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A Manual Covering the Topic/Subject on How to Develop A Business Plan for Investors/Owners: Formulation and Implementation

James S. Jump

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An Abstract Presented to the faculty of the Graduate School of Lindenwood College in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration

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ABSTRACT

This thesis will focus on the discussion of business planning and the impact it has on business owners and investors in today's business climate. Business planning is defined as how organizations utilize internal thought processes to execute a form of a plan of action to compete in a marketplace that offers similar products and services.

One debate about business planning involves big business that develop planning "systems" as compared to entrepreneurs that often times operate with little or no planning. Another debate involves the timing and use of planning. A survey of 220 INC 500 businesses revealed that 51% did not have formal business plans when they started. Of the 49% that did have plans, an overwhelming majority (70%) generated them simply to get external financing. The final debate centers around the impact of planning- does it lead to business success? On study reveals that 20% of non-planners failed within three years whereas the rate was only 8% for businesses engaged in planning.

While to evidence could not suggest that business planning does lead to business success, benefits were described for those who employed their efforts in the business planning process. Much discussion involves the planning function of pre-startup planning by which the entrepreneur creates a vision of the future and develops the necessary objectives, resources, and procedures to

achieve that vision. Consequently, pre-startup planning is likely to generate symbolism in that (1) it legitimizes the new venture proposal, and (2) improves communication with various stockholders, particularly potential investors or other financiers.

To some extent, therefore, pre-startup planning tends to occur because, despite its mixed evidence previously noted, successful businesses are perceived as doing it, and financiers are unlikely to provide funding simply because someone discusses a "hot idea". Financiers want to see specific details, and want to be able to study these details in order to decide whether they feel the proposed venture has a good chance of success. **Consequently, they want to see a business plan.**

Because this "need" by investors and financiers to study the details of a business idea has been shown in this study, a business planning guide *(QUICKSTART)* has been written for the purpose of helping startup entrepreneurs write their business plan prior to owning and operating their own business. To help validate its effectiveness in achieving this stated objective, three business professionals from the banking and accountancy field were asked to critique this guide for its effectiveness in helping potential business owners write their own business plan prior to seeking investors and/or financiers for their project. The results of the critique show that *QUICKSTART* received a 94% approval rating as a tool (manual) covering the topic/subject on how to develop a business plan for investors/owners: formulation and implementation.

A Manual Covering the Topic/Subject on How To Develop A Business Plan For Investors/Owners: Formulation and Implementation

James S. Jump, MBA

A Culminating Project Presented to the faculty of the Graduate School of Lindenwood College in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration

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Preface

In today's business climate, a lot of emphasis is being placed on the development and use of a "Business Plan". Bankers require new start up business owners to write a business plan for the purpose of seeking funding. Corporate executives write business plans for strategies that involve expansion of new products and services as well as takeover of other companies that might complement their core business ideas. Investors evaluate business plans for new investment compensation strategies on a frequent basis. With all the reliance on the writing and usage of 'Business Plans', what constitutes a "good" business plan, and how likely will the development of a business plan lead to business success for a business owner/operator?

This thesis explores this "Business Planning concept" through research about the history of business planning and explores the discussion about whether business planning leads to business success. The argument has pros and cons and a clear cause and affect might now be easily answered. However, there are benefits to writing a business plan, and it's place in the business environment continues to become more prevalent. As a result, this thesis can be helpful to anyone who has an interest in this topic.

In addition to the research and various findings about the topic, a business-planning guide is also written for review by the reader. The guide is an attempt to identify the main elements of a business planning guide, and explains the purpose and use for the written 'Business Plan document'. The actual "usage" of this guide includes classroom instruction at the community college level, and is also sold in bookstores and over the internet to individuals looking for assistance in business plan writing. As a result, the benefits of completing this thesis project have been numerous. To summarize, this has been a learning experience that inspired the development of a product that has found its way into the hands of interested learners of the business planning process that we hear about so much in today's business culture.

Chapter I

INTRODUCTION

History and Uses of Business Planning Models

It is possible to trace the development of economic theory of the firm back to the nineteenth century. David Ricardo systematized the rising science of economics, and developed the principles of comparative advantage, and law of diminishing return. Augustin Cournot pioneered the application of mathematics to economics, and Johann von Thuen developed theories relating the costs of commodity transportation to the location of production. However, business theory was not fully developed until the early part of the twentieth century when modeler's started to investigate specific company activities such as production and finance. These early years witnessed the formation of many fundamental theories used widely by public and private interests to determine foreign trade, investment policies, and prices. Many of these basic principles evolved into general economic theory, and therefore, contributed to economics and business modeling (Clarke 17).

As the groundwork was laid from these early business pragmatics, other advancements in business modeling continued. The 1950s saw the formalization of production scheduling techniques, and the birth of production models. The 1960s saw significant increases in the availability of computers, and for the first time, models could be run automatically enabling modelers the ability to create even larger, more sophisticated models for a range of applications, including marketing, inventory, financial and corporate modeling. In terms of complexity, one of the most advanced in the 60s was the Mattessich Model. This deterministic simulation attempted to model the firm in terms of a set of conventional accounting identities. Inputs included standard labor hours, overhead and operating expense rates, production and sales rates, the amount of raw material, and the number of products produced. It generated income statements, balance sheets, and budgets. The early 60s also saw the introduction of forecasting techniques which enabled the development of marketing planning models and revenue projections. Hence, a number of computer models were developed to investigate consumer behavior and product demand. These included the Pillsbury Company Model, the Anheuser-Bush Model, and the Corning Glass Model (19).

The late 60s and early 70s witnessed the growth of corporate planning. This format integrated corporate modeling techniques with strategy evaluation. The computer revolution in the 1970s also introduced interactive computing, financial modeling languages for mainframes, and the first business microcomputers (20). In the early 80s, spreadsheets became the most widely used financial modeling because spreadsheets were seen as flexible, and able to help in a wide range of tasks. Spreadsheets were also seen as "appropriate" in providing systems which are visually appealing, and match the way managers think (26).

While the 1970s and 1980s were dominated by integrated corporate Models, a Higgins and Finn's postal survey of 'The Times 1,000' highlighted the growth in corporate modeling between 1973 and 1976. They found that 38% of the surveyed companies were found to have a corporate model, and 60% were found to have either a financial model, or a corporate model. Two successful independent models were developed in this period. The Boise Cascade Pacific NW

Investment Planning Model, which simulated the effects of timber land purchases and capital expenditures on profit (using linear programming techniques), and the Dow Chemical Corporate Financial Planning Model, which was a deterministic accounting simulation (20).

In view of the complexities of the models used, (production, integrated, independent, and the early 1900s science of econometrics), and the companies that employed the theories and their uses, (Pillsbury Company Model, the Anheuser-Bush Model, the Corning Glass Model, Boise Cascade Pacific Northwest Investment Planning Model, and the Dow Chemical Corporate Financial Planning Model), changes in corporate modeling began to take on different properties than those used in the previous decades. New theories tried to investigate how previous models fit into the corporate strategic planning process. Attempts by modelers to simulate the entire corporation was almost entirely abandoned. Previously used corporate models were huge, complex monoliths requiring vast amounts of data. Corporate models comprised equations that represented both definitional relationships (mathematical and accounting definitions) and behavior relationships (hypothesis or theories describing an organization's behavior). Current models reflect this dichotomy. They either rely on definitional relationships with a financial orientation, for example spreadsheets and financial modeling systems, or are models which consist mainly of behavioral relationships, typically developed by using system dynamics software. Programmers for the huge corporate model systems were specialists. The new systems would become less difficult to operate as innovations in software would match the use within the organization's needs.

Big Business and Business Planning Today

All the work done by the early economists and their contributions to business modeling gave rise to complex models that could plot a strategy that would safely steer companies to uninterrupted triumph. Nearly every CEO learned how to sort out his business by cows, dogs, stars, and question marks. Everything could be categorized, analyzed, quantified, and predicated. By the early 1980s, as U.S. companies found themselves battered by global competitors and more nimble entrepreneurs, the cerebral strategizing of the past looked like a luxury of a more leisurely era. Suddenly, corporate America was struggling to catch up. Instead of weaving elegant stratagems, companies were scrambling to improve quality, restructure, downsize, and reengineer. After a decade of shrinking to hike productivity and efficiency, companies were eager to bring back strategic planning. "The pure efficiency approach did very little to generate distinctive competitive advantages," says Dwight Gertz, a consultant at Mercer Management Consulting Inc (Bryne 46). At one company to another- from Sears to IBM to Hewlett- Packard to Searle, strategy is again a major focus in a new generation of business strategists. Companies are pursuing novel ways to hatch new products, expand existing businesses, and create the markets of tomorrow (46).

Corporate strategy had become important in 1997 as it was during the 1970s and early 1980s. Corporate America again recognized the great benefits of revenue growth. Costs cutting, reengineering, restructuring and downsizing have presumably run their course. The lessons learned was that a company can only go so far in maintaining or increasing profits by reducing costs, and a backlash stemming from the practice's effect on internal morale and public outrage is forcing many companies to restrict these efforts (Bogda 18).

A recent study by the American Association of Management Consulting Firms found that executives all agree that that business strategy in now the single most important management issue. Vijay Govindarajan, strategy professor at Dartmouth College's Amos Tuck School of Business Administration, says, "Strategy has become a part of the main agenda at lots of organizations today" (Bryne 46). While strategic planning is back, it's back with a difference. Gone are the abstraction, sterility, and top-down arrogance of the old model. Today's gurus of strategy urge companies to democratize the process- once the sole province of a company's most senior officers- by handing strategic planning over to teams of line and staff managers from different disciplines. And to keep the planning process close to the realities of the markets, today's strategists say it should also include interaction with key customers and suppliers. That openness alone marks a revolution in strategic planning, which was always among the most sacrosanct and cladenstine of corporate activities. Now, any enlightened discussion of strategy is likely to include talk of "co-evolution" and "business ecosystem"- creating networks of relationships with customers, suppliers, and rivals to gain greater competitive advantage (48).

In summary, as organizations strive to become more competitive, many have overlooked a critical element: the overall framework that could turn empowerment from a nice concept to a competitive advantage. Strategy is the key. Many successful businesses are discovering a variety of different ways to involve more people in the making of strategy. Some are building more opportunity for input in the making of strategy; some are delegating the right to make more strategic decisions to those closest to the customer. Teams, especially cross-functional teams, which are responsible for the specific project, task, market, or customer, are increasingly formulating into Strategy. Once viewed as the exclusive province of senior management, strategy is now becoming everyone's business (Wall 14).

Is Corporate Strategic Planning A Single Answer to Business Success?

In regard to strategic planning, described as a shared realization of where the company is today, and a shared vision of where it needs to go in the next three to five years to ensure future success (Barnum 344), a survey of Fortune 500 companies showed that 93% of 80 respondents use strategic planning. However, only 25% said that strategic planning was an effective exercise. Some companies think that strategic planning works for only two- or three-year scenarios. Any planning longer than that is rendered useless because of rapidly shifting business conditions. It seems that a balance between strategic planning and strategic visioning is the most ideal (Stuart 54).

Strategic management wisdom has it that "vision" is all-important. It sets the heights which an organization can climb and yet is a sensible foundation of a solid operation. Chief executives in one national and three regional samples (331 respondents) were asked to compare their vision against scholarly definitions. All but one of the chief executives were able to put their vision into writing for the purpose of the research. Executives were asked to directly evaluate the content of their own vision statements by applying 26 items from a research-based list. Vision was found to be multi-faceted. Statements involving far-reaching strategic planning initiatives, and the ability and willingness to communicate with others, turned out to be the primary facets of many organizational visions as reported by executives (Nathan 82).

What is the impact of the corporate "Mission?"

The results of a year-end 1994 study of *Business Week* 1000 corporations indicate that having a mission statement has a favorable impact on corporate profitability. A random survey of the companies across industrial groups found that having a mission statement, also known as a creed, purpose, or statement of corporate philosophy or values, can boost shareholder equity tremendously. Corporations with mission statements were found to have an average return on stockholder equity of 16.1%, while firms without mission statements reported only a 7.9% average return. The common elements of a mission statement, according to the study, are concern for public image (73%), concern for quality (73%), commitment to survival, growth, profitability (70%), identity of customers and markets (60%), identity of products and services (60%), statement of company philosophy (43%), and differentiation from competition (33%) (Rarick 11).

What a mission statement should say is still open to debate. To some of the companies surveyed, it is merely a venue to stress organizational values. To others, it is a straightforward outline of who-we-are, what-we-do, and where-we're-headed. To another group, it is a few words on vision. The results of the study suggest that it's better to say more than less. When the "high content" mission statements are compared with the "low content" statements, the average return for firms with "high content" statements is 26.2%, and the average return for firms with "low content" statements is 13.7%. Although it is impossible to make a definitive casual assumption, it would appear that firms engaged in the type of formal strategic planning process that produces a mission statement are more likely to achieve good financial and bottom line-performance (12).

While vision and mission statements are important elements of the strategic planning process that generate "low" to "high" content statements, another view says that the most fundamental mission of a business is to make money, within the ethical and legal constraints of society. The business that dilutes or loses this sense of primacy risks losing everything. It may sound simplistic, but there can be a real value in simplicity. Too often the new ideas – benchmarking, no boundaries, broadbanding, process re-engineering, skill-based pay, the learning organization, total quality management, and worker empowerment – are not meeting expectations (Hinthorne 5). A survey conducted by Booz Allen & Hamilton, the management consulting firm, quizzed senior execs at 27 Fortune Industrial 500 and Service 500 companies, including Ford, Merck, Proctor & Gamble, General Mills, and Texas Instruments. Among the findings:

--When it comes to boosting profits, CEOs still consider cost control their top priority, ahead of customer satisfaction or superior technology. Reporting lines tell the story. The accounting department reports directly to the chief at 85% of the companies polled, while R&D does so at only 30%.

-- For all the talk about empowerment, CEOs at a fourth of the companies still get involved in tactical decisions like pricing and packaging changes.

-- While companies may pay lip service to customer satisfaction, quality, and other trendy indicators, they rarely measure those things, and CEOs still evaluate their companies the old fashioned way: on profits and stock performance (Henkoff 14).

Business Planning and the Small Business Sector

Business planning as a method of reaching business success perhaps is hard to always effectively measure because planning and carrying out a plan, i.e., implementation, are separate functions. However, there are statistics that support business planning as a variable to reaching business success. There are also statistics, or reports, that suggest that business planning is not a strong variable that leads to business success. There is also the thought that business planning is mostly reserved for large companies where top management creates the strategy that flows through the ranks of the business. However, as a function of small business, some factions of planning take place, but as the process of business planning, it falls short of the mark.

In a 1993 study of 500 small businesses, one of the biggest distinguishing factors between growing companies and those in decline was the use of a written business plan in the day-to-day operations. This study, conducted by AT&T, found that only 42 percent of respondents used a formal business plan. Furthermore, many of those plans were incomplete, failing to address such elements as capital expenditures, sales plans and financial projections. The truth is, small companies are notorious for operating without a strategic plan. The focus here is on the small business, those that have fewer than 50 employees and annual sales under $5 million. Companies with these characteristics make up over 90 percent of all the enterprises in the United states (Jackson 38). They tend to fly by the seat of their pants, taking advantage of their small size to adapt quickly to changes in the market and alter their direction. In some cases, these companies excel at strategic thinking and improvisation—the ability to bring new products to the market in record time. But strategic thinking and improvisation, as vital as they are to success, don't allow the ability to paint the big picture and seize new opportunities while remaining focused on what your company does best. That's when strategic planning comes in (Sheldon 533).

Analyst Gary Slavin, president of The Skills Resource, says "Preparation is the fine line that differentiates successful businesses from unsuccessful ones, yet small business owners are probably the worst offenders when it comes to taking time to plan." (Barth 9). "I would be willing to say that 70 to 80 percent of all small business owners don't have a plan and planning must be done on a continuous basis to keep up with changing industry dynamics, market dynamics and company dynamics" (9). And, "Most would object and say, 'Yes, I do. It's in my head', only to find that this overload of information causes problems" (9).

Even though there are as many failure stories as there are failed companies, an overwhelming majority of small businesses decline because of factors within the control of their owners and managers. Only a small fraction of business failures can be attributed to competition, economic downtown, or other external forces. Placing the responsibility for torpid performance on external factors indicates a working environment plagued by self-denial, lack of flexibility, myopic foresight, and inappropriate human resource administration. Preparation is often the fine line that differentiates successful businesses from unsuccessful ones, yet small business owners are probably the worst offenders when it comes to taking time to plan (Sheldon 533).

Planning has a bad reputation to those who see images of being forced to look into the future and accurately guess what will happen. Then, when you guess incorrectly, you get criticized for knowing better (Virrette 38). For many, the real fear is that adopting a serious plan would force discipline and strategic thinking on a loose, accountability- free management style. "A plan would mean giving up control over people and decisions" (Lea 23).

Does Business Planning Equal Business Success?

Further studies both agree and disagree about the relevance of business planning. The 1996 Southern Management Association Conventional wisdom is that new business be planned prior to startup. However, research on the value of planning in general, and on pre-startup planning in particular, has yielded mixed results. In support of this "conventional wisdom," several studies have shown positive linkages between planning and business performance. In other studies, relationships either were not found or they differed across industry sectors. To account for theses inconsistent results, various researchers have raised methodological concerns (Castrogiovanni 801).

In what is perhaps the most comprehensive review of planning to date, Mintzberg noted ways in which planning differs across the contexts elaborated in his organization typology. He argued that planning is most appropriate for machine organizations and that it should be minimal within entrepreneurial organizations. Although some may disagree with Mintzberg's conclusions about entrepreneurial organizations, students of entrepreneurship have long argued that planning processes and their effects differ between small and large businesses. Still, most entrepreneurship texts suggest that formal planning should take place prior to a new business's startup. A survey of 220 "INC" businesses revealed that 51% did not have formal business plans when they started. Of the 49% that did have plans, an overwhelming majority (70%) generated them simply to get external financing. Thus, most would agree that planning could be beneficial, but some suggest that benefits may differ across contents (802).

Little research has examined the impacts of pre-startup planning, or on planning-survival linkages. Regarding the latter, an exception is a study by Sexton and Van Auken (1985) in which 20% of non-planners failed within three years, whereas the rate was only 5% for those engaged in planning. To some extent, therefore, pre-startup planning tends to occur because, despite evidence previously noted, successful businesses are perceived as doing, and others have pointed out that financiers are unlikely to provide funding simply because of a "hot idea" in general terms. Financiers want to see specific details, and they want to be able to study those details in order to decide whether they feel the proposed venture has a good chance of success. Consequently, **they want to see a business plan**. Thus, through its symbolism benefit, planning helps business founders obtain sufficient financing to both create their business and ride out the startup phase where cash flows are likely to be negative. Greater access to financing is a direct effect of pre-startup planning, attributed to "symbolism." This symbolism benefit, in turn, generates an indirect effect of planning- to the extent that greater financing facilitates new business survival (806).

Business Planning- Purpose of Study

The purpose of this study is to develop a business plan manual that can be evaluated by a group of professionals in the banking industry for the purpose of rating this manual for its effectiveness to help small business investors/owners develop a business plan for success in owning/operating their own business. In the process of developing this business-planning manual, thought will be given to the elements that provide the users of this publication the framework of how business planning can be helpful to them, both in the formulation and execution of the goals and objectives of their business, and the prepared document that can be used in obtaining bank financing. In view of the previous discussions of business-planning systems (business planning in big business, and business planning for small business), this manual will be designed for business planning for small business (under 50 employees and sales less than 5 million). It follows that the small business owner can be best served by a product (business planning manual) that gives a perspective on the value of business planning. Furthermore, if this manual is written correctly, it can then guide them through the process in a step-by-step manner.

In regards to what constitutes an effective business plan, the United States Chamber of Commerce explains that you have about 20 minutes to persuade a stranger to lend you money or invest in your business. Whether a plan is drawn up to help secure a bank loan or outside investment, winning plans share several characteristics, all stemming from the research that's done in preparing them and the analysis and presentation of the plans themselves. Characteristics of successful business plans, according to the US Chamber of Commerce, are: (1) clear realistic financial projections, (2) detailed market research, detailed competitor research, (4) experienced management, (5) a great summary, (6) proof of vision, (7) good formatting and clear writing, (8) keeping the plan short, (9) a plan designed for the bottom line, (10) a plan developed by the business owner (Elkins 60).

Many business owners regard the writing of a business plan as a kind of a torture that must be endured if they want to move their company to the next stage of development. But after completing a plan, many entrepreneurs regard the process as an enlightening exercise for management and view the results as a boost to the company's public image (60).

