$87,000} = 2.34$$

The company is leveraged 2.34 times



**NOTE:** Shows whether or not a company has enough equity. Lower answers are better. Lenders prefer this ratio to be 3 or lower.

#### Accounts Payable Turnover

Number Source: Balance Sheet (pg. 22)  
& Income Statement (pg. 24)

Accounts Payable at \$41,000 (pg. 22)  
X 365 days

Purchases (pg. 24)

$$\frac{\text{Accounts Payable at } \$41,000 \times 365 \text{ days}}{\text{Purchases}} = \frac{\$14,965,000}{\$350,000} = 42.75$$

Accounts Payable are paid every 43 days

**NOTE:** Shows how quickly a company pays its suppliers. Lower numbers are better.

## 4

### PROFITABILITY RATIOS

#### Profit Margin on Sales

Number Source: Income Statement (pg. 24)

Net Profit (pg. 24)

Net Sales (pg. 24)

$$\frac{\text{Net Profit}}{\text{Net Sales}} = \frac{\$53,000}{\$900,000} = .0588$$

The profit margin is 5.9%

**NOTE:** Shows the percentage of net profit for every dollar of sales. If the profit margin is too low, the prices are too low, the cost of goods is too high, or expenses are too high. Compare the profit margin to previous years (if the business is over three years old). New businesses may compare the profit margin to those published in RMA studies or by trade associations.

#### Cash Flow to Current Maturities (Debt Service)

Number Source: Balance Sheet (pg. 22)  
& Income Statement (pg. 24)

Net Profit of \$53,000 (pg. 24) + Depreciation of \$10,000 (amount created for this example).

$$\frac{\text{Net Profit} + \text{Depreciation}}{\text{Current Portion of Long-Term Debt}} = \frac{\$63,000}{\$6,000} = 10.5$$

For every dollar of debt, \$10.50 is available to pay it

Current Portion of Long-Term Debt (pg. 22). For new businesses, use one year's worth of loan payments.

**NOTE:** Shows your ability to pay term debts after owners' withdrawals. Lenders prefer 2 or better.

## YOUR BUSINESS: RATIO ANALYSIS

|           |                                                | YOUR ANSWER            |
|-----------|------------------------------------------------|------------------------|
| Assets    | <b>1</b> Accounts Receivable Turnover          | = <input type="text"/> |
|           | Inventory Turnover                             | = <input type="text"/> |
| Liquidity | <b>2</b> Working Capital                       | = <input type="text"/> |
|           | Quick or Acid Test                             | = <input type="text"/> |
|           | Current                                        | = <input type="text"/> |
| Debt      | <b>3</b> Leverage (or Debt-to-Worth)           | = <input type="text"/> |
|           | Accounts Payable Turnover                      | = <input type="text"/> |
| Profit    | <b>4</b> Profit Margin on Sales                | = <input type="text"/> |
|           | Cash Flow to Current Maturities (Debt Service) | = <input type="text"/> |

# FORMULAS

## BREAKEVEN POINT

When a company has neither a profit nor a loss, it is the breakeven point. It is important to determine your breakeven point so you know the sales needed for your business to be profitable. The numbers for this formula come from your Income Statement (see page 24).