Results Anticipated Through the Use of a Business-Planning Manual

The project will be considered a success if experts rate the manual as above average to superior. The secondary results to be obtained will be to have this manual published and thus available for other small business owners/investors to obtain this information and put it to use.

The fact remains that 80% of all small businesses fail. The SBA (Small Business Administration) reported in 1997 that small business owners continue to make a number of easily corrected mistakes when they get ready to open a new business. The first mistake most make is failing to ask for sufficient funds when they go to the bank. Second reason why small businesses fail is cash flow problems. Another critical mistake is poor management or lack of management. The number four reason for failure is poor location selection. And finally, the number five reason why small businesses fail is lack of expertise in the desired business field. With an ever-increasing number of business startups, area consultants echo the same sentiment: "planning is the main thing small business owners need to do, all else folds into that initial planning" (Barth 9).

Based on the above statement, assistance directed to small business owners and potential owners can be useful. Therefore, if the business-planning manual can be informative to prospective small business owners, the value can be the results of a successful business. The additional value can also come if the business-planning guide is able to show perspective business owners what it takes to successfully plan for their business operation, and, based on this information, elect to not start their business until they are better prepared. Or, based on the situation, the potential business owner might elect to not start their business as planned by abandoning the idea, or investigating another business venture altogether.

Chapter II

LITERATURE REVIEW

Economics: From the Beginning to Modern Times

Business planning is a modern term used today with regards to how organizations utilize internal thought processes to execute a form of a plan of action to compete in a marketplace that offers, most often, similar products and services. However, this business planning "today" is a by-product of the social science concerned with the production, distribution, exchange, and consumption of goods and services. This term is also commonly known as economics. Without its origin and continuous impact on the exchange of goods and services in both the business and non-business sectors, it may have lacked the cause and effect it currently implores in the day-to-day interactions of the business world. Modern day economists make a living predicating and sometimes influencing (such as Federal Reserve Board Chairman Alan Greenspan, who attracts investors around the world for his thinking on the direction of interest rates and the economy) the U.S. economy and elsewhere. Today's financial experts could not influence global market decisions without the studies and wide range of opinions made from the early economists.

Economic issues have occupied people's minds throughout the ages. Aristotle and Plato in ancient Greece wrote about problems of wealth, poverty and trade. Both were prejudice against commerce, feeling that to live by trade was undesirable. The Romans borrowed their economic ideas from the Greeks and showed the same contempt for trade. During the Middle Ages, the economic ideas from the Roman Catholic Church were expressed in the canon law, which condemned usury and regarded commerce as inferior to agriculture (Price 121).

Economics as a subject of modern study, distinguishable from moral philosophy and politics, dates from the work, *Inquiry into the Nature and Causes of the Wealth of Nations* (1776), by the Scottish philosopher and economist Adam Smith. Mercantilism and physiocracy were the precursors of the classical economics of Smith and his 19th-century successor (Korten 20).

The development of modern nationalism during the 16th century shifted attention to the problem of increasing the wealth and power of the various nation-states. The economic policy of the leaders of that time, known as mercantilism, sought to encourage self-efficiency. The heyday of the early mercantilist school in England and Western Europe occurred during the 16th and the early 18th century's (21).

Physiocracy was briefly in vogue in France during the second half of the 18th century as a reaction against the narrow and restrictive policies of mercantilism. The founder of the school, Francois Quesnay, was a physician at the royal court of King Louis XV. His work, the Tableau economique, an attempt to trace income flows through the economy, crudely anticipated 20th-century national income accounting. All wealth, in the doctrine of the physiocrats, originates in agriculture; through trade, wealth is distributed from farmers to other groups. The physiocrats were partisans of free trade and laissez-faire. They maintained that the revenue of the state should be raised by a single direct tax levied on the land. Adam Smith met the leading physiocrats and wrote, for the most part, favorably about their doctrine (22).

As a coherent economic theory, classical economics starts with Smith, continues with the British economists Thomas Robert Malthus and David Ricardo, and culminates in the synthesis of John Stuart Smith, who as a young man was a follower of Ricardo. Although differences of opinion were numerous among the classical economists in the three-quarters of a century between Smith's _Wealth of Nations_ and Mill's _Principles of Political Economy_ (1848), members of the group agreed on major principles. All believed in private property, free markets, and, in Mill's words, that "only through the principle of competition has political economy any pretension to the character of a science." They shared Smith's strong suspicion of government and his ardent confidence in the power of self-interest represented by his famous 'invisible hand," which reconciled public benefit with individual pursuit of private gain. From Ricardo, classicists derived the notion of diminishing returns, which held that as more labor and capital were applied to land, yields after 'a certain and not very advanced stage in the progress of agriculture steadily diminished" (23).

Through Smith's emphasis on consumption, rather than production, the scope of economics was considerably broadened. He called to the importance of permitting individuals to follow their self-interest as a means of promoting national prosperity. Mathus, on the other hand, imparted a tone of gloom to classical economics, arguing that hopes for prosperity were fated to founder on the rock of excessive population growth. According to Malthus, "the power of the population is so superior to the power of the earth to produce subsistence for man, that premature death must in some shape or other visit the human race." Mill's Principles of political Economy was the leading text on the subject until the end of the 19th century. Although Mill accepted the major theories of his classical predecessors, he held out more hope than Ricardo and Malthus that the working class could be educated into a rational limitation of their own numbers. Mill was also a reformer who was quite willing to tax inheritances heavily and even to allow the government a larger role in protecting children and workers. He was far more critical than other classical economists of business behavior and favored worker ownership of factories. Mill thus represents a bridge between classical laissez-faire economics and an emerging welfare state (Price 122).

Opposition to the classical school of economics came first from early socialists writers such as the French philosopher the comte de Saint-Simon and the British reformer Robert Owen. It was Karl Marx, however, who provided the most important social theories. To the classical vision of capitalism, Marxism was in large measure a sharp rebuttal, but to some it embodied variations of classical themes. An exile from Germany, Marx spent most of his mature years in London, supported by his friends and collaborator, the German revolutionist Friedrich Engles, and by the proceeds from occasional contributions to newspapers. He conducted this extensive research in the reading room of the British Museum. Marx's historical studies convinced him that profit and other property income are the proceeds from force and fraud by the strong over the weak. Although in the Communist Manifesto (1848) Marx and Engles paid grudgingly tribute to the achievements of Capitalism, they were convinced that these were transitory and that the internal contradictions within capitalism would as surely terminate its existence as earlier in history feudalism had faltered and disappeared (MuCulloch 50).

On this point, Marx wrote in the tradition of English classical economics, but rather out of his training in the metaphysics of the German philosopher G. W. F. Hengel. Hengel interpreted the movement of human history and thought as a progression of triads: thesis, antithesis, and synthesis. For example, a thesis might be set of economic arrangements such as feudalism or capitalism. Its opposite or antithesis was, say, socialism as opposed to capitalism. The clash between thesis and antithesis evolved into a higher stage of synthesis-in this case communism, which unites capitalist technology with social political ownership of factories and farms (51).

Classical economics proceed from the assumption of scarcity, such as the laws of diminishing returns and Malthusian doctrine. Dating to the 1870s, Neoclassicist economists such as William Stanley Jevons in Great Britain, Leon Walras and Karl Menger in Austria and shifted emphasis from limitations on supply to representations of consumer choice in psychological terms. Concentrating on the utility or satisfaction rendered by the last or marginal unit purchased, neoclassicists explained market price not by reference to the differing quantities of human labor to produce assorted items, as in the theories of Ricardo and Marx, but rather to the intensity of consumer preference for more unit of any given commodity (52).

The British economist Alfred Marshall, particularly in his mastery neoclassicist work *Principles of Economics* (1890), explained demand by the principle of marginal utility, and supply by the rule of marginal productivity. In competitive markets, consumer preference for low prices of goods and seller preferences for high prices were adjusted to some mutually agreeable level. At any actual price, then, buyers were willing to purchase precisely the quantity of goods that sellers were prepared to offer (52).

John Maynard Keynes was a student of Alfred Marshall and an exponent of neoclassical economics until the 1930s. The Great Depression bewildered economists and politicians alike. The economists continued to hold, against mounting evidence to the contrary, that time and nature would restore prosperity if government refrained from manipulating the economy. Unfortunately, approved remedies did not work. In the U.S., Franklin D. Roosevelt's 1932 landslide

Presidential victory over Hebert Hoover attested to the political bankruptcy of laissez-faire policies (Veblen 467).

New explanations and fresh policies were urgently required; this was precisely what Keynes supplied. In his enduring work _The General Theory of Employment, Interest, and Money_, the central message translates into two powerful propositions. (1) Existing explanations of unemployment he declared to be nonsense: Neither high prices nor high wages could explain persistent depression and mass unemployment. (2) Instead, he proposed an alternate explanation of those phenomena focused on what he termed aggregate demand, that is, the total spending of consumers. Further commenting that when it is high, all is well and prosperous. From these generalities flowed a powerful and comprehensive view of economic behavior-the basis of contemporary macroeconomics. Because consumers were limited in the amounts that they could spend by the size of their incomes, they could not be the source of the ups and downs of the business cycle. It followed that the dynamic forces were business investors and governments. In a recession or depression, the proper thing to do was either to enlarge private investment or create public substitutes for the shortfalls in private investment. In mild economic contractions, easy credit and low interest rates might stimulate business investments and restore aggregate demand to a figure consistent with full employment. More severe contractions required the sterner remedy of deliberate deficits in the form of spending on public works or subsidies to afflicted groups (468).

Both neoclassical price theory and Keynesian income theory have been illustrated by the mathematics of calculus, linear algebra, and other sophisticated techniques. The most powerful alliance of economics with mathematics and statistics occurs in the specialty called econometrics. Econometricians are model builders who link together hundreds or even thousands of equations that purport to explain the behavior of the economy. Generally, econometric models are used by both corporations and government departments' as forecasting tools (469).

To conclude, all organized communities mix, in various proportions, market activity and government intervention. Private markets themselves differ widely in the degree of competition under which they operate, all the way from single-firm monopolies to the fierce rivalry among hundreds of retailers. Much the same point applies to government intervention, which ranges from mild and comparatively uncoercive manipulation of tax, credit, contract, and subsidy policies through mandatory controls over wages and prices to the detailed central planning of Communist countries. Even those societies most completely committed to central planning, however, grudgingly modify official ideology by some concessions to private enterprise (472).

Development of the Economic Theory of the Firm

It is possible to trace the development of the economic theory of the firm back to the nineteenth century. David Ricardo systematized the rising science of economics and developed the principles of comparative advantage and the law of diminishing returns. Augusta Cournot pioneered the application of mathematics to economics. John von Thuen developed theories relating to the costs of commodity transportation to the location of production. However, business theory was not fully developed until the early part of the twentieth century when modelers started to investigate specific company activities such as production and finance (McInnes 957).

Building on these foundations, many of the early theories of production, exchange, money and capital were developed. For example, Harrod pioneered the ideas of economic growth and development, Kaldor developed alternative theories of distribution, Walrus and Cassel contributed to the evolution of mathematical principles of competition, and the theories on industrial monopolies and monopolistic competition were published by Chamberlin and Robinson (Harrod 442). In 1939 Hicks published Value and Capital, which helped resolve the basic conflicts between business cycle theory and equilibrium theory. These early years witnessed the formation of many fundamental theories, which were used widely by public and private interests to determine foreign trade, investment policies, and prices. Many of these basic principles evolved into general economic theory, and therefore, contributed to econometrics and much used business modeling (221).

During the early 1900s a number of economists realized that there was a clear need for a type of model that described an economy's behavior, predicting the effects of various decisions made by households, businesses or governments. Accordingly, the analysis of the statistics and mathematics of economics developed into the science of econometrics. Historians disagree as to whom founded econometrics. Some argue that Moore's statistical verification of J.B. Clark's marginal productivity theory of wages was the founding contribution in 1911, while others prefer to trace its roots back to the pioneering business cycles analysis of Jevons in the 1870s (222). However, the many early contributors to the field included Frisch, the Dutch economist Tinbergen who built and estimated the first macrodynamic model of a business cycle in 1936, and the Norwegian economist Haavelmo who eventually intregrated statistical probability theory into econometrics (141). In 1939, Tinbergen developed the first economoetric model of the business cycle in the US economy. This consisted of 48 equations relating 71 variables including exports, imports, building costs and financial stock prices (142). It was particularly remarkable considering that computers did not become widely available until the 1950s (Kuznets 258).

In 1932, the Cowles Commission for research in Economics had been formed to research mathematical applications to economics. One of these early areas of study was the investigation and development of the system proposed by

Keynes. This view of the economy was popular both during and after the Second World War when most Western governments were making formal pledges to undertake regular and massive peacetime interventions in their economies so as to stabilize unemployment (Moggridge 150).

The development of econometrics in the US was stimulated by Kuznets, who pioneeried studies of the US national income and his more general work on economics time series resulted in some comprehensive studies of the economic growth of nations. The late 1950s saw the formalization of production scheduling techniques and the birth of production models. Much of the development of the linear programming methodology, which solved allocation problems, resulted from the formulation of procedures, which evolved from wartime decision problems. Models were built to investigate the operation of the factory shop floor and generate production schedules; purchase requisitions and inventory reports by simulating the allocations of resources during a given planning period (Jackson 71). By 1959, business modelers had recognized that production scheduling problems could be split into three phases: loading (comparing demand with factory capacity), scheduling (assigning production orders to specific periods), and dispatching (assigning orders to specific machines, or groups of machines, at a specific time period) duties (Rowe 47).

The 1960s saw significant increases in the availability of computers. For the first time, models could run automatically and this enabled modelers to create ever larger and more sophisticated models for a whole range of applications, including marketing, inventory, financial, and corporate modeling. The most important contribution of the 1960s was the introduction of financial models. This owed a lot to the clarification of the relationship between the criteria of internal rate of return and net present value (Horngren 392). These models allowed a company to investigate the effects of alternative financial policies and assumptions about the external environment. These models offered a facility for financial projections based on alternative assumptions about sales, revenue, materials, costs, and interest rates. Most financial models produced a balance sheet, income statement, and a sources and uses of funds statement. In terms of complexity, one of the most advanced models built in the early 1960s was the Mattessich Model (384). This was a deterministic simulation that attempted to model the firm in terms of set conventional accounting identities. Inputs included standard labor hours, overhead and operating expense rates, production and sales rates, the amount of raw material, and the number of products produced. It generated income statements, balance sheets and budgets (Hertz 95).

The Sun Oil Corporate Financial Model, developed by Gershefski between 1965 and 1968, was the first large-scale model ever built; it was a cumulative failure which was completely abandoned in 1969 (61). The model was to provide management with fast, reliable forecasts of the company's financial performance, based on a variety of conditions. A total of 23 work years were required to develop it, including 13 years to familiarize management with its operation

The total elapsed time for developing this monolith was three and half calendar years. The model required 1,500 inputs per year to produce 5,200 output items, which filled 142 pages of print output. The FORTRAN IV program consisted of more than 2,000 equations, of which 60 were estimated by regression analysis. By the time the model was completed, some of these relationships were obsolete and Sun Oil had merged with another company forming an organization different to that model. Even at this early stage, models were becoming extremely detailed and complex (Forrester 37).

The other major innovation of the decade was the Industrial Dynamics approach to modeling the dynamics of a corporate system. Forrester suggested that the dynamic behavior exhibited by systems be determined by the casual loops of interdependence between the various variables in them. Industrial Dynamic models attempted to answer 'what affects what' (41). Kumar and Vrat traced the roots of Industrial Dynamics back to Norbert Wiener's pioneering study of cybernetics, first published in 1948, which examined the control and regulation of biological, engineering, social and economic systems (Kumar 114). They argued that Forrester had applied the principles of social and economic systems. A special simulation language, DYNAMO, was written to support Dynamics and a set of flow chart figures and symbols were developed to aid the compilation of the simulation programs (115).

The early applications of Industrial Dynamics included Nord's study of the interaction between new product growth rate and a company's capacity acquisition policy. Also included was Packer's study of resource acquisition in corporate growth, and Holland and Gillespie's simulation of the Indian economy (116). Other real world applications included investigations of the Sprague Electric Company, leather and hide industry, and the textile industry (Yance 401).

The development of other models relevant to **business planning** continued to parallel. The early 1960s saw the introduction of forecasting techniques which enabled the development of marketing planning models, and hence, revenue projections (Winters 324). Naylor, Montgomery, and Urban described a number of computer models developed to investigate consumer behavior and product demand. These included the Pillsbury Company Model, the Anheuser Busch Model, and the Corning Glass Model. Marketing planning models were popular compared to the inherent complexity of econometrics. However, these marketing models had little explanatory power since they were based on the historical value of a particular time series only (without the benefit of economic data input). However, some accurate forecasting was possible over short periods of time in most instances (325).

The 1970s computer revolution introduced interactive computing, financial modelling languages for mainframes, and the first business microcomputers. Although the 1970s and early 1980s were dominated by integrated corporate models, there were several important advances. Two financial independent models were developed in this period- the Boise Cascade Pacific Northwest Investment Planning Model, which simulated the effects of timber and land purchases and capital expenditures on profit (using linear programming techniques), and the Dow Chemical Corporate Financial Planning Model, which was deterministic accounting simulation (Dickens 431).

In 1971, Box and Jenkins introduced their econometric forecasting technique. The mathematics involved may have intimated many model user builders, since advanced statistical techniques were required. However, computer packages and algorithms were developed to simplify the process. In 1973, Groff investigated the appropriateness of using Box-Jenkins by comparing the forecasting accuracy of simple adaptive forecasting methods of the Box-Jenkins models. He concluded that 'the forecasting errors of the Box-Jenkins models that were tested are either approximately equal to or greater than the errors of the corresponding exponentially smoothed models' (Groff 22). Naylor reported about the increase in popularity of econometrics modeling in his 1980 survey. He estimated that between 750 and 1,000 US companies were applying the technique, compared with less than 100 in 1970 (Naylor 94).

A common feature of the business models described above was that they were created to investigate distinct functional areas. For example, marketing specialists produced models, accountants developed financial models, and engineers constructed production models largely without reference to each other. However, management needed models, which simulated the dynamic behavior of the entire corporation. Accordingly, business models were integrated to form corporate planning models. Finally, as Industrial Dynamics methodology gained in popularity it became known as 'System Dynamics'. During the 1970s, the applications of the technique diversified, and a number of sub-techniques were developed. The method was applied to corporate planning, and used to investigate real industrial problems (Kingston 1).

The introduction of Visicalc in 1978 heralded the onset of the spreadsheet revolution. The rise in popularity of spreadsheet modeling to support decision making resulted in its acceptance as a financial modeling tool (Cragg 54). Financial modeling became more popular than integrating modules into a giant corporate tool. This was due to the inflexibility of the integrated models, and the problems encountered with the collection of historical data. Although records concerning production capacities or a competitor's market share would rarely be kept by a company, the legal requirements to provide yearly audited accounts forced businesses to compile and record their financial situations on a regular basis, and this provided the data bases for financial models. The flexibility of spreadsheets, and their ease of use, led to a reduction in dependency of managers on other professionals and consultants (Cragg 55). Jackson reported much of the development of spreadsheets modeling in her brief history of financial modeling (72).

Jackson indicated that earlier adaptation of spreadsheets to PCs, rather than that of the financial modeling languages, allowed spreadsheets to become established as the most widely used financial tool. Cragg and King explained that 'spreadsheets were seen as flexible and able to help in a wide range of tasks and…they were seen as "appropriate" in providing systems, which are visually appealing, and match the way managers think.' Spreadsheets were the coup de grace of the integrated corporate world (Cragg 54). However, Finlay suggested that 'the simplicity of spreadsheets is their greatest strength' although they were 'barely adequate for sophisticated modeling' since they gave 'insufficient help with data input' and were 'weak in dealing with complex data structures' restricting 'their successful use in handling corporate modeling issues' (62).

The advantages of spreadsheets enabled most managers to construct models of their business. Unfortunately, spreadsheet models still require the establishment of the sets of dynamic equations that defined the company, and many managers used these models without proper validation. It was inevitable that this approach resulted in a number of erroneous simulations. Berry and McLintock's survey of financial accountants highlighted the confusion between the verification and validation of a model. It was surprising that these basic proofs of model adequacy were so misunderstood by what Grinyer described as 'dominant' category of model builder, calling into question the validity of many financial modeling exercises. Estimates of the percentage containing errors such as incorrect ranges, omitted factors, data input errors, erroneous formula and incorrect functions, ranged from 20 percent to 40 percent. This indicates that an increasing number of businesses was not the panacea most modelers hoped for (Creeth 90).

Several surveys of corporate modeling have been conducted over the last 20 years. Although different sizes and populations inhibit the pooling of the survey findings, their results indicate the changes in its popularity over the last two decades (Gershefski 62).

The first survey of US companies was conducted by Gershefski in 1969 to investigate the history and establish the influence of corporate models. The response to his questionnaire identified only 63 businesses (20% of respondents), using the technique. Although he established that the first corporate model was constructed in 1959, he noted that the technique only became popular in 1966, when 13 companies developed their first models (63). Naylor and Schuland conducted a mailed survey in 1974 of nearly 2,000 corporations (Naylor 94). The questionnaire identified 250 companies (73% of respondents) that either used or were developing a corporate model, while only 12% of the respondents had no such plans. Naylor and Schauland also indicated that 2,000 corporations in the US, Canada and Europe were using, developing or planning to develop, some form of model. The five years since Gershefski's survey had witnessed a dramatic growth in the popularity of the method. In 1980, McLean and Neale's survey of over 1,200 large, mainstream US businesses established the continuing popularity of computer based planning models (McLean 46). While 245 companies

(60% of the respondents) used the method, most (85%) applied it to financial planning, and only 60% employed it for general corporate planning. The survey by Brightman and Harris, distributed to 950 planning department's managers who were clients of major accounting software vendors, indicated a dramatic reduction in the use of planning models (Brightman 15). By comparison, Klien's questionnaire to the US's largest 500 industrial firms, 50 utilities and 50 transportation companies, highlighted the popularity of 'computer based financial systems' (Klien 1921). Although the differences in populations prevented the direct comparison of these studies, the large variation was especially surprising due to the biases of Bringtman and Harris' survey of existing financial software users (Ford 278).

Changes in the use of corporate planning models were reflected by similar trends in the use of simulation modeling. A 1985 survey attempted to measure the use of simulation modeling to support decision making in the US Fortune 500 companies. Since it replicated a 1975 survey, comparisons of the use of simulation for strategic support at the corporate level could be drawn. The results indicated a decline in the application of the technique, from 79% of respondents in 1975 to 70% in 1985 (Mullick 100).

Attempts by modelers to simulate the entire corporation have been largely abandoned. Corporate models were huge, complex monoliths requiring vast amounts of data. Other methods, such as optimization and analytical portfolio models, are not as popular as in the 1970s and the 1980s, and a general ignorance of modeling techniques has resulted in a large number of erroneous spreadsheet models. Managements have no simple means of constructing detailed models of corporations (Dyson 12).

Simple financial modeling systems and dynamics modeling remain popular. In the past, corporate models comprised equations that represented both definitional relationships (accounting and mathematical) and behavioral relationships (hypotheses or theories describing an organization's behavior). From this dichotomy, two streams of development of corporate modeling can be traced, which are different in emphasis rather than in kind (13). Current models reflect this dichotomy. They either rely on definitional relationships with a financial orientation, for example, spreadsheets and financial modeling systems, or models, which consist mainly of behavioral relationships, typically developed using system dynamics software. However, corporations have both financial and behavioral features, which inextricably addresses only one of these issues, and consequently can be somewhat limiting for the firm (Hawley 63).

If corporate modeling is to advance, then the problems mentioned above will have to be addressed. Modelers need to understand how their models fit into the corporate strategic planning process. Models can play a vital role by supporting complex business decision making, and forecasting business performance in the market. Clearly, it is therefore crucial that the results are accurate, and that their limitations are understood; but models also need to be simple and transparent so that their implications are clear. Accordingly, model builders are inclined towards modularity, and they build specific models, which answer specific questions. However laudable, there is danger of over-simplification and end users losing confidence in the results. Again, a robust methodology of simplification is required (64).

However, the days of the integrated corporate model, which simulated the complete business, may not be gone forever. Two new technologies promise a revival. Neural networks have already been applied to financial models and would appear appropriate to production, marketing and integrated corporate models (65). They revolutionize the modeling process by removing the necessity to formulate any definitional relationships, managing the characteristic non-linearity of these business systems, and by their inherent robustness to poor quality input data. Corporate models have been haunted by their inability to predict recessions and other catastrophic market fluctuations. However, advances in chaos theory and its application to non-linear systems have a predisposition for disorder, complexity and unpredictability, such as financial markets, which will inevitability increase the accuracy of corporate model predictions (Savit 271).

Although simple financial corporate models have had and will continue to have their uses, managers will soon be able to integrate their production, marketing and financial models effortlessly; this will enable the simulation of the total enterprise. As Senge observed, 'systems have integrity. Their character depends on the whole. The same is true for organizations; to understand the most challenging managerial issues requires seeing the whole system that generates the issues' (201).

Of all that we have learned, does business planning equal business success?

From the systems employed by big business, the notion that it could be applied to small companies has garnished much conversation. Can planning help a small business become successful? If so, how is this planning to be done and who will do this function? What methods will be used and how will we judge the results? This big business influence with regards to planning supports planning efforts for small business owners/operators, but in applications far removed from the analytical machines employed by big companies that investigated business theory in the early portion of the twentieth century. What we have learned is that planning in small business applications can range from essentially, no planning, to the development of very comprehensive, and detailed, long-term plans.

From their view of the planning literature, Pearce concluded, "The principal methodological concern is the lack of attention to contextual influences" (658). In what is perhaps the most comprehensive review of planning to date, Mintzberg noted ways in which planning differs across the contexts elaborated in his organization typology. He argued, for example, that planning is most appropriate for machine organizations, and that it should be minimal within entrepreneurial organizations (107). Although some may disagree with Mintzberg's conclusions about entrepreneurial organizations, students of entrepreneurship have long argued that planning processes and their effects differ between small and large businesses (Gilmore 71).

Still, most entrepreneurship texts suggest that formal planning should take place prior to a new business's startup. Nevertheless, it is easy to find notable cases where new business proved successful despite the fact that pre-startup planning was limited. Consider that:

*Apple computer began as a mail-order business out of a garage. Business plans were not developed until after the initial mail order success encouraged the founders to expand operations.

*Fred Smith of Federal Express spent years developing and refining a business plan. But then implementation proved impossible because the Federal Reserve- i.e., the primary customer on which the plan hinged- decided not to go along with it. By then, Smith had already spent millions on aircraft and other plant and equipment. He had to scramble to find alternate was of pursuing his vision of an overnight delivery service (Goold 169).

A survey of 220 "INC 500" businesses revealed that 51% did not have formal business plans when they started. Of the 49% that did have plans, an overwhelming majority (70%) generated them, for the most part, simply to get external financing. Furthermore, those businesses without formal plans tended to be more profitable. Thus most would agree that planning can be beneficial, but some suggest that the benefits may differ across contexts (Shuman 7).

Mintzberg focuses on where, why, and how benefits are derived from planning referred to as "entreneurial context," and will argue that within this focus there are still many contextual differences that can be observed (109).

In a meta-analysis of 14 small-business planning studies, for example, Schwenk and Shrader found that a significant-but-small relationship between planning and performance. They concluded that, while planning does appear to benefit small businesses, contextual factors such as industry structure, uncertainty, and organizational life cycle stage might have considerable moderating effects. By delineating such differences within the entrepreneurial context instead of lumping all new small businesses into one category, this article therefore extends all the entrepreneurship views of Mintzberg, Robinson and others (Schwenk 54).

In this article, pre-start-up planning is considered beneficial to the extent that facilitates business survival. This "survival focus" was chosen for three reasons. First, survival may be the primary concern of new businesses since most fail within five years. Second, survival is necessary precondition of most desirable outcomes such as profitability or growth. In their review, Robinson and Pearce concluded that most small business studies examining impacts of planning "infer that the presence (or absence) of planning influenced the eventual survival of small firms." Third, focus on a single outcome enhances conceptual clarity since planning may have differential impacts on alternative outcome variables (Robinson 19).

Pre-startup planning is "the process by which the entrepreneur, in exploiting an opportunity, creates a vision of the future and develops the necessary objectives, resources, and procedures to achieve that vision." This process includes collecting and analyzing data prior to the new business startup, and then using knowledge thus gained to develop a business plan itself. Pre-startup can range from essentially no planning to the development of very comprehensive and detailed, long-term plans. Bracket and Pearsons, for example, employed a four-level classification: (1) unstructured plans, (2) intuitive plans, (3) structured operational plans, and (4) structured strategic plans. Similarly, Shrader used a three level classification, ranging from no plans to comprehensive plans coupled with considerable analysis and control procedures, where each higher level of planning encompassed the lower ones (Lindsay 500).

Little research has examined the impacts of pre-startup planning, or on planning survival linkages. Regarding the latter, an exception is a study by Sexton and Van Auken in which 20% of non-planners failed within three years, whereas the rate was only 8% for businesses engaged in planning. Such research, however, is inherently problematic since there is no theoretical rationale for studying direct planning-performance linkages. Business survival, profitability or other performance outcomes do not result directly from pre-startup planning. Instead, planning's impact on business outcomes is transitive: for example, certain direct benefits of planning may in turn enhance the business's ability to act in a manner conductive to survival, profit maximization, etc. Research is thus needed to examine the direct effects of planning, and how these in turn affect business performance. Authors have typically defined the direct benefits of pre-startup planning, and it shows that these direct benefits may fall into three categories: (1) symbolism, (2) learning, and (3) efficiency (Ramanujam 347).

Pre-startup planning is likely to generate a symbolism in that (1) it legitimizes the new venture proposal and (2) improves communication with various external stakeholders, particularly potential investors or other financiers. From social legitimacy perspective, pre-startup planning is desirable simply because many believe it should be done. Perrow (1961) suggested that organizations sometimes imitate the practices of others who are considered successful, in order to gain prestige and an aura of success for themselves. Dimaggio and Powell contended that this is particularly true when considering uncertainty is present. Galaskiewicz and Wasserman showed that such mimetic is prevalent when the imitating and imitated organizations have certain network ties (Perrow 335).

To some extent, therefore, pre-startup planning tends to occur because, despite the mixed evidence previously noted, successful businesses are perceived as doing it, and others (Hirsh & Peters, 1989; Sexton & Bowman-Upton, 1991) have pointed out that financiers are unlikely to provide funding simply because someone discusses a "hot idea" in general terms. Financiers want to see specific details, and they want to be able to study those details in general terms. Financiers want to see specific details, and they want to be able to study these details in order to decide whether they feel the proposed venture has a good chance of success. **Consequently, they want to see a business plan.** Thus, through its symbolism benefit, planning helps business founders obtain sufficient financing to both create their business and ride out the startup phase where cash flows are likely to be negative. Greater access to financing is a direct effect of pre-startup planning, attributed to "symbolism." This symbolism benefit, in turn, generates an indirect effect of planning on survival- to the extent that greater financing facilitates new business survival (Orpen 16).

Controversy over whether planning is beneficial led to a recent debate on the merits of planning versus organizational learning (Ansoff, '91; Goold, '92; Mintzberg, '90). Planning and learning are not mutually exclusive. Planning is, in some respects, a method of learning. Further, because learning in turn may impact symbolism and efficiency, learning may in fact be the most important benefit of the pre-startup planning process. Mile and Randolph (1980) noted the alternative learning styles range a continuum with inactive and proactive styles at the extremes. Inactive learning occurs when managers create knowledge out of their experiences. They act first and later attempt to discern causal relationships between actions and outcomes. Proactive learning occurs when managers absorb knowledge from the world around them. They attempt to discern causal relationships prior to acting. Since formal planning approaches generally incorporate some proactive learning techniques, planning is likely to contribute to proactive learning. Since plans prescribe action, however, they precede it by definition. Therefore, planning cannot lead to inactive learning where action comes first (Armstrong 197).

Many have argued that, through planning, managerial uncertainties are reduced. Armstrong, for example, noted:

As uncertainties increase, the organization can benefit by planning to deal with these uncertainties…My hypothesis is that over a practical range for uncertainty, high uncertainty would require more planning (198).

In support of this view, Shrader found the correlation between perceived uncertainty and the amount of strategic and operational planning undertaken by small businesses. If planning indeed reduces managerial uncertainty, then this is its direct learning benefit. Leblebici and Salancik suggested that the uncertainty is the absence of relevant knowledge about cause-effect relationships in a decision context. Since learning is the acquisition of knowledge, then the uncertainty-reduction benefit of planning posited by various scholars can be described as a learning effect of planning. Conversely, the degree of pre-startup planning is positively associated with proactive learning in that planning enhances a founder's knowledge about the proposed business (Leblebici 578).

As previously noted, financiers want the opportunity to scrutinize details of a business proposal in order to evaluate the founder's chances of success. To the extent that planning results in learning, the details presented to financiers are likely to be more appropriate for the business being proposed, and consequently, financiers will be more likely to provide funding. Suppose that a location analysis reveals that what was perceived, as a desirable location actually is undesirable. Heavy traffic patterns, for example, may have resulted in the initial perception of desirability, but further analysis might have suggested that targeted customer groups were not well represented within that traffic flow. Based on this analysis, the perspective business founder would likely find a more suitable location before submitting a business plan to potential financiers, and statistics indicating the greater suitability of that location would help persuade the financiers to provide funding (580).

In a similar manner, learning that occurs through pre-startup planning also may enhance the efficiency of a new business once operations begin. By studying the practices of established competitors, for example, a prospective business founder can identify efficient practices, which can be incorporated into the pre-startup plan, and then implemented when the business gets underway. Additionally, costly mistakes may be avoided. For example, a market analysis may reveal that certain products should not be a part of the product mix (Ramanujam 349).

As suggested by preceding arguments regarding the learning-symbolism relationship, planning processes can help business founders learn ways of improving on the business concept as initially envisioned. These improvements give financiers greater confidence in the business success- not just financiers' assessment of those chances- have increased as a result of learning during the pre-startup planning process, and the business is more likely to survive. Additionally, learning can provide insights on how the founder might adapt if conditions change. As noted previously, Fred Smith found it impossible to implement his plan for Federal Express when the Federal Reserve decided not to go along with it. Through his planning processes, however, it is likely that Smith learned of alternative customer groups that could be targeted. Consequently, he was able to react quickly. Thus, the learning results from pre-startup planning can increase business adaptability. Informally, founder insight and intuition are enhanced. Through more formal means, the process may include assessment of alternative scenarios and development of contingency plans prior to startup (Porter 199).

Pre-startup planning can directly enhance post-startup in at least two ways. First, communication of plans to members of the new business organization can result in cost savings through improved coordination. Second, less time is spent after the startup working out the details that could have been addressed before overhead and other costs increased with the business startup. To date, little research has examined the linkages described in the preceding argument. Watts & Ormsby have focused on post-startup planning and performance dimensions other than survival, and most have tested for direct planning-performance linkages rather than the indirect ones. Although some researchers have endeavored to identify benefits of planning- such as the symbolism, learning, and efficiency benefits- there has been little attempt to show how these in turn affect business performance (Mullick 102).

For example, the planning-learning linkage might be examined by assessing the perceived uncertainty of business founders both before and after pre-startup planning is undertaken. Decreases in perceived uncertainty would be evidence that learning had indeed occurred during the planning process. Simultaneously, the learning-efficiency link might be tested by first asking prospective business founders to suggest operating practices at the start of the planning effort, and then comparing these to the practices specified in the final **business plan.** In this comparison, changes toward more served to enhance efficiency. Alternatively, researchers might track businesses after their startup to compare pre-start-up uncertainty reduction with post-startup efficiency. Then, to assess the indirect impact of planning on survival, researchers could test for correlation between uncertainty reduction and business survival over the next three years (Robinson 20).

As previously noted, scholars have argued that considerable attention should be paid to contextual influences in studies of planning-performance relationships. Contextual factors, broadly defined as Environmental Conditions and Founding Conditions, will be discussed. Potential influences of three environmental-conditions (uncertainty, munificence, and industry maturity) and two founding conditions (knowledge and capital) will be described (Schwenk 55).

In his review of literature on environmental analysis, Castrogiovanni presented a framework in which organization environments are viewed as being both multilevel and multidimensional...are expected to have transitive influences on organizations through impacts on lower level forces." Calling for multilevel assessment of environments, Castrogiovanni explained that, while research obviously should focus on the level most pertinent to the issues at hand, examination of other, usually adjacent, levels add richness to the findings. Regarding environmental dimensions, uncertainty and munificence have been discussed often in the literature on organizations (542). Furthermore, from their review of the literature, Sharfman and Dean concluded that these dimensions seem strongly related to organization survival (Sharfman 681).

Learning from pre-startup planning is desirable to reduce uncertainty so that managers will make better decisions and consequently take more effective actions. Thus, uncertainty may stimulate planning. Since action takes place under uncertain conditions, successful outcomes are not assured. Thus, environmental uncertainty has a negative impact on a business's chances of survival. Uncertainty stimulates planning because more learning is desired under uncertain conditions than certain ones. At the same time, however, uncertainty impedes the learning that may result from planning by making it more difficult and costly (682).

Environmental munificence is the abundance of demand and other necessary resources available to the new business. In other words, it is the magnitude of the opportunity that the business is seeking to exploit. Thus, munificence may be described as the extent to which an environment can support a new business and enable it to grow and prosper. Given that favorable supply-demand tradeoffs exist under munificent conditions, it is easier to turn a sufficient profit when munificence is high than when it is low. Poorly managed businesses may be able to generate profits despite their own ineptitude. Thus, there is less need for planning's symbolism, learning, and efficiency benefits. Consequently, munificence may create disincentives when coupled with founder concerns that a vast window of opportunity might suddenly close. For these reasons, environmental munificence is likely to have a negative impact on the degree of planning, while having a positive one on business survival (Beard 663).

Although small businesses can be started in most industries, they tend to be found in emerging or fragmented ones. In emerging industries, small businesses are common because demand, distribution channels, and other resources have not yet configured in quantities sufficient to sustain larger enterprises. In more mature, fragmented industries, small businesses are common for reasons such as a need to generate products/services locally, or absence of scale economies. These contrasts suggest that industry maturity has mixed effects on degree of pre-startup planning and survival. The lower the uncertainty of mature industries reduces incentive for planning and increases survival prospects. However, the lower munificence increases incentive for planning and reduces survival prospects (Porter 202).

Two founding conditions, knowledge and capital, influence the extent to which pre-startup planning is likely to benefit a business. A prospective business founder's knowledge, often the result of inactive learning in various endeavors prior to the start of the particular new venture, reduces the need for symbolism effects of planning since prospective financiers tend to give considerable weight to the background and experience of the founder. Thus, it is easier to obtain financing when there is evidence of considerable founder knowledge, even when the business plan and the process used to generate it are relatively weak. In essence, founder knowledge generates a symbolism effect of its own which may reduce the need for planning's symbolism effect (Stuart 152).

Knowledge also reduces the need for the learning and efficiency effects of planning. With regard to learning, much of what needs to be learned through planning is already known. Regarding efficiency, the prospective business founder may already have operating details worked out- informally, within his mind. If conditions change, the owner can readily adapt to ensure business survival because he has seen it all before and already knows what to do. In sum, a founder's preexisting knowledge of the business creates disincentives for planning since it reduces the need for planning's symbolism, learning, and efficiency benefits. Founder knowledge therefore enhances the likelihood of business survival since it facilitates proper alignment of the business concept with customer preferences and other market conditions (Mintzberg 463).

Startup capital serves three purposes: (1) to purchase the assets needed to operate a business; (2) to sustain a business during its early period when cash flows are likely to be negative (Scott 45); and (3) to buffer against management mistakes, environmental uncertainties, and other unforeseen difficulties.

All other things being equal, the need for external financing decreases as the external capital invested by the founder increases. Since planning's symbolism effect pertains largely to financing, capital available from the founder reduces the need for symbolism. Further, an abundance of capital means that the business can afford the luxury of inactive learning, from its various mistakes and efficiencies during the startup period. Thus planning's efficiency benefit is less important since abundant capital enables the business to tolerate inefficiency. For these reasons, capital reduces incentives to plan and, consequently, is likely to have a negative impact on the degree of planning undertaken (Bourgeois 29).

An abundance of capital also ensures that business has sufficient unabsorbed slack, i.e., "uncommitted, liquid resources," to survive changing conditions. Since strategic change is not cost-free, businesses need cash and other resources to make changes in response to changing conditions. In a study of bankrupt firms matched with survivors from the same industries, Hambrick and D'Aveni noted that the eventual bankrupts had less unabsorbed slack than survivors as far back as ten years before bankruptcy occurred. By enhancing the level of unabsorbed slack, a founder's capital investment thus improves business survival prospects since this increases the business's ability to cope with changing conditions. Thus the amount of capital invested by founders is positively related to new small business survival (Smart 199).