|          |                                                                                                                  |                                                                                                                                                                                                    |                                                                                                 |
|----------|------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| <b>1</b> | Determine your <b>Net Sales</b>                                                                                  | \$900,000 NET SALES                                                                                                                                                                                | 100%                                                                                            |
| <b>2</b> | Total your <b>Variable Expenses</b> and divide them by the Net Sales to calculate the percentages they represent | $\begin{array}{r} \$540,000 \text{ COST OF GOODS SOLD} \\ + \$90,000 \text{ SELLING EXPENSES} \\ \hline \$630,000 \text{ TOTAL VARIABLE EXPENSE} \end{array}$                                      | $\begin{array}{r} 60\% (540K/900K) \\ + 10\% (90K/900K) \\ \hline 70\% (630K/900K) \end{array}$ |
| <b>3</b> | Subtract your Total Variable Expenses from your Net Sales to calculate the <b>Margin</b> .                       | $\begin{array}{r} \$900,000 \text{ NET SALES} \\ - \$630,000 \text{ TOTAL VARIABLE EXPENSE} \\ \hline \$270,000 \text{ MARGIN} \end{array}$                                                        | $\begin{array}{r} 100\% \\ - 70\% \\ \hline 30\% \text{ or } .30 \end{array}$                   |
| <b>4</b> | Divide your Fixed Expenses by the Margin and the answer is your <b>Breakeven Point</b>                           | $\begin{array}{r} \$170,000 \text{ FIXED EXPENSES (this number comes from page 24 General \& Administrative)} \\ \div .30 \text{ MARGIN} \\ \hline \$566,667 \text{ BREAKEVEN AMOUNT} \end{array}$ |                                                                                                 |

▲ This company needs sales of \$566,667 to break even. One dollar more and the business is profitable. One dollar less and the business shows a loss.

## THE 1-2-3 METHOD FOR LOAN DECISIONS

Use the 1-2-3 method to pre-qualify and calculate your maximum loan amount.

|                       | EXPLANATION                                                      | EXAMPLE: ABC Company                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | ANSWER                                                                      |              |                     |                  |             |          |     |          |                |          |     |          |                       |          |     |          |              |                  |  |                 |                                                             |
|-----------------------|------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------|---------------------|------------------|-------------|----------|-----|----------|----------------|----------|-----|----------|-----------------------|----------|-----|----------|--------------|------------------|--|-----------------|-------------------------------------------------------------|
| <b>1</b>              | <b>DISCOUNTED COLLATERAL</b><br>Also called COLLATERAL COVERAGE  | Every \$1 borrowed must be covered by \$1 in collateral. Lenders discount the value of assets (collateral) so the <i>discounted</i> value must equal the loan amount. This covers the lender in case of foreclosure. See page 18.                                                                                                                                                                                                                                                                                                                               |                                                                             |              |                     |                  |             |          |     |          |                |          |     |          |                       |          |     |          |              |                  |  |                 |                                                             |
|                       |                                                                  | <p>This is a common discount formula used with collateral:</p> <table> <tr> <th>EXAMPLE:</th><th>Market Value</th><th>Discount Percentage</th><th>Discounted Value</th></tr> <tr> <td>• Inventory</td><td>\$30,000</td><td>50%</td><td>\$15,000</td></tr> <tr> <td>• Fixed Assets</td><td>\$50,000</td><td>50%</td><td>\$25,000</td></tr> <tr> <td>• Accounts Receivable</td><td>\$20,000</td><td>25%</td><td>\$15,000</td></tr> <tr> <td><b>Total</b></td><td><b>\$100,000</b></td><td></td><td><b>\$55,000</b></td></tr> </table>                             | EXAMPLE:                                                                    | Market Value | Discount Percentage | Discounted Value | • Inventory | \$30,000 | 50% | \$15,000 | • Fixed Assets | \$50,000 | 50% | \$25,000 | • Accounts Receivable | \$20,000 | 25% | \$15,000 | <b>Total</b> | <b>\$100,000</b> |  | <b>\$55,000</b> | Maximum loan based on discounted collateral is <b>\$55K</b> |