Aside from clarifying the value of planning in particular contexts, this line of research might also identify the potential substitutability of planning and "other" factors. In addition to inadequate planning for example, poor "management" and insufficient working capital are cited as reasons for small business failure. However, some possible tradeoffs such as an abundance of knowledge or capital might compensate for inadequate planning. Converse arguments would suggest that planning might compensate for limited knowledge or capital, or at least that the importance of planning is heightened when these factors are limited. Suppose that a narrow window of opportunity requires fast action- too fast for comprehensive pre-startup planning to take place. Entrepreneurs might be advised to increase capital investment so that there is sufficient slack to compensate for costly mistakes that may result in inadequate planning (Robinson 20).

Most new businesses fail within five years- and most entrepreneurship researchers are aware of this fact. Yet surprisingly little research has directly examined factors influencing survival. Biases toward survey research contribute to this deficiency because non-survivors tend to get excluded from survey research samples. By offering a framework for examining relationships between pre-startup planning and survival, and by suggesting ways for dealing with the related methodological concerns, this study will hopefully stimulate research on this important topic (25).

Finally, lessons are learned from the ancient philosophers about economics and commerce that still influence modern day economists' views about the exchange of goods and services. Smith's emphasis on consumption in the 1800s, rather than production, broadened the scope of economics. 'He called to the importance of permitting individuals to follow their self-interest as a means of promoting national prosperity.' This free enterprise thinking allowed for businesses to prosper, and spurred on the analytical thinking for planning and systems to guide organizations into financial independence. This same thinking is also on the minds of small business entrepreneurs who may or may not employ business planning methods in the framework of their companies, like the big business organizations that have been users of business planning methods in the past.

Chapter III

METHODS AND EVALUATION

Materials

The focus of this thesis project has been the development of a business-planning guide for the purpose of assisting potential owners and investors in the formulation and implementation of their business idea. This business planning guide, entitled "QUICK-START," can best be described as product specific in its exterior cover design and copy (it uses bright colors of yellow and turquoise). The front cover contains such wording subtitles such as "business planning guide and workbook for start up companies," while the back cover is highlighted by local endorsements from an accounting firm, a local community college and banks, and a small business owner who explains, "all businesses need an organized plan."

The book is formatted in an 8.5 inch x 11-inch page size and contains 141 total pages. A table of contents, covering five pages, directs a person to specific sections of the book. The table of contents is subdivided into five sections for the purpose of accomplishing a specific function or learning experience with regard to the business-planning topic. These five sections are:

1- Section One. Business Plan Workbook: The Preplan- Testing the Business Idea.
2- Section Two. Business Plan Workbook- Understanding the Basic Concepts for Developing Your Own Business.

3- Section Three. Business Plan Workbook- Exploring Your Business Idea.

4- Section Four. Concluding Topics for Developing Your Business Idea.

5- Section Five. Writing Your Business Plan.

Section one, "Testing the Business Idea," has five chapters with the main focus of helping the user identify the key ingredients of his/her business idea by answering key questions about why they want to own and operate a business. Chapter one: The Preplan- Testing My Business Idea, quickly helps the potential business owners/operators analyze the financial potential and discover the core elements of their business idea. The purpose of this section is to identify if this idea can generate the type of income expected by the owners/operators considering the core idea and the current conditions in the marketplace such as competition, level of marketing effort expected, and advantages such as name recognition. Chapter two covers the topic of "getting organized," while chapter three focuses on how to obtain professional help, such as that of your current banker, accountant, or lawyer, as needed, with regards to developing plans for owning and operating your own business. Chapter four is an excellent exercise for comparing your business idea to those already operating in the marketplace, by completing the "ideas into action" worksheet. And finally, chapter five is an evaluation of section one, putting into perspective the knowledge and potential of the business idea after completing the previous four chapters in this section and then making a decision if the timing is right for you to proceed on your business idea.

Section two is a selection of business planning terminology for the purpose of explaining basic concepts that can aide a person in developing his/her own business plan. The list of terms include:

Breakeven Analysis
Business Cycle
Collateral
Demographics
Executive Summary
Goal Setting
Legal Business
Formation
Marketing & Distribution
Mission Statement
Positioning
Pricing
Research & Development
Selling, Packaging & Distribution
Sales Forecasting
Target Market
Trade Area

Section three is designed to evaluate all areas of the business idea with the purpose of having the business plan writer formulating the information that will be used in the written document. Section three has ten chapters. The topics covered are, (1) products explored, (2) discussion about the company, (3) location review, (4) management team, (5) marketing plan of action- analysis, (6) marketing plan of action- strategy, (7) financial plan, (8) company goals and objectives, (9) concluding summary, (10) supporting documents.

Section four is designed to educate the business plan writer by covering such topics as obtaining business licenses, fictitious name registration, permits, etc. This section also educates the business plan writer about the banking industry, especially as to what to expect when submitting a business plan as a document to secure financing for a start-up business. Finally, section four allows the business plan writer the opportunity to evaluate a sample business plan for more clarity on how a business plan is written.

Section five directs the person using this business planning manual to actually begin writing his/her own business plan based on a review of the previous four sections of the business-planning guide. For ease of writing this plan, the guide directs the person to write his/her plan by answering the specific questions that are being asked. Following the questions, blank lines are provided for writing answers to the questions. Also, to help the person complete the entire business plan writing task, page numbers are provided following each question as a place where people can go and read more about that topic should they not fully understand the question.

The purpose of writing this business-planning manual was for distribution of this product to potential users of this publication. As a result, the cover, the content, and overall format, was designed for this end user. As of this writing, "Quick-Start Business Planning Guide & Workbook" can be found in local bookstores, and purchased via the Internet.

<u>Subjects</u>

The evaluators of this business-planning manual are professionals from the banking and accountancy professions, and would be considered qualified as experts with regards to the topic of evaluating business plans. Two evaluators come from the banking industry. Darryl Sandweg, Vice-President of People's Bank in O'Fallon, Missouri, is an experienced banking professional having spent over 30 years in the capacity of bank president or vice-president. His duties have included making bank loans, one of the primary functions in evaluating business plans. The second evaluator is Mark Benton of Nations Bank in Bridgeton, Missouri. Mark has spent over 20 years in the banking industry, and not only is familiar with evaluating business loans, but was the first bank officer to write a SBA LocDoc's application in Missouri upon its introduction to the banking industry in 1996.

The third evaluator is Tom Mueller, a certified public accountant from the firm Mueller, Waller, and Robertson. Mueller has been a certified public accountant for nearly 20 years, and is familiar with assisting clients in a start up business idea. Mueller has also offered his expertise in the classroom as a speaker and advisor to individuals interested in starting their own business via the St. Louis Community College Continuing Education Department.

Instrument

The instrument designed to evaluate the business-planning manual is a six-page questionnaire (APPENDIX A). The questionnaire is divided into six sections. The evaluator is asked to comment on the five questions in each section by answering each question by the following choices:

Strongly agree…somewhat agree…neutral…somewhat agree…strongly agree

Following each section, the evaluator can add additional information or comments about that section by writing a brief statement in the space provided. Final thoughts about the questionnaire can also be made at the conclusion of the survey questions as ample space is provided for the evaluator to make his or her comments.

The six sections are divided into the following evaluation topics. Section one is concerned with the business planning manual content. The five statements used to evaluate the business-planning manual with regards to content are as follows:

1- The business-planning manual (BPM) covers enough range of topics to assist the user in developing a business plan.
2- The BPM is clear and concise in explaining individual topics in the manual.
2- The BPM shows enough examples to help the user learn more about the subject matter throughout the manual.
4- The BPM is not too complex for a beginner user of a business plan manual.
5- The BPM successfully translates what the purpose and potential benefits of using such a manual can be for the user.

Section two evaluates the topic of pre-planning. Five statements are asked with regards to the effectiveness of the pre-planning section. The questions are:

1- The BPM adequately explores the importance of testing the "business idea."
2- The BPM adequately explores the importance of being organized.
3- The BPM clearly demonstrates the importance of seeking professional assistance.
4- The BPM can help evaluate users business idea when the questions from the ideas into action worksheet are answered.
5- The BPM manual helps user summarize their current situation for the purpose of moving forward on their business idea.

Section three evaluates the topic of management regarding the start-up business. Five questions are asked to explore this topic with regards to the perspective management of the start-up business. The statements are as follows:

1- The BPM clearly defines the importance of experienced management involved in running the business.
2- The BPM clearly explains the need for assigning management duties within the organization.
3- The BPM clearly explains to the importance of management developing a personnel plan for the benefit of employees within the organization.
4- The BPM clearly explains the importance of setting goals for the organization as directed by the management of the business.
5- The BPM clearly explains the importance of a team effort from the management to all employees of the business.

Section four evaluates the topic of marketing. Five statements are asked with regards to evaluating the marketing section of the business-planning manual. The questions are:

1- The BPM explains the methods and importance of analyzing the consumer market.
2- The BPM explains the methods and importance of analyzing the competition.
3- The BPM explains the method and importance for developing a positioning statement.
4- The BPM explains the method and importance of establishing objectives for 12-month periods.
5- The BPM explains the method and importance of establishing sales and promotional strategies.

Section five explores the financial plan with regards to a start-up business. Five statements explore the topic of the financial plan as necessary in a business plan for a start-up business. The five statements are as follows:

1- The BPM successfully explains the importance of formulating revenue and profit goals.
2- The BPM succcessfully explains the process of formulating a sources and uses of funds statement.
3- The BPM explains the options a business can choose with regards to setting a legal business formation.
4- The BPM explains the uses and importance of taxes and insurance.
5- The BPM explains the importance of setting financial goals.

Section six explores the final section of the business plan document- the conclusion. The statements are related to how the conclusion of a business plan is structured for a start-up business. The statements are as follows:

1- The BPM explains the importance of a well-written concluding summary.
2- The BPM explains the items that are used as supporting documents.
3- The BPM can help the user execute non-business plan writing activities.
4- The BPM is helpful in explaining the process in obtaining financing from lending institutions.
5- The BPM displays a strong outline for writing a business plan from start to finish.

The instrument for evaluating the business-planning manual has been designed to evaluate the important aspects of the business-planning manual. If at any point, the evaluator does not feel adequate questions are being asked or would like to make additional comments, each section allows for additional hand written input by the evaluator. It is by this combined method of answering questions and additional writing of comments that a comprehensive evaluation can be made by each evaluator about the content of the business-planning guide.

Procedure

The procedures for explaining the purpose and importance of this planning guide can be first found in the cover letter (APPENDIX B) that is written to each evaluator. The letter fully explains the purpose of the project, and what is being asked of them as an evaluator of the business-planning manual. A two-week period is expected for completion by each evaluator and is mentioned in the letter that a phone call will be made to each evaluator to retrieve a completed evaluation and the sample business-planning guide.

The second page to the cover letter is the evaluator profile that is to be filled out by each evaluator of the project. After completing basic information such as name, address, phone, title, and years in current position, each evaluator is asked four questions to further show their qualifications as qualified professionals evaluating this business-planning guide. These four questions are:

1- Have you, in your job-related field, evaluated individuals abilities to prepare and present a business plan?
2- For the purpose of the survey, would you give your expert opinion regarding the content and overall effectiveness of the business planning manual with regards to assisting individuals write and present their business plan to a financial institution for a loan?
3- Give your opinion about the most important elements of a good business plan (give at least three, list as many as you like):

4- Finally, what other decisions are used regarding granting a loan to a perspective client besides a successfully written business plan?

The next page covers the rules & regulations of the survey. The purpose of this page is to remind the participants the purpose of the survey and how the gathering of information and its results will be handled. All this information is communicated to all participants by headings as follows:

Opening Comments-

Explains the purpose of the research project and underscores that no other motives are included in the survey process.

Intent of the Survey-

Explains that the survey is to gather opinions of the subject matter where honest and spontaneity in answering the questions is of value to the success of the project.

Conduct of the Survey Process-

This paragraph underscores the confidentiality of the information provided by the participants. The survey process is to be conducted ethically and in no circumstance is the information to be distributed in any way.

Final Comments-

The last information shared on this page involves the ability of the student to send the results of the survey to all participants should they want this information following the survey.

The next, and final instructional page that covers the purpose and guidelines of the survey, describes the actual procedures for each participant to follow with regards to the following six sections they will evaluate. The survey procedures are explained in five statements.

Statement one- each participant is asked to review the business-planning manual, then read and answer the 30 statements that ask specific questions about the business-planning guide. Each participant can answer the question by circling or underlining his or her answer from the following choices:

Strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

Statement two- each participant is asked to read and answer the statements as they pertain to the business planning manual they were provided and asked to read prior to answering the 30 questions.

Statement three- each participant is asked to complete the entire survey because of the importance of doing so to the success of the survey process.

Statement four- when questions arise about the survey questions, each participant is asked to direct their question(s) to the end of the survey or call Jim Jump at his home phone number.

Statement five- at the conclusion of the survey, each participant is asked to review their work for completed answers to all the questions. It is also restated that questions regarding the survey should be noted and directed to the end of the survey.

The next six pages are the evaluation questions (five per page, thirty total) and are asked in this order:

1- Business Planning Manual Content.

2- Pre-Planning.

3- Management.

4- Marketing.

5- Financial Plan.

6- Conclusion.

The final page to the series of pages that make up the entire survey is the final comments/concerns page regarding the survey. All participants are asked to direct their questions about the survey to this page. Adequate space is provided for their input. The importance of allowing for feedback by each participant cannot be overlooked. By asking for constructive feedback, the objective of conducting an accurate and meaningful survey can be more closely achieved.

Chapter IV

RESULTS

Participants

Three professionals (subjects), chosen from the banking and accounting field, were asked to evaluate the business-planning guide (materials) and utilize the questionnaire (APPENDIX A) to record their evaluations. The individuals that agreed to complete the questionnaire are as follows: ***Mark A. Benton***, Vice President and Team Leader of Cass Commercial Bank. Mr. Benton has been in the banking industry for 18 years, and has evaluated business plans for the purpose of approving loan requests to small businesses. Mr. Benten has performed this function while being employed at Boatmens/Nations Bank, Mercantile Bank, and Cass Commerical Bank.

Darryl J. Sandweg, Vice President of Peoples Bank & Trust Co. has been in the banking industry for 28 years. Mr. Sandweg has, in his banking career as a commercial loan specialist, reviewed and analyzed loan proposals, and business plans, for the purpose of potentially making a loan to the owner/operator of the company seeking funding.

Thomas P. Mueller Jr., Certified Public Accountant for the CPA firm Mueller, Walla, and Albertson, has been involved in the accountancy field for this particular company for the past 7 years. Mr. Mueller has assisted many individuals attempting the start-up of a business with the writing of a business plan document, and has prepared numerous projections and forecasts related to business start-ups.

Evaluator Opinions

All three professionals agreed to give their opinion regarding the content and overall effectiveness of the business planning manual. Each evaluator had an opportunity to state their opinion about the most important elements of a good business plan. The opinion each wrote was constructed by his own thought about the subject, and was recorded in the Evaluator Profile section in the survey package that each evaluator was given. A summary of each evaluator's opinion regarding the most important elements of a good business plan are as follows:

Mark Benten- Cass Commercial Bank:

1- The business plan needs to be well thought out with key points presented up front in the plan and in a concise manner.
2- The plan needs to have clear financial projections with a narrative on how the numbers were derived.
3- The plan must offer verification of management experience.

Darryl Sandweg- Peoples Bank:

1- A business plan needs to be factual with solid research.
2- A business plan that provides enough information but not too lengthy.
3- A business plan that is clear about the idea. For this to be accomplished, it is always a good idea to let others read the plan and make suggestions about how it can be better.

Tom Mueller- Mueller, Walla & Albertson, P.C.:

1- A good plan must set goals for the business- both short term and long term.
2- A good plan must contain and explain the market potential and demand for the product/service.
3- A good plan must contain accurate and realistic financial projections.

Finally, in the Evaluator Profile section, each participant was asked to share what he thought were other criterion used regarding granting a loan to a perspective client besides a successfully written business plan.

Mark Benten felt that it is of the most importance for the owner/manager of the business be able to verbally express the essence of the business idea as mutually explained in the business plan. According to Benten, this should occur even if professional assistance was utilized in the construction of the business plan.

Darryl Sandweg, with regard to this question, is looking for a good business idea that the bank can feel confident about. Part of this evaluation includes good collateral that works toward making the banker feel comfortable making the loan.

Tom Mueller, with regards to this question, agrees that there must be collateral (the business start up funds will involve purchasing tangible items such as vehicles, buildings, machinery, etc. and/or applicant has tangible items he can pledge to the business) available to secure the loan. Mueller also agrees that the client must be able to "sell" the idea to the loan officer.

In summary, all three participants were able to offer professional opinions about the decision making process involved in granting a loan to a perspective client that is in addition to a successfully written business plan. In the evaluators' professional opinion, which is based on years of experience in the business, the business idea must be something the banker can feel confident about. Following this belief that the idea can work, solid collateral must be provided to make the lender feel comfortable doing the loan. This follows that if the perspective client is not willing to invest in the idea, the banker is not willing to assume all the risk.

Taking the Survey

All three evaluators finished the survey completely and accurately as requested of each of them in the survey procedures section of the project. This included filling out the evaluator profile, completing the final evaluator comments at the conclusion of the survey, as well as answering the five questions presented in each section of the survey sections. A total of six survey sections were formulated. The section titles were as follows:

~Business Planning Manual Content.
~Pre-Planning.
~Management.
~Marketing.
~Financial Plan.
~Conclusion.

The timeline for getting each evaluator to take the survey and return the results occurred over a five-month period from October 1999 to February 2000.

Evaluator Comments

All three participants made comments in the additional comment section that might add more explanation to the five questions already answered in this section. The additional comment section was located below the answered question portion of the survey page. Several blank lines were provided for the evaluator's comments. In terms of usage, of the six sections where additional comments could be made, Sandweg was most active and made comments in each of the six sections. Benten was the next most active by making additional comments in three of the six sections, followed by Mueller who made just one comment in the additional comment section of the survey.

The content of the additional comments section is summarized based on the comments of each evaluator.

Darryl Sandweg- Peoples Bank:

In *section one*, Business Planning Manual Content, Sandweg makes an additional comment about question four which reads: The Business Planning Manual (BPM) is not too complex for a beginner user of a business plan manual?

Sandweg comments: "Many people that start a business are very unsophisticated when it comes to understanding business language and numbers. They become more knowledgeable with time, but this is more prominent than you think."

In *section two*, Pre-Planning, Sandweg comments about the importance of pre-planning. Sandweg comments: "I like how Jim keeps bringing up any reservations a person might have about themselves because if they are not ready, it could mean failure and a loss of everything." Sandweg continues: "Not everyone should operate their own business or should try to start a business- you must be suited for this adventure. I tell start-up entrepreneurs that however hard they think it to be, multiply that by 2 or 3."

In *section three*, Management, Sandweg comments: "One of the keys to success is empowering the people in your organization. To a certain degree, allow them to succeed or to fail in everyday things. They will be better people and better employees for this opportunity. I believe this ideal is brought out by Mr. Jump."

In *section four*, Marketing, Sandweg comments: "You must have a written plan in every aspect of a business. It will act as a goal to achieve and a monitor to track progress."

In *section five*, Financial Plan, Sandweg comments: "The more money someone has to inject into the business (minimum 20% of the total project), the easier it will be in obtaining a loan."

In *section six*, Conclusion, Sandweg comments: "I thought the conclusion was done in an excellent way. It reinstates some of the more important items mentioned early." Sandweg continues, "I would only add, if you borrow money, develop an early relationship with the loan officer. If for some reason you don't seem to get along, go to another bank until you find someone you feel comfortable in working with over the next few years."

Mark Benten- Cass Commerical Bank-

In *section one*, Business Planning Manual Content, Benten makes an additional comment about question four, which reads: The business plan manual is not too complex for a beginner user of a business plan manual?

Benten comments: "In regards to question four, understanding the cash flow of the business may be more difficult if the reader doesn't have any financial background. The manual does suggest to seek a financial advisor."

In *section four*, Marketing, Benten adds additional comments regarding question number four which reads: The business planning manual explains the method and importance of establishing objectives for 12-month periods?

Benten comments: "Regarding question #4, emphasis mainly on advertising for 12 month periods, it does stress 12 month monthly projections in the first year."

In *section five*, Financial Plan, Benten makes additional comments regarding question three which reads: The business planning manual explains the options a business can choose with regards to becoming a legal business formation. Benten comments: "Regarding question #3- in regards to legal business formation- may want to add limited liability company. All other forms of legal formations were well presented."

Tom Mueller- Mueller, Walla & Albertson, P.C.:

In section one, Business Planning Manual Content, Mueller comments: "Overall the business-planning manual provides a comprehensive and systematic method for someone interested in starting a business to evaluate the viability of their idea."

Evaluator Overall Comments

All three evaluators made overall comments in the Evaluator Comments section which followed the six sections about the business planning manual that were entitled: Business Planning Manual Content, Pre-Planning, Management, Marketing, Financial Plan, Conclusion. This final comment section allowed each evaluator the opportunity to express their comments/opinions about the entire survey. The evaluator comments that were made were:

Sandweg: "Overall, I thought Jim did an excellent job with his 'Buisness Planning Guide & Workbook for Start Up Companies.' " "It was very easy to read and follow. It was packed with good information for anyone starting or considering to start a new business."

Benten: "I was very impressed with the content being presented and the logical order it was presented in. The survey covered all areas in detail and was explained well. When I was reading the material, I would jot down notes on things I thought should be in this survey. As I read the survey, all of my notes regarding my ideas were covered."

Mueller: "An excellent tool that I would highly recommend to anyone starting or thinking of starting a new business." Mueller also comments in his cover letter to the student, Jim Jump, about the survey and evaluation. "Although my responses may be brief, I believe they convey the overall opinion that the manual is a fabulous tool that anyone interested in or thinking about starting a business should not only buy, but also work through to evaluate their new business idea."

Results of the Survey Process

Sandweg, Benten, and Mueller successfully completed the survey and returned them to my attention. I am thankful for their efforts and am able to use their information to make an evaluation about the business planning manual in more detail as will be done in the next chapter- Chapter V, DISCUSSION.

Chapter V
DISCUSSION

Summary

A. General Summary of Evaluators' Comments and Suggestions.

In summary, all three evaluators' were in unison about the overall effectiveness of the business planning manual as a means to help small business owners develop a business plan with regards to starting their own business.

Darryl Sandweg of peoples Bank comments, "It was easy to read and follow. It was packed with good information for anyone starting or considering to start a new business."

Mark Benten of Cass Commerical Bank comments, "I was impressed with the overall content being presented and the logical order it was presented. The survey covered all areas in detail and was explained well."

Tom Mueller of Mueller, Walla & Albertson, P.C. comments, "An excellent tool that I would highly recommend to anyone starting or thinking of starting a new business."

Following the evaluator comments, it is worth comparing the positive comments to how each evaluator rated the business planning manual based on how they answered each question. A total of 150 cumulative points were possible for each survey (achieved if an evaluator answered 5, strongly agree, to each question). The results showed that *Benten* rated the business planning manual the highest by a 97% approval, followed by *Sandweg* with a 95%, and concluding with *Mueller* at 91%. The end result of the three evaluators' found the guide to have a 94% approval rating based on the scoring system of 1 for strongly disagree...2 for somewhat disagree...3 for neutral...4 for somewhat agree...5 for strongly agree. A summary of the individual results are as follows:

Benten- 150 possible points...146 given for a 97% approval rating.
Sandweg- 150 possible points...143 given for a 95% approval rating.
Meuller- 150 possible points...137 given for a 91% approval rating.

Total score- 450 points possible...426 points scored for a 94% approval rating as determined by evaluators' *Benten, Meuller*, and *Sandweg.*

B. Discussion of the Survey Questions.

The positive comments made by the evaluators' also reflect the answers that all three individuals gave when taking the survey. How each question was answered and the general comments made about them by the evaluators' will be discussed in this section.

The six sections that were presented to the evaluators' are as follows:

1- Business Planning Manual Content.
2- Pre-Planning.
3- Management.
4- Marketing.
5- Financial Plan.
6- Conclusion.

A total of five questions were asked in SECTION ONE regarding the BUSINESS PLANNING MANUAL CONTENT. The evaluators' had the opportunity to answer each question by circling a number that corresponded to the best answer that they would use to answer each individual question. The answering system for each question was as follows:

Strongly disagree...somewhat disagree...neutral...somewhat agree...strongly agree
1 2 3 4 5

Question One asks- The business plan manual (BPM) covers enough range of topics to assist in developing a business plan?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

Question Two asks- The BPM is clear and concise in explaining individual topics in the manual?

Given the choices of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

Question Three asks- The BPM shows enough examples to help the user learn the subject matter throughout the manual?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

Question four asks- The BPM is not too complex for a beginner user a business plan manual?

Given the choice of answers, one evaluator *(Meuller)* chose answer 5 (strongly agree) to answer the question. The other two evaluators, *(Benten & Sandweg)* chose 3 (neutral) as their answer to this question.

Question Five asks- The BPM successfully translates what the purpose and potential benefits of using such a manual can be for the user?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

To conclude this section of the evaluation, all three evaluators' were given the opportunity to write additional comments regarding section one that might add more explanation to the questions they already answered.

Mueller comments, "Overall, the business planning manual provides a comprehensive and systematic method for someone interested in starting a business to evaluate the viability of their idea."

Sandweg comments about question four as follows, "Many people that start a business are very unsophisticated when it comes to understanding business language and numbers. They become more knowledgeable with time, but this is more prominent than you think."

Benten comments regarding question number four as well, "In regards to # 4, understanding the cash flow of the business may be more difficult if the reader doesn't have an accounting or financial background. The manual does suggest to seek a financial advisor."

A total of five questions were asked in SECTION TWO- PRE-PLANNING. Evaluators' had the opportunity to answer each question by circling a number that corresponded to the best answer. The answering system remained the same.

Question One asks- The BPM adequately explores the importance of testing the "business idea?"

Given the choice of answers, two of the evaluators' (*Benten & Sandweg*) circled number 5 (strongly agree) to answer the question. The other evaluator *(Meuller)* circled number 4 (somewhat agree) to answer the question.

Question Two asks- The BPM adequately explores the importance of being organized?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

Question Three asks- The BPM clearly demonstrates the importance of seeking financial assistance?

Given the choice of answers, two evaluators' *(Sandweg & Benten)* circled number 5 (strongly agree) to answer the question. The other evaluator *(Meuller)* circled number 4 (somewhat agree) to answer the question.

Question Four asks- The BPM can help evaluate users business idea when the questions from the ideas into action worksheets are answered?

Given the choice of answers, two evaluators' (*Sandweg & Benten*) circled number 5 (strongly agree) to answer the question. The other evaluator *(Meuller*) circled number 4 (somewhat agree) to answer the question.

Question Five asks- The BPM manual helps user summarize his/her current situation for the purpose of moving forward on their business idea?

Given the choice of answers, all two evaluators' (*Benten & Meuller*) circled number 5 (strongly agree) to answer the question. The other evaluator *(Sandweg)* circled number 4 (adding a plus sign)(somewhat agree) to answer the question.

To conclude this section of the evaluation, all three evaluators' were given the opportunity to write additional comments regarding section two that might add more explanation to the questions they already answered.

Sandweg comments, "I like how Jim keeps bringing up any reservations a person might have about themselves or the business. You can never cover the idea enough, because if they are not ready, it could mean failure and a loss of everything." *Sandweg* continues, "Not everyone should operate their own business or should try to start a business- you must be suited for this adventure. I tell start up entrepreneurs that however hard they believe it to be, multiply by 2 or 3.

A total of five questions were asked in SECTION THREE- MANAGEMENT. Evaluators' had the opportunity to answer each question by circling a number that corresponded to the best answer. The answering system remained the same.

Question One asks- The BPM clearly defines the importance of experienced management being involved in running the business?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

Question Two asks- The BPM clearly explains the need for assigning management duties within the organization?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

Question Three asks- The BPM explains the importance of management developing a personnel plan for the benefit of employees within the organization?

Given the choice of answers, two evaluators' (*Sandweg & Benten*) circled 5 (strongly agree) to answer the question. The other evaluator *(Meuller*) circled 4 (somewhat agree) to answer the question.

Question Four asks- The BPM clearly explains the importance of setting goals for the organization as directed by the management of the business?

Given the choice of answers, two evaluators (*Sandweg & Benten*) circled 5 (strongly agree) to answer the question. The other evaluator (*Meuller)* circled 4 (somewhat agree) to answer the question.

Question Five asks- The BPM clearly explains the importance of a team effort from management to all employees of the business?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

To conclude this section of the evaluation, all three evaluators' were given the opportunity to write additional comments regarding section three that might add more explanation to the questions already answered.

Sandweg comments, "One of the keys to success is empowering the people in your organization to a certain degree, allow them to succeed or fail in everyday things. They will be better people and better employees for this opportunity. I believe this ideal is brought out by Mr. Jump."

A total of five questions were asked in SECTION FOUR- MARKETING. Evaluators' had the opportunity to answer each question by circling a number that corresponded to the best answer. The answering system remains the same.

Question One asks- The BPM explains the methods and importance of analyzing the market?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

Question Two asks- The BPM explains the methods and importance of analyzing the competition?

Given the choice of answers, one evaluator *(Benten)* circled number 5 (strongly agree) to answer the question. The other two evaluators' (*Sandweg & Meuller*) circled number 4 (somewhat agree) to answer the question.

Question Three asks- The BPM explains the method and importance for developing a positioning statement?

Given the choice of answers, two evaluators' *(Meuller & Benten)* circled number 5 (strongly agree) to answer the question. The other evaluator (*Sandweg)* circled number 4 (somewhat agree) to answer the question.

Question Four asks- The BPM explains the method and importance of establishing objectives for 12-month periods?

Given the choice of answers, one evaluator *(Sandweg)* circled number number 5 (strongly agree) to answer the question. The other two evaluators' (*Meuller & Benten*) circled number 4 (somewhat agree) to answer the question.

Question Five asks- The BPM explains the method and importance of establishing sales and promotional strategies?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

To conclude this section of the evaluation, all three evaluators' were given the opportunity to write additional comments regarding Section Four- Marketing that might add more explanation to the questions they already answered.

Benten comments regarding question number four as follows; "emphasis mainly on advertising for 12 months periods. Does stress 12 month monthly projections in the first year."

Sandweg comments, "You must have a written plan in every aspect of a business. It will act as a goal to achieve and a monitor to track progress."

A total of five questions were asked in SECTION FIVE- FINANCIAL PLAN. Evaluators' had an opportunity to answer each question by circling a number that corresponded to the best answer that they would use to answer each individual question. The answering system remained the same.

Question One asks- The BPM successfully explains the importance of formulating revenue and profit goals?

Given the choice of answers, two evaluators' (*Meuller & Benten*) circled number 5 (strongly agree) to answer the question. The other evaluator (*Sandweg*) circled number 4 (somewhat agree) to answer the question.

Question Two asks- The BPM successfully explains the process of formulating a sources and uses of funds statement?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

Question Three asks- The BPM explains the options a business can choose with regards to becoming a legal business formation?

Given the choice of answers, two evaluators' (*Sandweg & Benten*) circled number 4 (somewhat agree) to answer the question. The other evaluator (*Meuller)* circled number 3 (neutral) to answer the question.

Question Four asks- The BPM explains the uses and importance of taxes & insurance?

Given the choice of answers, two evaluators' *(Sandweg & Benten*) circled number 5 (strongly agree) to answer the question. The other evaluator (*Meuller)* circled number 4 (somewhat agree) to answer the question.

Question Five asks- The BPM explains the importance of setting financial goals?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

To conclude this section of the evaluation, all three evaluators' were given the opportunity to write additional comments regarding this section that might add more explanation to the questions they already answered.

Benten comments, "In regards to question, legal business formation, you may want to add Limited Liability Company. All other forms of legal formations were well represented."

Sandweg comments, "The more personal money someone has to inject into the business (minimum 20% of total project), the easier it will be in obtaining a loan."

A total of five questions were asked in SECTION SIX- CONCLUSION. Evaluators' had the opportunity to answer each question by circling a number that corresponded to the best answer. The answering system remained the same.

Question One asks- The BPM explains the importance of a well-written document?

Given the choice of answers, two evaluators' *(Sandweg & Benten)* circled five (strongly agree) to answer the question. The other evaluators' *(Meuller)* circled number 4 (somewhat agree) to answer the question.

Question Two asks- The BPM explains the items that are used as supporting documents?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

Question Three asks- The BPM can help the user execute non-business plan writing activities?

Given the choice of answers, two evaluators' *(Sandweg & Benten)* circled number 5 (strongly agree) to answer the question. The other evaluator (*Meuller*) circled number 3 (neutral) to answer the question.

Question Four asks- The BPM is helpful in explaining the process in obtaining financing from lending institutions?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

Question Five asks- The BPM displays a strong outline for writing a business plan from start to finish?

Given the choice of answers, all three evaluators' circled number 5 (strongly agree) to answer the question.

To conclude this section of the evaluation, all three evaluators' were given the opportunity to write additional comments regarding section six that might add more explanation to the questions answered.

Sandweg comments, "I thought the conclusion was done in an excellent way. It reinstates some of the more important items mentioned." *Sandweg* continues, "I would only add, if you borrow money, develop an early relationship with the loan officer. If for some reason you don't seem to get along, go to another bank until you find someone you feel comfortable in working with over the next few years."

To conclude the evaluation process, all three evaluators' were given an opportunity to make final comments regarding the survey. This allowed comments about any portion of the evaluation process and/or any additional comments regarding the business planning manual they previously evaluated.

All three evaluators' had final comments about the business-planning guide.

Sandweg comments, "Overall, I thought Jim did an excellent job with his 'Business Planning guide & workbook for start up companies.' It was very easy to read and follow. It was packed with good information for anyone starting or considering to start a new business."

Benten comments, "I was very impressed with the content being presented and the logical order it was presented in. The survey covered all areas in detail and was explained well. When I was reading the material, I would jot down notes on things I thought should be in this survey. As I read the survey, all my notes regarding my ideas were covered."

Meuller comments, "An excellent tool that I would highly recommend to anyone starting or thinking of starting a new business."

A summary of the suggestions made by the evaluators' are as follows:

1- As relates to Section One, the content of the Business Planning Manual, two of the evaluators' *(Benten & Sandweg)* expressed their concern about the manual perhaps not being easily understood by a beginner user of a business plan manual. *Benten* comments that understanding the cash flow of the business maybe more difficult if the reader doesn't have an accounting or financial background. *Sandweg* also comments similarly by stating that most people that start a business are unsophisticated when it comes to understanding business language and numbers.

2- As it relates to Section Five, Financial Plan, question three discusses for the reader the options of formulating a legal business formation. Two evaluators' *(Meuller & Benten)* had some concerns about this question. *Meuller* answered the question circling number three that indicated that he was neutral about the business planning manual explaining options a business can choose with regards to becoming a legal business formation. *Benten* suggested adding information about the option of a Limited Liability Company. Otherwise *Benten* felt that all other forms of legal formations were well presented.

3- As it relates to Section Six, Conclusion, two evaluators' offered suggestions regarding questions three and four. Question three suggested the business-planning manual could help the user execute non-business plan writing activities. *Mueller* circled answer three (neutral) which indicated he was neither favorable nor non-favorable to this. Question four suggests the business-planning manual is helpful in explaining the process in obtaining financing from lending institutions. *Sandweg* strongly agreed with this question but also offers the comment that it is important to establish an early relationship with the loan officer to find out your compatibility factor. Therefore, if you find the banker to be to your liking, it becomes easier to make a change and therefore aid yourself in finding a banking fit as soon as you possibly can.

Based on the following comments and suggestions made by the evaluators' as summarized above, a few changes/revisions will be made to the business planning guide to make the guide more effective for the end user. The changes will be:

1- To assist beginner users as relates to understanding business language and numbers, the manual as currently written, gives examples as it relates to formulating sales numbers, operating statements, etc. To further aid the user, the manual will make a reference list at the end of the guide for the reader to find other suggested sources to find more explanation and examples they might find helpful to better educate them on this topic. This would be perhaps the best way to solve this problem since there is only so much space that can be allowed for all the topics that must be explained in the guide. With regards to understanding business language, the business planning guide does have a section, Understanding Business Planning Basic Concepts For Developing Your Own Business, that is written to help educate the reader on the basic ideas relating to starting a business. To go further to aid the reader, (much like helping the reader learn more about the numbers), a reference for additional sources for understanding basic concepts about small business planning will also be placed at the end of the guide.

2- The second area of concern that was expressed was the issue regarding legal business formation strategies for a start up business. Because the topic has such important implication for the decision-maker of a start up business, the business-planning guide offered general information and suggestions only. To make the business-planning guide more effective, revising the manual from time to time might make the information most useful. However, my opinion is that since this decision has such significance, the decision-maker should also consult an accountant, i.e., a professional in this particular field. While this guide is informative about the business planning process, offering general advice is the nature of the guide and should not necessarily be the only source of information the decision-maker uses in the formation of his start up business.

3- Upon the conclusion of the survey, one evaluator was neutral (*Meuller*) about the business planning manual assisting the user in executing non business plan writing activities. While the list of activities in the manual would be helpful in getting the user headed in the right direction regarding these issues, it is normal to make numerous contacts to your local city/village/county/state and federal authorities to make sure your business is in compliance to the rules, regulations, and guidelines as relates to licenses, permits, etc. Therefore, the purpose of the business-planning manual is to inform the user that the initial start up of a business requires compliance with all the local, state, and federal entities.

Also in section six, Conclusion, one evaluator (*Sandweg*) strongly agreed with the question regarding the manual being helpful in explaining the process in obtaining financing from lending institutions. *Sandweg* offers the comment regarding the importance of establishing an early relationship with a loan officer including the compatibility factor. In my experience, this is good advice, and I would therefore agree with *Sandweg* and his comments. To further comment, I wrote about this idea of forming a relationship with a banker and it is in the guide in the section, Comments About The Banking Industry. Therefore, to support *Sandweg's* comments and concerns, this idea about forming a relationship with a banker is in the guide and is written because of the importance of how relationships can be an asset to anyone trying to start up his or her own business.

To conclude, to make this business-planning guide more useful, a few changes are necessary as described above. In addition to changes already discussed, I think it will also be important for this guide to be updated on an annual basis to reflect the latest information. This might include available lending programs, new laws regarding business formations, new ways to write a business plan, etc. Finally, to assure that the user understands that the guide is a source for developing a start up business, **but not a single source for all the issues discussed**, a disclaimer will be written in the beginning of the guide to clearly make this point. Also, the disclaimer will be referenced throughout the manual when necessary to make sure the user understands that the information offers suggestions for the user but likewise a making it clear that they may want to contact other professionals on specific issues/concerns that they might have. Finally, the purpose of this business planning guide, as discussed at the conclusion of chapter II of this thesis study, is for the small business owner/operator to understand and employ planning techniques that big businesses have used in the past. Why might this be important? It is of the thought that free enterprise thinking allowed for business to prosper, and spurred on the analytical thinking for planning and systems to guide organizations into financial independence.

Limitations of the Study.

Of the suggested list of potential limitations of the study (flawed procedures, instrument problems, design flaws, data collection, and analysis problems or evaluator bias), data collection was very cumbersome. Data collection is more difficult then I ever anticipated. For my study, I used three evaluators' that were qualified, and, upon completion of the survey, provided excellent feedback. However, to complete three surveys, what I anticipated to be a 2-3 week process, in reality, was a 6-month process. Making contacts, communicating the survey process, asking for their participation and return of the survey all became a much more lengthy process than I ever anticipated. A much larger sampling group would have made the survey process more difficult to manage. However, while this may be true, a larger sampling group may give more credibility to the conclusion of the study.

Suggestions for Future Research.

Considering what might be changes I might make for future research (larger sample population, different instrument, different sample population, more appropriate statistical test or different evaluators), I might have added more evaluators for additional evaluation of the business-planning guide. In this study, two banking professionals and one accounting professional were used. In conducting the same research study, I would have added one more banker and one more accountant. A third banker taking the survey, in my opinion, would be useful information about how business plans are evaluated for loan acceptance. Likewise, a second accountant taking the survey would have been even more important since my survey included only one accountant in the survey evaluation process. Another opinion from the accountancy profession would have given perhaps another perspective about the overall effectiveness of the business-planning guide. As a result, moving from two banking and one accountancy professionals to three banking professionals and two accountancy professionals would have added additional feedback and a more comprehensive view of the business-planning guide. While the additional surveys would have enhanced the study, the value in this, I feel, would have been adding another opinion about the guide via another accountant. However, beyond this, more professional opinions, at some point, would bring diminishing returns to the survey (some new insights could be offered, but for the most part, a lot of comments/suggestions would be repeated) unless new areas of surveying occurred such as not for profit organizations, and small business owners who have already experienced the business planning process.