| EXAMPLE:              | Market Value                                                     | Discount Percentage                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Discounted Value                                                            |              |                     |                  |             |          |     |          |                |          |     |          |                       |          |     |          |              |                  |  |                 |                                                             |
| • Inventory           | \$30,000                                                         | 50%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | \$15,000                                                                    |              |                     |                  |             |          |     |          |                |          |     |          |                       |          |     |          |              |                  |  |                 |                                                             |
| • Fixed Assets        | \$50,000                                                         | 50%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | \$25,000                                                                    |              |                     |                  |             |          |     |          |                |          |     |          |                       |          |     |          |              |                  |  |                 |                                                             |
| • Accounts Receivable | \$20,000                                                         | 25%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | \$15,000                                                                    |              |                     |                  |             |          |     |          |                |          |     |          |                       |          |     |          |              |                  |  |                 |                                                             |
| <b>Total</b>          | <b>\$100,000</b>                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>\$55,000</b>                                                             |              |                     |                  |             |          |     |          |                |          |     |          |                       |          |     |          |              |                  |  |                 |                                                             |
| <b>2</b>              | <b>THE ABILITY TO REPAY</b><br>Also called DEBT SERVICE COVERAGE | For every \$2 a business has in annual cash flow, the bank will allow \$1 in loan payments.                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                             |              |                     |                  |             |          |     |          |                |          |     |          |                       |          |     |          |              |                  |  |                 |                                                             |
|                       |                                                                  | <p>The ABC Company needs to calculate how much they can borrow and afford to re-pay for a seven-year loan:</p> <ul style="list-style-type: none"> <li>\$12K net profit + 3K in depreciation = \$15K annual cash flow</li> <li>\$15K x 50% = \$7.5K the maximum lenders usually allow in annual payments is half of the annual cash flow</li> <li>\$7.5K/12 months = \$625 maximum monthly payment</li> <li>\$625/\$17.13* = \$36.48K rounded to \$36.5K</li> </ul> <p>*Monthly payment on a \$1000, seven-year loan with an interest rate of 11% is \$17.13</p> | Maximum loan based on the ability to repay is <b>\$36.5K</b>                |              |                     |                  |             |          |     |          |                |          |     |          |                       |          |     |          |              |                  |  |                 |                                                             |
| <b>3</b>              | <b>EQUITY</b><br>Also called DEBT-TO-WORTH or LEVERAGE           | A business can borrow \$3 for every \$1 invested.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                             |              |                     |                  |             |          |     |          |                |          |     |          |                       |          |     |          |              |                  |  |                 |                                                             |
|                       |                                                                  | Assume ABC Company wants to refinance a \$75K loan. The business has assets of \$100K, liabilities of \$75K, and Net Worth or Equity of \$25K.                                                                                                                                                                                                                                                                                                                                                                                                                  | Maximum loan based on equity is \$75K (\$25K in equity x 3)<br><b>\$75K</b> |              |                     |                  |             |          |     |          |                |          |     |          |                       |          |     |          |              |                  |  |                 |                                                             |