Appendix A

SURVEY FOR
A BUSINESS PLANNING MANUAL.

SURVEY PROCEDURES.

1. Please review the business plan manual with the intent that this manual is to be rated favorably, or not favorably, in your expert opinion. The survey has 30 questions, please answer each based on the scale of:

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

   The survey is divided into six sections, with five questions in each section for a total of 30.

2. Upon reviewing the business planning manual, read the following questions as they relate to the business-planning manual. Make sure you read each question thoroughly, and answer the questions based on what is being asked.

3. Complete the entire survey. Answering all the questions completely and accurately is important to the success of this survey.

4. If you are not sure of a question being asked, please note the question, and note your question at the conclusion of the survey, or call me at 618-466-7078 for clarification.

5. Upon the conclusion of taking the survey, review your work for complete answers of all the questions. If you are not sure of what is being asked and cannot answer a question, please note this and direct your question to the conclusion of the survey. This will ensure that you have completed the survey.

SECTION ONE.

EVALUATION. BUSINESS PLANNING MANUAL CONTENT.

(Five Questions)

1. The business plan manual (BPM) covers enough range of topics to assist user in developing a business plan.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

2. The BPM is clear and concise in explaining individual topics in the manual.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

3. The BPM shows enough examples to help user learn the subject matter throughout the manual.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

4. The BPM is not to complex for a beginner user of a business plan manual.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

5. The BPM successfully translates what the purpose and potential benefits of using such a manual can be for the user.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

(OPTIONAL)

Please write any additional comments regarding section one that adds more explanation to the questions you already answered.______________________________

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SECTION TWO
EVALUATION. PRE-PLANNING.

(Five Questions)

1. The BPM adequately explores the importance of testing the "business idea."

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

2. The BPM adequately explores the importance of being organized.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

3. The BPM clearly demonstrates the importance of seeking professional assistance.

   strongly agree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

4. The BPM can help evaluate users business idea when the questions from the ideas into action worksheets are answered.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

5. The BPM manual helps user summarize their current situation for the purpose of moving forward on their business idea.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

   (OPTIONAL)
   Please write any additional comments regarding section two that adds more explanation to the questions you already answered.________________________

SECTION THREE.
EVALUATION. MANAGEMENT.

(Five Questions).

1. The BPM clearly defines the importance of experienced management being involved in running the Business.

   strongly disagree..somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

2. The BPM clearly explains the need for assigning management duties within the organization.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

3. The BPM clearly explains to the importance of management developing a personnel plan for the benefit of employees within the organization.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

4. The BPM clearly explains the importance of setting goals for the organization as directed by the management of the business.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

5. The BPM clearly explains the importance of a team effort from management to all employees of the business.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

   (OPTIONAL)
   Please write any additional comments regarding section three that adds more explanation to the questions you already answered.____________________

SECTION FOUR.
EVALUATION. MARKETING.

(Five Questions)

1. The BPM explains the methods and importance of analyzing the market.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

2. The BPM explains the methods and importance of analyzing the competition.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

3. The BPM explains the method and importance for developing a positioning statement.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

4. The BPM explains the method and importance of establishing objectives for 12-month periods.

   Strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

5. The BPM explains the method and importance of establishing sales and promotional strategies.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

(OPTIONAL)

Please write any additional comments regarding section four that adds more explanation to the questions you already answered.______________________________

SECTION FIVE
EVALUATION. FINANCIAL PLAN.

(Five Questions)

1. The BPM successfully explains the importance of formulating revenue and profit goals.

strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

1 2 3 4 5

2. The BPM successfully explains the process of formulating a sources and uses of funds statement.

strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

1 2 3 4 5

3. The BPM explains the options a business can choose with regards to setting becoming a legal business formation.

strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

1 2 3 4 5

4. The BPM explains the uses and importance of taxes & insurance.

strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

1 2 3 4 5

5. The BPM explains the importance of setting financial goals.

strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

1 2 3 4 5

(OPTIONAL)
Please write any additional comments regarding section five that adds more explanation to the questions you already answered.______________________

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____
____
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____

SECTION SIX
EVALUATION. CONCLUSION.

(Five Questions)

1. The BPM explains the importance of a well-written concluding summary.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

2. The BPM explains the items that are used as supporting documents.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

3. The BPM can help the user execute non-business plan writing activities.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

3. The BPM is helpful in explaining the process in obtaining financing from lending Institutions.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

5. The BPM displays a strong outline for writing a business plan start to finish.

   strongly disagree…somewhat disagree…neutral…somewhat agree…strongly agree

   1 2 3 4 5

(OPTIONAL)
Please write any additional comments regarding section six that adds more explanation to the questions you already answered.____

EVALUATOR COMMENTS

Final comments and/or concerns regarding this survey can be written in the space below:

Thank you for your participation!

Appendix B

COVER LETTER

Mr. Mark Benten
Cass Commerical Bank
13001 Hollenberg
Bridgeton, MO 63044

Dear Mark:

My name is James S. Jump. I am a student of Lindenwood University and currently writing my thesis project under the guidance of my advisor and the faculty staff.

My thesis project is the development of a business-planning manual to be used by small business owners and investors. The manual is a derivative of my past experiences of the subject (I teach the subject and write business plans) and the research that I have done regarding the subject. It is my objective to create a sound product (manual) that effectively communicates the subject matter and can be made available in the retail market (i.e., bookstores) for purchase by individuals interested in the subject.

The attempt to reach this stated goal requires feedback on the content and readability of the manual. I am calling on individuals who are qualified evaluators of the business-planning manual. This means individuals who evaluate business plans for obtaining a start-up loan, or those individuals who help to formulate a document for financing, particularly the financial statements.

To summarize, I am asking banking and accounting professionals to evaluate the business-planning manual on content and how well it is written. A questionnaire about the planning manual along with survey procedures will be supplied to each participant. After receipt of these materials, please review the manual and answer the survey questionnaire. I will call each evaluator two weeks later to make arrangements for picking up the completed evaluation and business-planning guide.

I would like to thank you in advance for your assistance in this project should you agree to participate. Please be frank with your evaluation and call me with any questions you might have regarding the evaluation process and/or the manual.

I am excited about what I have learned from this thesis project and appreciate the assistance I have received from the university staff. Likewise, I am equally excited about calling on banking and accounting professionals for their evaluation on this business-planning manual. The results should be rewarding.

Thank you again for your professional opinion regarding the business-planning manual, which I have written for the purpose of completing my MBA degree at Lindenwood University.

Best regards,

James S. Jump

Evaluator Profile
Business Planning Manual/
Thesis Project

For:
James S. Jump
Student- Lindenwood University

Name:

Address (business):

Phone:

Title:

Years in Current Position:

1. Have you, in your job-related field, evaluated, or helped write (or counsel the construction of), business plan documents? (Explain):

2. For the purpose of this survey/evaluation, would you give your expert opinion regarding the content and overall effectiveness of the business planning manual you
are being asked to evaluate? (If answer is yes, question is answered. If answer is no,
explain why you can not express your opinion about this topic):

3. Give your opinion about the most important elements of a good business plan (give at
three, list as many as you would like):
a)

b)

c)

4. Finally, what other decisions are used regarding granting a loan to a perspective client besides a successfully written business plan?

TO: ALL SURVEY PARTICIPANTS

(Opening Comments).

Thank you for taking part in this survey.

The intent of this study is for research purposes, no other motives are included in this study. Your survey results will be evaluated with several subjects; no individual survey results will be used for any other purpose than to evaluate the business-planning manual.

(Intent of this Survey).

The purpose of this survey is to gather opinion of the subject matter as described in the opening comments. Candid answers to the questions are critical to the success of this project. Please note that there are no right or wrong answers but rather your honesty and spontaneity in answering these questions is the purpose of your participation in this survey.

(Conduct of the Survey Process).

All the information you have provided (personal data and answers to the survey questions) is confidential, and your identity in this survey will remain anonymous. The survey (intent, implementation, and the measurement of the results) is to be conducted ethically, and at no time is the purpose of this to gain private information or to distribute this same information in any way, shape, or form. Concerns you might have regarding this matter can be discussed at any point in this survey process.

(Final Comments).

If you would like to get the results of this survey, please indicate your request by checking the box below and writing in the location where you would like this information sent. Otherwise, thank you for your participation and interest in this survey. Thanks for your input!

☐ Yes, I would like to get the results of this survey. Please send the results to:

____

____

____

Appendix C

QUICK START

BUSINESS PLANNING GUIDE

BUSINESS PLANNING GUIDE:
FOR SMALL BUSINESS OWNERS/INVESTORS.

A Step By Step PLANNING GUIDE & WORKBOOK
Designed For Starting Your Own Business.
This PLANNING GUIDE Will Fully
Help You Explore Your Business Idea
And Determine Its Potential Success.
It Will Also Help You Become Better Prepared And
Knowledgeable About BUSINESS PLANNING.

THE BUSINESS PLAN COMPANY
335 St. Anthony
GODFREY, IL
Ph. 618.466.7399
Fax. 618.466.7399
Web Address: www.piasanet.com/tbpc/index.htm

First Printing.

JUMP.98.1

THE BUSINESS PLAN COMPANY.

DEDICATION:

**A special thanks goes out to my wife Susan for all her patience.
She is my sounding board and
has a great sense of what should be done to make something work.
A lot of hard work goes into
these types of projects without any guarantee of a payback.
Also, a special hello to my mom
who is truly someone special and to my whole family.
And finally, all my WMU counterparts
who will find a reason to read this manual closely and to
Ed Bennett for getting me started in
the teaching arena.**

ABOUT THE AUTHOR.

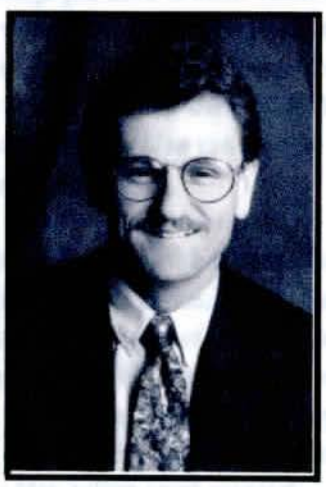
ONE STEP TOWARD PLANNING.....IS ONE STEP TOWARD SUCCESS!

James S. Jump has been teaching and writing business plans for over 10 years. Having written his ownbusiness plan to secure his first business loan in 1990, Jump has helped other small business ownersdevelop their own plans. Jump also works directly with banking institutions to help secure smallbusiness loans for his clients.

James S. Jump is a graduate of Western Michigan, obtaining his BBA in Marketing in 1982, and in 1998, completed the MBA program at Lindenwood University located in St. Charles, Missouri. Jump is a native of Trenton, Michigan and has been a resident of St. Louis for over 10 years.

Today, Jump teaches the Business Planning Subject at seminars and in the classroom. This contact withnumerous individuals interested in the business planning subject has lead to helping many clients securefinancing for their start-up business. Others have simply gathered the information and developed thereown business plan from a simple core idea that is the cornerstone of their successful business today!

Jump also has published his own business-planning manual and is considered one of the experts in the field.His business planning publication can be found in libraries, community college classrooms, and bookstoresacross the U.S. Jump also writes articles for small business publications and newspapers that help educatepeople on the topic of business planning. Jump has been a proponent of the importance of Business Planningand has been pleased with the demand he has found for his business planning publications as well as theinterest in his classes and seminars.



JAMES S. JUMP

"Your life will be no better than the plans you make and the action you take. You are the architect and builder of your life, fortune, and destiny."

How to use this manual & workbook

Business planning is the process by which the entrepreneur, in exploiting an opportunity, creates a vision of the future and develops the necessary objectives, resources, and procedures to achieve that vision.

You probably at some time thought about an idea that you felt was sensible, had mass appeal, and if developed correctly, could be profitable. This idea, after given serious thought, became a vision. As this occurred, you thoughts probably explored what this idea could become. This business idea created a curiosity or drive to develop the necessary objectives, resources, and procedures to achieve that vision.

This entrepreneur spirit that your experiencing is what motivates millions of people to obtain the necessary assistance to become a small business owner every year. Like you, many others have asked themselves "how do I develop this idea, build a team, obtain financing, create a marketing plan and open my business in a reasonable time frame"? For this purpose, the creation of this business planning manual and workbook occurred to assist those seeking help in this process.

The information in this guide is simple. Read through the workbook first and answer the questions that are asked as practice to the things you need to know about owning and operating your own business. This is the opportunity to find out what you know and what you don't know. When the questions are not easily answered, ask for help. Go the library or go to the Internet and get answers. The next step is to use the Business Plan writing format and write YOUR OWN BUSINESS PLAN. Referring back to the workbook to transfer this information to your business plan can do this. In the process, you will have developed your business idea into a functional business plan.

Best of luck on your efforts in developing your business idea. This planning guide will help you take your idea and format it into a business plan of action. As you commit to this process of planning, you will find the payoff to exceed the amount of effort placed in the planning process. Finally, one thought about the how and why you plan, develop, and set the standards for how your business will operate. Think about the possibilities of your business becoming a franchise someday. If this were to happen, it would have required the business idea to have the standard and guidelines of how the business operates. Your work now can be a huge payoff if your business idea enjoys great success!

Best of luck in this business plan writing experience and in your entrepreneur endeavors!

SECTION ONE...

BUSINESS PLAN WORKBOOK: THE PREPLAN-TESTING THE BUSINESS IDEA

SECTION TWO...

BUSINESS PLAN WORKBOOK- UNDERSTANDING THE BASIC CONCEPTS FOR DEVELOPING YOUR OWN BUSINESS

Business Planning Terminology & Basic Concepts:

SECTION THREE...

BUSINESS PLAN WORKBOOK- EXPLORING YOUR BUSINESS IDEA

SECTION FOUR...

CONCLUDING TOPICS FOR DEVELOPING YOUR BUSINESS PLAN

SECTION FIVE...

WRITING YOUR BUSINESS PLAN

Introduction.

Business planning is a series of steps to gain more confidence about your business idea. This confidence is obtained as you are able to answer questions about your business idea.

If you only view your business as having one road to follow to success, your road may be blocked before you get up to speed in the marketplace.

As a result, don't think of one way to make your business a success. Conversely, don't answer questions about your business as rehearsed flash cards.

You are the owner, director, organizer, and spirited leader of this business idea and you must act like one.

Explore all avenues that might lead your business to success. Know all there is to know about your business so that you can answer any and all questions about your business. Feel proud and confident that you can recognize the question and have the ability to know the answer.

The importance of knowing is critical to your success. Business plans are like open book quizzes. The questions often lead to similar answers. Your job is to pass the test. When you can do this, then and only then, are you ready to talk to bankers, investors, employees, friends, and business associates about your business idea.

The ideal business plan is just an extension about your business knowledge. The business planning process takes this knowledge and puts in into a format in an organized manner.

Use This Business Planning Manual Wisely.

As you read through this business-planning manual, think about the information you write down and make sure you explore all possible avenues that can be usable information to your business success. A well thought out plan has value and can best be done before the business becomes erratic and confusing. Make that path to success one that can be reached. A well thought out and comprehensive idea can gain momentum and become more of a business than you ever imaged. And if used, it can easily lead to business success for you and everyone involved in your business idea!

BEST OF LUCK!

1 The Preplan. Part One-TESTING MY BUSINESS IDEA.

The purpose of the preplan is to clearly think through your business idea. That is, have you fully thought out why it is that you want to go into business...

- **~Is your product or service unique and has a potential for success that can be planned for?**
- **~Is your product going to compete against some established companies that have already built a customer base?**
- **~Or, are you buying into a franchise venture where a marketing program is already established and name recognition is going to be an immediate asset to the business (like Subway or State Farm Insurance)?**
- **~Are you experienced in this type of business and can you immediately convert this experience into successfully owning and operating your own business?**
- **~Do you have the support you need to put forth the amount of time and energy necessary to build a new business?**

~Take A Closer Look~

New businesses not only has the overwhelming task of getting organized and ready to compete against established competitors, but may face an *identify crisis....* that is, if you are a single location and have never been involved in effectively marketing a business in past career work, then the ability to immediately compete for business can be a difficult venture. You might agree, without prior marketing experience and name recognition makes the initial expectations of getting customers to the business a large task. As a result, a business plan is necessary to help you develop a plan of attack for identifying this critical element of your business. By developing this in advance, you will be prepared to compete for business by creating an organized marketing that can help gain exposure for the business as soon as it begins operation.

A. What is the essence of my business idea?

The essence of your business can be best described in two distinct segments- the physical aspects, and the psychological aspects. In the <u>physical aspect</u>, we are describing the tangible things that are needed to get the business up and running (like equipment, physical plant, vehicles, etc.).In describing the <u>psychological aspects,</u> we are describing the reasons why your are in business, what you will do for the customer, and how you will be better at servicing the customer as compared to the competition.

In view of your business idea, what is the <u>physical product(s)</u> your company offers? For example, an auto mechanic has an auto garage, tools, diagnostics equipment, computer, cash register, etc. as physical items needed to run his business Now, what is the <u>psychological essence</u> of my business, that is, what am I trying to do for the customer. What problems am I solving? Problem solving and benefit selling are the main thrusts of how I can help my customers. And, if I do this better than the competition, my opportunity to develop a strong customer bases becomes possible.

~MY BUSINESS: DESCOVERING THE PHYSICAL ATTRIBUTES~

Describe your business in terms of the physical structure you will set up to service the customer....

WHAT I WILL NEED?- (list set-up in general terms)

~example~... I will need a building, located in a neighborhood with high traffic, a sign with good visibility, an office for five employees, a manufacturing building for equipment and 12 employees, a parking lot for employees and customers that will be well lit, computers, telephones, office supplies, employee uniforms, a waiting room for customers, decorations, etc.

Make your list here--

EQUIPMENT/TOOLS: (Manufacturing)______________________________

____

(Office)______________________________

____

(Other)______________________________

____

____

BUILDING/OFFICE: (size/sq.ft. and specific layout)______________________________

____

(where located)____

____

SIGNAGE: (exterior, illuminated/non-illuminated)________________________________
(other building signs, both interior and exterior)___________________________________

EMPLOYEES: (how many)____
(General Breakdown).production____________**.office**____________**.marketing/sales**______

VEHICLES: (how many)________________**(buy/lease)**_______________________________

LOCATION: (single location)_________________**(multi-locations)**_________________________

OTHER: (other details about the set-up needs)______________________________________

____

____

____

GENERAL BUSINESS SET-UP:____

____

(how soon)____

____

(what equipment, etc. do you already have that can be used / purchased by the business) ?_______

____

____

____

____

"MY BUSINESS: PSYCHOLOGICAL ATTRIBUTES"

1. **1. Describe your business in terms of the psychological aspects as it relates to what you will do for the customer...**

PSYCHOLOGICAL ATTRIBUTES- (Describe how you will service the customer including any advantages you might have regarding the competition)...

"example"...I will be available to my customer for mechanic services, 24 hour basis, creating a personal relationship and concern for their safety and good working condition of all their vehicles, including secondary vehicles like riding lawn mowers, tractors, etc. where I can create a sense of loyalty for the customer regarding all their transportation needs and realizing the competition can not equally compete with my full service approach. Regarding secondary vehicles, while I may not be able to handle all these items, I will subcontract them out so that I continue to offer full service to the customer and thus create a bond that can fully develop over time.

Describe your psychological attributes here-

My product and service *<u>are important to the customer</u>* because (what problems am I solving for them):

What value am I creating by the product and services I am offering?

Can anyone offer the same products and services, or am I creating a perceived value that the customer is willing to come to me for these products and services and willing to pay for them accordingly? If not, why?

Finally, what are the benefits that the customer will receive for the products and services that I offer? (good advice, a sense of buying the best products and services possible, makes me look better, feel better, etc).

B. Analyze The Potential.

At this point, you probably have a pretty good idea of your business idea. That is, the industry you will compete in and how your goods and services will be of value to your customer. However, have you analyzed the POTENTIAL of your business considering the potential sales you might generate in regards to business related averages, the local economy, the competition, and any research that you might do to find out the demand for your product and service.

When considering industry averages for example, a young lady in one of my classes wanted to open a bed and breakfast. After our discussion about industry averages, this student did some research about the bed and breakfast businesses and found that the occupancy rate, when looking at this industry as a whole, averaged to be at 35%. When she knew this information, she was not interested in putting all her efforts into this business idea if the average occupancy rate was so low. To her, all the effort and struggles to make her business work was not worth it because of the reality of what she found about generating business in the industry she would compete in. While this occupancy rate of 35% could be greatly increased, the reality of a start-up business and the newness to the market would mean the lower occupancy would be more realistic to what might happen in her own business.

The other factors also discussed, the local economy and existing competition, are also things to consider when investigating the potential success you might plan for. If the local economy is very dependent upon servicing certain industries, then you ability to generate sales and find employees could be a challenge if what you do is not related to the main industry of that area. A good example of this is the automobile industry that dominates the Detroit, Michigan area. For many years during the dominance of this industry in this area, many small business had difficulty prospering because of the better wages that the auto companies paid. As a result, the small business owners in other industries had problems finding employees because the pay scale & benefits they were competing against were much higher than they could offer.

As stated, the local competition will be a big factor to your potential success. If very little competition exists for your industry, then the potential sales you might generate will be possible for you to reach. However, if there is great competition for the product and service you offer, then your ability to generate sales has to come from being a better provider than the competition, and as a result, your ability to steal market share from the competition. Being a better provider than the competition might occur by many factors such as being better located to the customer, offering better prices, better customer service, more hours that your business is open, being more knowledgeable than the competition, or having a better store/business (i.e. presentation) than the competition.

In all instances, analyzing the potential is your ability to look at your business idea and estimate what the potential sales and expenses will look like so that an evaluation about the potential profit picture can be considered. Simply, what will sales and expenses look like in year 1, year 2, year 3. What will profits or losses be during this period. If the losses are potentially too great, then a decision about starting this business must be made. Conversely, what is your expectations and tolerance of how long the business can operate without making profits? What is your personal financial situation and how long are you willing to work the business before it becomes the kind of business that can sustain itself and make profits? These are all the same questions new business owners are faced with, and have to be realistic about, when considering their business idea.

Another consideration that might help make the decision to go into business would be through the process of conducting market research. Market Research can help you find out what the response might be about the product and service you might offer in the market. This can be done by a market research company where all the information is gathered by the researchers to help achieve the results you are seeking. However, you can do the research yourself but should be cautious because of the lack of knowledge you might have in this area. The next section will cover market research in more detail.

C4 Do The Math.

If you started you business tomorrow, could you say with any confidence that you would make a profit over the next twelve months. HAVE YOU DONE YOUR MATH **from the standpoint of knowing weather your business would be profitable.** *Doing the math* **simply says you have looked at your business idea and evaluated both the income potential and the expenses associated with running this type of business.** *Doing the math* **can be valuable in making you evaluate your business idea before you invest your time and money into an idea that has not been evaluated in terms of making a profit. This** *doing the math* **is your first attempt to getting organized and allowing this business idea to be evaluated. And, based on this evaluation, you determine if this business idea is one that you are willing to invest your time and resources in, i.e., one that can convince yourself, and others, that this idea is worth pursuing.**

DOING THE MATH

~profit/loss projections of the business~

SALES

Less: COST OF GOODS SOLD

= GROSS PROFIT

Finding the profit or loss projection of your business is determined first by building the formula by which the company operates from- The Operating Statement. This statement is the business in action, it begins with sales generation...deducts the cost of goods sold allowing you to view the first profit picture- gross profit. This first equation allows you to review how well you did with the operation. That is, how well did you do generating sales, and how well did you do with the costs of putting your product into a finished item that then could be distributed to the customer for sale. This process is also called the cost of goods sold. It relies on our ability to buy our resources for the products we sell (i.e., our inventory, which are costs typically from vendors that supply us the raw resources we need), in which we assemble our products with our own labor, package it, and resell it for a profit.

GROSS PROFIT
LESS: OPERATING EXPENSES
OTHER EXPENSES
= NET INCOME BEFORE TAXES

As we continue our equation, the gross profit (as shown), is a reflection of sales less the costs of making the product/services offered to the customer. Following this, we now factor into the equation the expenses to operate the company. While each industry/companies have similar operational expenses, there will be some differences as well. However, as look at our example, the most common operating expenses are as follows:

~Rent.........wherever your business locates, what is the cost for rent.
~Utilities......trash, phone, heat/air cond., water, any other related expenses.
~Officers Salaries...salary expense for the management or ownership to operate the business.
~Wages...all employee expenses no matter what their function.
~Acounting & Administrative...any expenses for bookkeeping and office clerical functions.
~Maintenance & Repair...general repairs including any contractor expenses for lawn, snow plowing, etc.
~Operating Supplies...general expenses for the operation, particularly office equipment & supplies.
~Insurance...the expense for the property, building, employee insurance, auto uses, etc.
~Advertising...any expenses to advertise the business.
~Depreciation... the reduction of value of any equipment of the business, shown monthly.
~Vehicle Expense...repairs, gas expense, licenses plates, any expenses related to vehicles.
~Taxes (property &payroll)...property taxes (annual) and payroll taxes, paid quarterly.
~Licenses & Permits...any particular licenses or permits as relates to your business.

Other Expenses:

~Interest (Mortage)
~Interest (Term Loan)
~Interest (Line of credit)

The ability to prepare the anticipated expenses for the business can be done by modeling a similar company if you are not sure what might apply to you start-up business. To find this information, you might contact a similar business that is operating in another market where sharing this information would not be harmful to their operation. Or, if this can not occur because of the type of business we are forming is so new to the market, then going to the library might be the place to get the information you need. By searching for the type of company first, the next step is to find the annual report of the business (all publicly held companies must make this available, private held companies may not provide such information) where all the financial statements of the company are shown in full detail. Simply find the operating statement and all the above information will be shown for this business for each year end that the business has been in operation. Remember that this will be shown for a business in operation, not a start-up company as will be the case in your example.

~Take A Closer Look~

The ability to forecast sales and expenses for a start-up business is AN IMPORTANT EVALUATION to the potential of the business and the decision you might make regarding your own willingness to invest both your time and money in the business. Furthermore, if your business idea will need financing from a bank, or, if you are looking for investors of the business, this information is also one of the most studied documents regarding your business idea. If you can not put this information together, then writing writing a business plan is the next step communicating your business idea to others. If you can not do this, find an accountant, who can help with the financial numbers portion of the plan. If you can not write and organize your business idea; find a business plan consultant who can handle this function for you. Professional assistance is out there should you need help in putting your thoughts into an organized, business plan format.

WHAT DOES YOUR BUSINESS LOOK LIKE ACCORDING TO THE MATH?

The most important exercise for the owner of a start-up business is to estimate what the first year will look for the business This is accomplished by showing income and expenses for the first twelve to eighteen months of the operation. Upon doing and learning from this exercise, 2 and 3 year projections, as will be required by a financial institution or lender, will be possible to predict as well.
Based on the above description of operating statement, show the first year of the business operating statement, which will reveal the profit-loss projections for the business.

bpform-IE

Income and expense schedule for ______________________
(list your business name here)

Gross Sales													
Month	# 1	2	3	4	5	6	7	8	9	10	11	12	Total
LESS:													
Cost Of Goods Sold													
(Inventory) Month #	1	2	3	4	5	6	7	8	9	10	11	12	Total
Gross Profit													
Month #	1	2	3	4	5	6	7	8	9	10	11	12	Total
Operating Expenses:													
Month #	1	2	3	4	5	6	7	8	9	10	11	12	Total
Rent:													
Utilities:													
Officer's Salaries:													
Wages:													
Accounting/Admin:													
Maint. & Repair:													
Operating supplies:													
Insurance:													
Advertising:													
Depreciation:													
Vehicle Expense:													
Taxes/Payroll:													
Taxes/Property:													
Licenses/Permits:													
Total Operating Exp:													
Other Expenses:													
Interest/Mortgage:													
Interest/Loan:													
Total Operating & Other Expenses:													
Net Profit/Loss: (before Taxes)													

D. Looking At The Numbers Via A Sample Business Plan... The Best Little Restaurant In Missouri

To further explain the discussed concepts, Sales Forecasting and Operating Statements, the following sample will show these two concepts in application. The sample is taken from a restaurant in a start-up format. The income and expenses are show along with start-up costs for equipment, licenses, etc. From the projections, it is shown that the restaurant, according to the sales formula, might generate $600,000 in sales.

The management of the company is experienced at owning and managing restaurants. Sales are to be strong for the first three months as people try out the new restaurant. Sales calculations are based on seating capacity, number of meals, and how often tables might be turned over at each meal.

SALES FORECAST.
THE BEST LITTLE RESTAURANT IN MISSOURI.

Meal	# of seats	average turn/seat	occupancy factor	patronage	average check	table sales/meal	days per week	weekly sales	weeks per year	yearly sales
lunch M-F	100	3	½	150	$4	$600	5	$3000	50	$150,000
Dinner M-F	100	2	½	100	$10	$1000	5	$5000	50	$250,000
Dinner	100	3	2/3	200	$10	$2000	2	$4000	50	$200,000
						Total Sales		$12000		$600,000

PROJECTED OPERATING STATEMENT: FROM: January 1, 1998 To December 31, 1998
NAME: Mom & Pop Enterprise DBA: The Best Little Restaurant In Missouri

	month # 1	month # 2	month # 3	month # 4	month # 5	month # 6	month # 7	month # 8	month # 9	month # 10	month # 11	month # 12	Year Total
es- Food	40,000	50,000	55,000	45,000	45,000	45,000	50,000	55,000	55,000	50,000	50,000	60,000	600,000
ST OF ODS SOLD	16,300	20,375	22,410	17,440	17,440	17,440	18,375	20,210	20,210	17,875	17,875	21,450	227,400
OSS PROFIT	23,700	29,625	32,590	27,560	27,560	27,560	31,625	34,790	34,790	32,125	31,125	38,550	372,600
ERATING PENSES													
aries	16,000	16,000	16,000	14,800	14,800	14,800	15,500	15,500	15,500	15,500	15,500	16,500	186,400
cupancy Cost	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700	68,400
pply Costs	4,500	2,205	2,205	2,205	2,205	2,205	2,205	2,205	2,205	2,205	2,205	2,205	26,775
intenance st	0	650	650	650	650	650	650	650	650	650	650	650	7,150
scellaneous st	5,350	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	24,600
erest	1,060	1,060	1,060	1,060	1,060	1,060	1,060	1,060	1,060	1,060	1,060	1,060	12,720
preciation	265	265	265	265	265	265	265	265	265	265	265	265	3,180
TAL EXPENSES	32,875	27,450	27,450	26,250	26,250	26,250	26,950	26,950	26,950	26,950	26,950	27,950	329,225
T INCOME	(9,175)	2,175	5,140	1,310	1,310	1,310	4,675	7,840	7,840	5,175	5,175	10,600	43,375

Comments About the Operating Expenses:

Salaries.
Projected to start at $16,000 during the first three months of operation. There will be extra Personnel during the first months to insure good service during the start-up period, and to offset the inefficiencies of new employees. In the fourth month, personnel will be reduced slightly as efficiency improves and the optimal personnel level is worked out. Throughout the remainder of the year, part-time personnel levels will vary with seasonal changes in patronage.

Projected salaries include approximately an eighteen- percent allowance for payroll taxes and fringe benefits.
All is based on a typical work schedule that is summarized as follows:

Position	Wage/Hour	Hours/Month	Wages/Month
Chef	$12.00	175	$2,100
Cooks	4.50	470	2,115
Host	3.75	255	956
Bartenders	5.00	350	1,750
Waitresses	3.20	1,030	3,296
Dishwashers & Busboys	3.50	850	2,975
		Total	$13,192

$13,192 x 18% for taxes and fringes = $15,567

Occupancy Costs.
Projected at $68,400 for the first year of operation: averaging $5,700 per month. Includes The following projected expenses:

Rent (according to tentative lease agreement)	$3,500/mo.
Electric	900/mo.
Water	100/mo.
Trash Service	150/mo.
Telephone	200/mo.
Insurance	400/mo.
Sign Lease	150/mo.
Property Taxes	300/mo.
Total	$5,700/mo.

Supply Costs.
Projected at $26,775 for the first year of operation: averaging $2,025 per month. Includes the following projected expenses:

China and Kitchen Replacement	$200/mo.
Menus and Guests Checks	300/mo.
Dishwasher Supplies	250/mo.
Uniforms	125/mo.
Laundry	1,000/mo.
Office Supplies	150/mo.

Supply costs for the first month of operation are projected as follows:

Menu and Guests Checks		**$2,000**
Uniform		**$2,000**
Office Supplies		**500**
	Total	**$4,500**

Maintenance Costs.
Projected at $7,150 for the first year of operation: averaging $650 per month. Includes The following projected expenses:

Pest Control, Carpet, Windows and Landscaping		**$300/mo.**
Exhaust Cleaning		**100/mo.**
General Maint. and Air Conditioning		**250/mo.**
	Total	**$650/mo.**

Miscellaneous Costs.
Projected at $24,600 for the first year of operation: averaging $1,750/month. Includes the following typical expenses:

Advertising		**$750/Mo.**
Music and Entertainment		**600/mo.**
Legal and Accounting		**150/mo.**
Bank Charges- Credit Cards		**250/mo.**
	Total	**$1,750/mo.**

Miscellaneous costs for the first month of operation are as follows:

Advertising		**$1,500**
Legal and Accounting		**2,000**
License and Fees		**1,000**
Music and Entertainment		**600**
Bank Charges- Credit Cards		**250**
	Total	**$5,350**

Interest Expense.
Based on a $111,000 loan at 12% for 7 years.
Total interest for the 1st year equals approximately $12,720.
Average monthly interest for the first year is $1,060.
Total monthly principal on the loan is $10,800.
Average monthly principal payment for the first year is $900.

Depreciation.

Based on $26,800 in depreciable fixed assets:

Equipment = $4,800 /10 yrs. Straight Line = $480/yr.
Furniture = $2,000 /10 yrs. Straight Line = $200/yr.
Kitchenware = $20,000 /10 yrs. Straight Line = $2,500/
Total = $26,800 $3,180/yr.

Cash Flow Projection: From January 1, 1998 To: December 31, 1998
Name: Mom & Pop Enterprise DBA: The Best Little Restaurant In Missouri

Sources	At Time Of Loan	1st Month	2nd Month	3rd Month	4th Month	5th Month	6th Month	7th Month	8th Month	9th Month	10th Month	11th Month	12th Month
Cash Sales		40,000	50,000	55,000	45,000	45,000	45,000	50,000	55,000	55,000	50,000	50,000	60,000
Accounts Receivables													
Bank/SBA Loan	111,000												
Capital Injection	37,000												
Total Income	148,000	40,000	50,000	55,000	45,000	45,000	45,000	50,000	55,000	55,000	50,000	50,000	60,000
USES													
Owner's Draw		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Loan Pay-Principal		900	900	900	900	900	900	900	900	900	900	900	900
Cost of Sales Plus Change in Inventory	20,000	16,300	20,375	22,410	17,440	17,440	17,440	18,375	20,210	20,210	17,875	17,875	1,450
Total expense Less Depreciation		32,610	27,185	27,185	25,985	25,985	25,985	26,685	26,685	26,685	26,685	26,685	27,685
Capital Expenditures	94,800												
Reserve For Taxes							505			4,980			5,560
Deposits													
Total Disburse-ments	12,400	51,810	50,460	52,495	46,325	46,325	46,830	47,960	49,795	54,775	47,460	47,460	57,595
Cash Flow Monthly		(11,810)	(460)	2,505	(1,325)	(1,325)	(1,830)	2,040	5,205	225	2,540	2,540	2,405
Cash Flow Cumulative	24,000	12,190	11,730	14,325	12,910	11,585	9,795	11,795	17,000	17,225	19,755	22,305	24,710

Notes On The Cash Flow Projection.

The following notes are brief explanations about the Cash Flow Table as previously shown.

Capital Injection.
$37,000 from the following sources:

Equity loan on home & personal savings.
(see personal financial statement, supporting document section of the business plan).

Owner's Draw.
Projected at $2,000 per month for owner's personal family needs including payments on proposed new mortgage. Owner plans to incorporate during the first year of operation and take a salary ofapproximately equal to projected draw.

Loan Payments- Principal.
Projected at a monthly average and rounded to $900 per month or $10,800 for the first year. Based on proposed loan of $111,000 @ 12% for 7 years.

Capital Expenditures.
Projected as $94,800 at the time of the loan:

Equipment	$4,800
Office Furniture	2,000
China & Kitchenware	20,000
Liquor License	68,000
Total	$94,800

Reserve For Taxes.
Projected as being paid quarterly based on year-to-date net income. Computed as 9% of new income for State Income Tax ($3,900 for the year), and according to the Corporate Tax Rate for Federal Income Tax ($7,145 for the year). Owner plans to incorporate during the first year of operation.

Break-Even Analysis:

A break-even analysis provides a sales objective expressed in number of dollars where it is neither making a profit nor losing money. The purpose of the break-even is for a quick review of what the minimum level of sales are required for the business to meet expenses. For a start-up, this will give you a gage of where sales need to be to support your business idea.

The basic break-even formula is:

S = FC + VC **Where:** **S = Break-even level of sales in dollars**
FC = Fixed costs in dollars
VC = Variable costs in dollars

Fixed Costs are those costs which remain constant no matter what your sales volume may be, those costs that must be met even if you make no sales at all. These include overhead (rent, office and administrative cost, salaries, etc.) and hidden costs such as depreciation and interest. Variable Costs are those costs associated with sales including cost of goods sold, variable labor costs and sales commissions.

This follows that if you want to calculate a projected break-even and do not know what your total VC will be, it is necessary to use a variation of the S = FC + VC formula. If you know what Gross Margin (profit on sales) you expect as a percent of sales, the following formula can be used :

S = FC/GM
Where GM = Gross Margin as a % of Sales Manager

Break-even Analysis:

Fixed Costs = $14,700 (annually)
Variable Costs = 79.3%
Gross Margin = 20.7%

Thus, BE = FC/GM
BE = $14,700/.207
BE = $71,014.50 annual
= $5,917.87 month

This formula is now applied to Missouri's Best Little Restaurant sample from above.

Total Expenses	**$329,225/yr**
Less Depreciation	**(3,180/yr)**
Plus Principal Payments on Loan	**10,800yr**

Plus Owner's Draw	**24,000/yr**
Total	**$360,845/yr**

Variable Costs	**37.9% of Sales**	
Sales at Breakeven	**360,845/.621 =**	**$581,070**
Projected Sales		**$600,000**

Final Review of Variable & Fixed Expenses.

Fixed Expenses	Variable Expenses
.Rent	Overtime/part-time labor
.Depreciation	Short term debt
.Owner's Salary	Cost of Goods Sold
.Property Taxes	Advertising
.Interest on long term debt	Sales/Office Salaries
.Labor cost	
.Promotional expense	

SOURCES AND USES OF FUNDS

Name: Mom & Pop Enterprise **DBA: The Best Little Restaurant In Missouri**

	Sources Of Funds		
Uses of Funds	**Loan**	**Equity**	**Total**
Equipment			
Safe	**$3,000**		**$ 3,000**
Cash Registers (2)	**1,800**		**1,800**
Office Furniture	**2,000**		**2,000**
China & Kitchenware	**20,000**		**20,000**
Liquor License	**68,000**		**68,000**
***Working Capital**	**16,200**	**$37,000**	**16,200**
Total	**$111,000**	**$37,000**	**$148,000**

***Working Capital needs are itemized as follows:**

Inventory		
Food	**$10,000**	
Liquor	**8,000**	
Misc. Supplies	**2,000**	
		$20,000
Deposits		
Payroll	**$3,000**	
Telephone	**200**	
Rent	**4,000**	
Electric (PG & E)	**2,000**	
		9,200
Miscellaneous		
Menus & Guest Checks	**$2,000**	
Uniforms	**2,000**	
License & Fees	**1,000**	
Legal & Accounting	**2,000**	
Advertising- 1st Month	**1,500**	
Office Supplies	**500**	
Rent- 1st Month	**3,500**	
Operating Expenses	**11,500**	
		24,000
Total Working Capital		**$53,200**

Sources of Equity: Refer to Personal Financial Statement.
$4,000 from cash savings
$33,000 from new 2nd mortgage on home.

"Take A Closer Look"

The sequence of information you have just reviewed is the financial plan for a start-up business. The sales plan is shown and explained- this is the way the company is going to make money. The ability to show and explain this is important. The sales projections set the basis of what level of sales you would like the business to achieve, and creates a formula that you have worked out to obtain sales that will also support anticipated expenses.

With sales determined, the expenses of the company follow. Cost of Goods Sold (COGS), the First expense to follow sales on the operating statement, is a direct reflection of the business you have chosen and the products and services you will provide. COGS in essence is your working inventory, anything you have purchased to build/create your products and the direct labor spent to make the finished products.