### THE LOAN DECISION

The lowest of the three answers calculated here is the maximum loan size. The maximum loan size for **ABC Company** is \$36.5K.

## APPENDIX Items Checklist

The **APPENDIX** comes at the end of your business plan. It includes all the details and documents that support your business plan.

The first page of your Appendix should be a listing of its contents. Organize the documents in the order they are referred to in your business plan. The Appendix grows so it's a good idea to use a 3-ring binder with tabs or an expandable file.

In general, your Appendix should include:

- a) estimates for anything being purchased
- b) estimates on any work to be done
- c) copies of documents related to loans, mortgages, and accounts payable to be refinanced

To Do Done  
☐ ☐

### Page 8 > BUSINESS DESCRIPTION

- Legal documents filed with your state or municipality

To Do Done  
☐ ☐

### Page 9 > BUSINESS DESCRIPTION, EXPLAINED

- Detailed industry information including economic trends, growth patterns and forecasts.

To Do Done  
☐ ☐

### Page 10 > MANAGERS & EMPLOYEES

- Managers' job descriptions, salaries and benefits.
- Monthly cost and explanation of outsourced services or functions.
- Managers and employees résumés

To Do Done  
☐ ☐

### Page 11 > OPERATIONS & LOCATION

- Include proposed rentals, leases or purchases of furniture, fixtures, equipment and machinery.
- Suppliers names, addresses, products or services supplied, costs/quotes, delivery/shipping fees, turnaround, terms of sales, contracts, and a purchasing plan.
- Details about assistance from your suppliers.
- Provide a copy of the deed if you own the business location. If buying the location, include a purchase-and-sale agreement and related legal documents. An appraisal of the building, the assets and liabilities along with an environmental inspection, will be done by the lender.
- If your location is leased, include a copy of the lease (or proposed lease) with terms, conditions, and cost.
- Show quotes for improvements and renovations.
- Traffic patterns if you own a retail business.
- Zoning statement from local government.
- Approval letters from local and state inspectors (building, fire, health, environmental, and occupational safety).
- Photos of your location, inside and outside. Include a floor plan, blueprint or plot plan (if constructing location).

To Do Done  
☐ ☐

### Pages 12-15 > MARKETING

- Detailed plans and costs for research and development.
- Advertising and promotional ideas, schedules and budgets.
- Compensation (salary, commission, or both) details for sales staff, reps, agents, brokers or wholesalers.
- Product and price comparisons of competitors.

To Do Done  
☐ ☐

### Page 16 > BUYING A BUSINESS

- Pictures of the business location
- Detailed description of the building.
- Appraised value of the building, inventory and equipment.
- A current Balance Sheet, a year-to-date Income Statement, and copies of the seller's tax returns for the last 3 years.

- Inspection reports, if available. If not, let the lender order them.
- Patents and trademarks.
- Purchase-and-sale agreement and/or an offer to buy and any legal documents that apply to the purchase

### Page 18 > LOAN REQUEST

- The use of loan proceeds: Include quotes and a breakdown of furniture, fixtures, equipment and machinery.
- Collateral: Make, model, year, serial number, and fair market value of furniture, fixtures, equipment and machinery.
- Cash Flow analysis to prove working capital needs.

To Do Done  
☐ ☐

### Pages 20 & 21 > PERSONAL FINANCIAL STATEMENT

- Stocks & Bonds: The number of shares, name of securities, cost, market value with the date.
- Life Insurance policies: Provide the face amount and cash surrender value, name of insurance companies and beneficiaries.
- Real Estate: List each property and include the date purchased, its original cost, and the present market value. Also include the mortgage account number, loan balance, and the monthly payment.
- Other property: Any pledged as security/collateral. Include the name and address of lien holder, lien amount, and payment terms.
- Notes Payable: Include the name and address of the noteholder, original loan balance, current loan balance, payment amount, and what collateral is used for security.
- Unpaid taxes: Describe the type of unpaid tax, who taxes are owed to, the amount, when payment is due, and whether there is a lien on any property.

To Do Done  
☐ ☐

### Page 21 > PERSONAL FINANCIAL STATEMENT

- Copies of life insurance statements, stocks and bonds certificates, and real estate deeds.
- Copies of notes payable, real estate statements with monthly payment amounts, and unpaid tax bills.
- Copies of signed tax returns (past three years) for each owner.

To Do Done  
☐ ☐

### Page 22 > BALANCE SHEET

- Existing businesses: Last three years' fiscal year-end statements and an interim statement (not more than two months old).
- Start-up companies: Include an opening Balance Sheet (balance sheet the day after the loan closes).

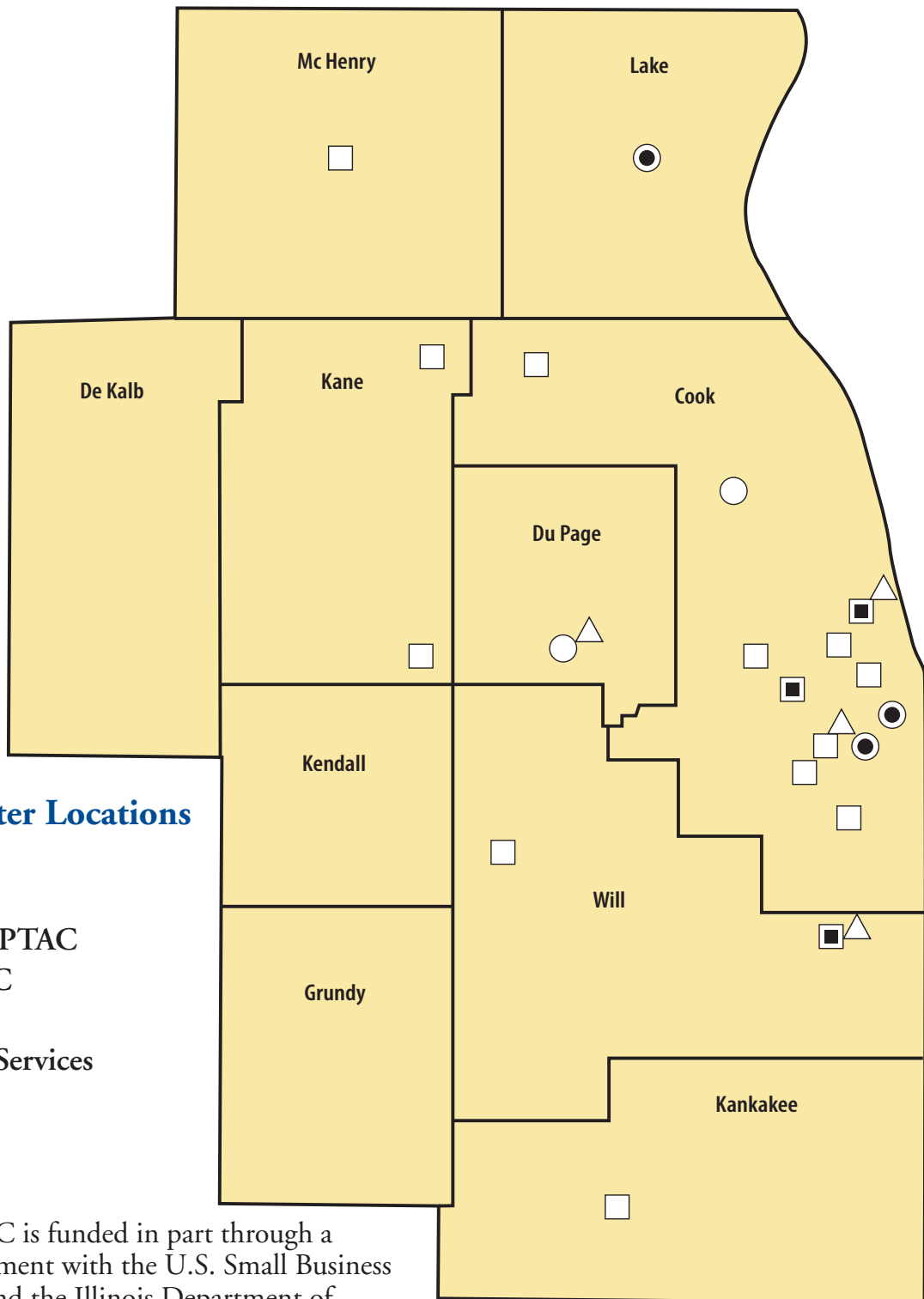
To Do Done  
☐ ☐

### Page 24 > INCOME & EXPENSE STATEMENT (or P&L)

- Existing businesses: Three years' fiscal year end statements, plus an interim statement (not more than two months old).
- Provide projections month by month for the first year, quarterly for the second year and lump sum for the third year.

# Northeast Region

## "Chicagoland"



### Business Center Locations

- SBDC
- SBDC/ITC
- SBDC/ITC/PTAC
- SBDC/PTAC
- ◇ PTAC
- △ Technology Services

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