Moving down the operating statement are all the cots of running the business. In the example you just viewed, not only are numbers provided on a operating statement, but explanations are given to support the numbers, MUCH LIKE YOU WILL BE ASKED TO DO WHEN PRESENTING YOUR OWN BUSINESS PLAN.

Finally, with a start-up business, a Sources and Uses of Funds Statement is used to summarize the total amount of the loan. This amount reflects what you will personally inject into the business, and creates a list of how this money will be spent such as for capital equipment, working capital, and in some other instances, initial expenses of the business (rent, advertising, etc.). Your ability to put this information in a business plan and explain how you obtained the results is a process that you must be able to understand yourself and explain to others. Once you have some success at doing this, you are on your way to truly understanding of how the business obtains sales, will incur expenses, and must maximize both sides of the equation to have the opportunity to make money.

E. Market Research.

As part of the process of analyzing the potential of the business, conducting market research can move you one step closer to finding out more about how your business idea might be received by potential customers. And, if in this process of conducting research you find your business idea is well received, then you might be encouraged to move forward on your business idea, either by continuing the idea you had already planned for and validated through your research as worthwhile, or by making the changes that you might deem necessary from the results of your market research.

Market research is the process of evaluating customer interest in your product/service. The information you gather can be primary research or secondary research. Primary Research is first hand information, that is, you gathered the information via a questionnaire, phone call, focus group study, etc.

Secondary Research is information gathered through publications found in the library, such as census studies, data about businesses (Moody's or Standard and Poor's Business Statistics), or any other publications or studies found via books or from internet sources.

What does this mean to a start-up business? How can I gather this information and how can it help me?

Primary Research is something you can do yourself. The information you gather will allow you the opportunity to ask the kinds of questions that can help further your business idea. For example, you might want to know:

- **What the customer might be willing to pay for your product or service.**
- **What your potential customer might think of the competition (such as pricing, service, location, etc.).**
- **If your potential customer uses the type of product and or service you will be offering, and if so, what do they think of it.**
- **How often might your potential customer be willing to purchase your product.**
- **Does your potential customer currently use your proposed product and or service.**
- **Does the customer, according to the name of your product, understand the concept you are going to pursue in the marketplace (for example, a small business publication being named Growth Magazine).**
- **Demographics about your potential customers such as age, income, education, job title, business or home address, business annual sales, sex, favorite radio stations, magazines, etc.**

****Worth A Mention****

If you are not comfortable with doing the research as described above, it can be done for pay by contacting a market research company in your area. *Market Research* companies can be found in the phone book by looking up the topic marketing-research studies. The cost for such a study will be based on how many surveys you want completed and how much information you want explored on the survey.

~SAMPLES~ MARKET RESEARCH SURVEYS.

1. Intercept Study.

How Done:

The Survey is designed by the needs of the company owner/primary decision-maker based on the ideas to be explored prior to the business going into operation. This same person then does the intercept study or someone qualified to use the designed survey to gather the comments of potential customers.

Location of where this information is gathered should be in the general area where the business will locate.

Collection of the information should also be at different timelines; that is, some surveys should be done in the morning, afternoon, and early evening so that a good cross section of the potential customer base is included in the surveying.

The number of surveys should also be predetermined including the number of successful surveys- not everyone that is surveyed will give complete and accurate information. Also, there may be qualifiers before a person can answer, such as age range, sex, married, single, children, no children, etc.

The survey process is executed by asking people to take the survey. The person doing the survey should tell the person taking the survey the general idea of what the survey is and how long it will take to complete. Also, it is common to compensate the person taking the survey with a small cash amount, or a small gift, drink, coupon, or something to thank them for participating in the survey process.

****A Sample intercept study is shown on the following page as document bpd-1. An intercept study was done for a start-up analysis of a small business publication entitled "Growth Magazine". The magazine was to be designed for small business with articles to assist them in business plan development, management and marketing issues.**

CUSTOMER SURVEY......GROWTH MAGAZINE

Please answer the following questions regarding magazine readership for small businesses.

Name____________________ **Address**____________________ **Zip**________

Occupation____________________________ **Age**______ **Sex**________

1- **Are you the owner or one of the primary decision makers in your business?**________

2- **If so, what is your title?**______________ **If not, go to question 6.**

Names of your business____________________ **Address**____________________

Zip__________ **Number of employees (approximate)**__________

3- **Are annual sales (circle one) under \$50,000...\$50,000 - \$100,000...\$100,000 - \$250,000 \$250,000 - \$500,000...\$500,000 - \$999,000...1 mil and over**

4- **Do you subscribe to any business magazines, periodicals, etc.?** ______ **(if no, go to question 5)**
If so, what publications?______________________________________

5- **Have you ever purchased or read any of the following? (yes or no) St. Louis Small Business Monthly____ St. Louis Business Journal_____ Entrepreneur Magazine______**
If so, what was your impression of the publications? (strongly like, like, indifferent, dislike, strongly dislike)
St. Louis Small Business Monthly ____________ St. Louis Business Journal_______________
Entrepreneur Magazine_________________

6- **Would a magazine geared toward small business growth that would have easy access, frequent publications, with**
information regarding local small business assistance, small business profiles, and cover various industries be
of interest to you?________
If so, how likely would you be to purchase such a publication on a frequent basis? ________
If so, how often would you want to read such a publication geared toward small business?
monthly________ bi-monthly_______ quarterly_______

7- **At what price would you purchase such a publication? under $2____ $2-$3____ over $3_____**

8- **If you were able to suggest the types of articles or subjects to be discussed in the magazine, what would be**
your top three? 1-_______________ 2-________________ 3-______________
Also, would you be interested in the magazine featuring you in one of its monthly stories on small business
profile?_________________________________

9- **Finally, would the title Growth Magazine create a striking interest to purchase this magazine?________**
If not, what magazine title would you suggest?__________________________________
Any other comments that you would like to make regarding assistance to small business?____________
____

2. Phone Survey.

A phone survey is very similar to an intercept study in the format used. The structure is slightly altered to allow for the dialogue with the person being interviewed to be set up differently because of the barriers of talking by phone rather than in person. Therefore, the interview process has to be handled as smooth as possible. That means, knowing the script you are using so that you come off as professional as possible. Also, when calling people by phone, there will be a tendency for the person to say no to the interview. To help eliminate these potential problems, here are some helpful hints:

- **be very up front with the person in regards to what you are doing.**
- **be up front with the person as to what the purpose of the survey is.**
- **explain what the results of the survey will accomplish.**
- **politely tell the person how long the survey will take.**
- **ask them if they would like a copy of the summary of the results as a. way to validate their participation and the legitimacy of the survey.**

Note...the format and list of questions for a phone survey is the same as the intercept study. The challenge is reaching the decision maker. And, one way to salvage a phone survey if the decision maker can not take time out for the survey is to ask if you can mail a copy of the survey and have them fill it out and return it to you when finished.

Focus Group Study.

A focus group study is the next step in market research after you have spent time doing intercept and /or phone surveys. A focus group study allows the person gathering information the opportunity to ask more in depth questions to a group of individuals that are pre-qualified and are the typical type of customer the business is looking for. Typically, a moderator is used to ask questions to the group, which are given to them prior to the study. However, the moderator is also connected to the person(s) having the study conducted via a hidden ear piece. As a result, the moderator can be asked to fully explore a discussion at any time, or, ask the moderator to move on to another question. A focus group study can also help a company already in business make decisions about the products and services they currently offer, or explore the possibilities of a new product and/or service they would like to consider offering in the future.

Guidelines for a focus group study:

- Determine what the parameters of the study, that is, what is it you want to explore in the focus group study.
- Determine the type of persons you want to attend the focus group study, that is, age parameters, income range, education, user of your product, occupation, etc.
- Meet with the market research company and discuss your goals and objectives to be accomplished from the study.
- Review all objectives of the study with the moderator and make sure you are able to accurately communicate during the focus group study.
- if possible, tape the focus group study so that you can go back and review all the information gathered
- If you are exploring a design, product name, marketing slogan, or any other idea, it would be worth the expense to ask the opinion of the customer before you invest additional time and money in an idea that might not work.

Secondary Research.

Secondary research, as already mentioned, can be found in libraries, chamber of commerce's, the RCGA, and other places where statistics are kept or recorded. Typical types of information that are of the secondary research nature include: Census Information, Survey of Buying Power, Standard and Poor's Register of Corporations, Ward's Business Directory, Thomas Register of American Manufacturers, U.S. Industrial Outlook, and F & S Index of Corporations and Industries.

2. The Preplan. Part Two- GETTING ORGANIZED.

A. Am I Ready?

So far, we have just begun the travel you must take to find out if you have a sound business idea. The next step is to evaluate your current situation to find out if you are truly ready to go into business.

"Take A Closer Look"

Will you be leaving a full time job to begin starting your own business that will require a tremendous effort and long hours to ensure everything is getting done according to plan? Are you financially stable where starting your own business won't disrupt you ability to keep you finances in order? Is your spouse comfortable with the business idea and the amount of effort it will take to correctly get it up and running? Are your children at an age where less home time will not affect their development?

Some questions you might want to consider regarding this decision:

- **Is there evidence that your business idea can lead to business success?**
- **Can you handle all aspects of the business...management, marketing, selling, accounting, customer service, etc.**
- **How much experience do you have at running this type of business?**
- **Is you spouse and or family members ready for this new venture in terms of the time and commitment it will take for you to be successful at running your own business?**
- **Do you have a solid financial backing to go into business considering your current financial commitments as well as the new commitments that will be necessary running your own business?**
- **Do you really Believe in this business idea...or are you just picking anything that sounds good so that you can be your own boss?**
- **Will the financial hardships that might be necessary to get your business up and running be acceptable to your current lifestyle?**

B. Is The Business Ready?

Considering the sound idea that is necessary to turn a business idea into a business success, is your idea ready to go from a business idea into a business that will compete in the marketplace with similar businesses that are already doing business and satisfying customer needs?
Have you clearly thought out your idea so that you can attract customers in a timely manner?

"Take A Closer Look"

Getting customers initially can be difficult. However, you may have advantages and good reason why the customers should consider your product or service. Some initial thoughts about this subject and how you can get started successfully have to be fully investigated.

Some possible ways to get your business of to a good start:
"If you are leaving a job where you have developed a solid customer base, you might ask your favorite customers if they would do business with you if you were to start your own business. Get this in writing... it will be helpful to you later when you discuss your business idea with a financial institution
"Have you watched closely as to what your competitors are doing...more importantly, what are your competitors doing incorrectly. If the competition is leaving unfulfilled needs that the customer wants met, this is a best opportunity for you to get customers, and if done correctly, fill a void that is not being met in the marketplace.
"Are you an innovator? That is, can you met the customer needs by providing a new way that your competition is not willing to provide based on additional costs, lack of knowledge or innovation, or just laziness?
"What will it take to get fully prepared to compete? Do you possess some of the items necessary to get started? Such items like office equipment, machinery, vehicles, etc., or do you need to put the entire company together from scratch?
"Are you already in business part time? Have you already begun the process by starting part time as a means of testing your idea and the market in terms of meeting their needs? This can be a good approach for many reasons...reducing initial costs, risks, and the ability to work on your business to a level where doing it full time is possible based on the customers demand for your product and service

C. How Soon To Begin?

One quick was to measure this question is to evaluate the last two questions regarding ...am I ready? and... is the business ready?

If both these questions can be answered with high certainty, chances are you can move forward towards getting your business started.

However, if there were some doubts about you or your business idea not being ready, then it would be wiser to find out what is lacking before you proceed with your business idea. It would, in most instances, be beneficial to be prepared as possible before starting your business for the following reasons:

- it is costly to start up and successfully run your own business, and, with limited resources, the consequences could be rather great if you quickly went under
- once in business, you can't go back and figure out what needs more attention or fixing. Shutting down your business for any length of time and then coming back to the marketplace would be costly and confusing to the customer
- the margin of error for success for any small business is so minute. As a result, your chance for success it greatly reflected on your ability to be prepared from the very beginning.

D. The Benefits Of A Business Plan.

A business plan has tremendous value in the pre-planning process. If done, it can help a person evaluate all the areas of importance to running the business as best as can be done before the business is in operation. In this process, a business plan creates value to the owner/operator by starting the decision making process where adequate time can be spent in areas that are potential weaknesses for the business. Consequently, if the business plan is accurately written, the idea can gain momentum and become the successful business you would like it to be. How? By being realistic about how the company makes money, how many and the type of employees that will be needed, what marketing efforts can be planned for building the business, etc.

In summary, building a company business plan has the following advantages:

- Think out what it is your company does. You opportunity to plan is best done before the business begins.
- Build historical value to the business planning process. You now have a starting point to measure the future efforts of your business.
- Set goals and objectives. Goals and objectives force you to achieve desired results.
- Measure planned against actual. Plans are not always met. Look at why you did not make your plan.
- Demand short and long term planning. To be truly effective, short and long term planning is necessary.
- Formulate your style of doing business. The business plan has your personality and style, good or bad!

In addition to writing the plan, it needs to:

~Be used. Even the best-written plan unused is not much better than operating without a plan.
~Be flexible. Make changes if your idea needs to be changed.
~Be a communication tool. A plan for one can not be executed. Get everyone involved.
~Have substance. If you do not develop the idea and plan, than your chances for success diminish.
~Be an ongoing process. Don't stop at the first plan. Continue the idea of planning- it will make you better.

3. The Preplan. Part Three- GETTING HELP.

A. Calling On Financial Institutions.

One key to successfully starting your business is having the amount of capital to begin and sustain the first few years of business. Since there is a tremendous learning curve, having adequate financing is a key component to reaching business success, especially since there is a certain timetable for developing a customer base for the business.

As a result, it is vitally important to have a banking institution that you have previously worked with. The importance of this is to take the pressure off developing this relationship during the time you are trying to get your business up and running. This relationship can make talking to the banker much easier.

If this has not yet occurred, than it would also be suggested to begin looking at what banking institutions you might be interested in, and, who the person(s) are that handle the lending for that bank. At some point your business will need an infusion of funds, and, if you have established your relationships with banking institutions in advance, it will take some undue pressure off you when it comes time for borrowing funds for your business.

B. Accounting Assistance

Because of the complexity of organizing the business plan, especially the financial statements, it is highly recommended that a relationship also be established with a financial advisor. This assistance can be used to help organize your financial information when developing your business plan as well handling the accounting duties when your business is up and running.

As more people have become small business owners, accounting services have become more geared for small business owners looking for assistance, such as:

~helping set up accounting systems for invoicing customers and bill paying.
~handling quarterly tax payments for employee federal, state, and disability contributions.
~handling year end tax payments.
~making decisions regarding buying/renting equipment.
~following the laws regarding tax issues for small business.

"Take A Closer Look"

The benefits for finding an accountant to assist you are many. The decisions you make regarding accounting issues occur on a frequent basis AND finding a good accountant can help you set the strategies that best suit YOU and the goals you are trying to reach as a small business owner.

C. Legal Aspects.

In addition to accounting issues, there will also be a variety of legal issues you will have to make good sound decisions about. If you are not experienced in these type of issues, such as signing a lease for a building or registration for a trademark, then a lawyer made need to be consulted. Finding a lawyer might be a bit more difficult than an accountant, but not extremely difficult if you consult your friends or other business associates about someone they have worked with.

4. The PrePlan. Part Four- IDEAS INTO ACTION WORKSHEET.

For more practice business planning, the following worksheet can be an extremely helpful exercise in testing your business idea as you think about how you might get started in the marketplace.

A. Explain why your product/service will be better than the competition:____________________

____

____

____

____

____

____

____

B. What companies would this be similar to (list by name) and what would you take from these companies that would help you be successful?

Company	Idea Usage From Company
1.	
2.	
3.	
4.	
5.	

C. Describe your experience in owning/operating this type of business:____________

____

____

____

D. List five things that you would do differently/better than the current competition (product design change, superior service, better pricing, better location, etc.):

1.

2.

3.

4.

5.

E. List any/all obstacles that exist to prevent you from developing, financing, owning, operating your own business:

1.

2.

3.

4.

5.

6.

7.

F. Please list any financial experience you have regarding bookkeeping, bill paying, preparing financial statements, etc.:

____
____
____
____

G. List the banking entity you are currently using or any banking contacts that might help secure funds for your business idea:

____
____
____
____

H. Describe any investments you have made into your business to date (equipment, dollars spent) by total dollars (approximately):

____
____
____

I. What amount of funds will you need to get your business idea started______________

____
____
____
____

j. What sources of financial aid might be available to you (2nd mortgage, savings account, family loan, subsidy program, etc.): ______________

____
____
____
____
____
____
____
____

5. The Preplan. Part Five- CURRENT EVALUATION.

A. Personal Matters In Order.

If your personal matters are in good order, that is, family situation and personal finances, than the indications are very favorable for pursuing your business idea. Developing your Business Plan becomes essential to make sure all the evaluation you have done is translated into your plan for your business. The format of building this plan follows this section.

B. Marketing Timing.

In addition to your desire to go into business for yourself, timing of your business success can also be important element considering what is occurring already in the marketplace. Such things to evaluate regarding market timing are:

- what is the current state of the economy. Are people spending money and if so, on essentials or frivolous items as well? Considering your product/service, how does this statement affect your business idea?
- what is the status of the competition. Is the market already crowded and your business will have to steal market share, or is there room for more competition.
- How unique is your business idea. Is it easily marketed to the customer, or is it fairly complex and or unique and will need a tremendous marketing push to create a market for Sales.
- How important is service to the customer. Will you go to the customer and make your business a convenience, or will the customer have to seek you out for there own benefit?

Understanding how business is done, that is, how you can best serve the customer is such an important element to success in the marketplace. As a society that has seen a majority of households with dual incomes, the marketplace has become filled with new products and services geared to a society that is willing to pay for convenience...and is willing to have basic functions such as shopping, house cleaning, car repairs such as oil changes done without leaving the house for the sake of convenience. We have learned the customer will pay for good service. And, as we often worry that pricing is the only issue, we soon learn that convenience, reliability and trust can be the components to earning business with the customer.

C. Sample Business Plan- The Best Little Restaurant In Missouri.

Along with having personal matters in order and favorable market timing, a sense that the business can be a financial success is important. To fell more confident of this, please make sure to review pages 7-11, Analyze the Potential and pages 11-20, Do the Math. The sample of The Best Little Restaurant In Missouri will help evaluate the sales potential for any business. This can be done when applying this exercise to your business idea.

UNDERSTANDING BUSINESS PLANNING BASIC CONCEPTS FOR DEVELOPING YOUR OWN BUSINESS

Business Planning
Terminology & Basic Concepts:

Breakeven Analysis
Business Cycle
Collateral
Demographics
Executive Summary
Goal Setting
Legal Business Formation
Marketing & Distribution
Mission Statement
Positioning
Pricing
Research & Development
Selling, Packaging, & Distribution
Sales Forecasting
Target Market
Trade Area

Writing the business plan is an involved process of many steps. The preplan helps you evaluate the overall picture of where you are personally, professionally, and educationally in the entire process of owning and operating your own business. Other information, such as the Terms and Basic Concepts, the Non-Business Plan Writing Activities, and the overall ability to find out as much as you can about the business you plan to own and operate, are all factored into the writing of the entire business plan. The writing of your plan allows you the opportunity to take your idea and move it to another level by clearly thinking about what it is you can do with your business idea.

Break-Even Analysis

A method used to determine the point at which the business will neither make a profit nor incur a loss. The point is expressed by the total dollars of revenue exactly offset by total expenses, fixed and variable.

The formula for break-even is:

S= FC + VC

Where S = Break-even level of sales in dollars
FC = Fixed costs in dollars
VC = Variable costs in dollars

FIXED COSTS are those costs, which remain constant no matter what your sales volume may be, and, those costs which must be met even if you make no sales at all. These include overhead expenses such as rent office, and administrative costs, salaries, etc., and hidden costs such as interest and depreciation. VARIABLE COSTS are those costs associated with sales including cost of goods sold, variable labor costs, and sales commissions.

The real value of the Break-even calculation is knowing at what minimum level of sales are needed in the business to support the expenses. As a start-up business, this is necessary information, especially if trying to get bank financing for your business. The bank will need to know what is the lest amount of sales that the business will need to support the proposed expenses.

Business Cycle

The Business Cycle has a lot of meanings within the boundaries of any given business. This cycle might refer to the accounting calendar of which the business operates. The calendar for most companies is January 1st to December 31st. However, companies in the retail sector might have other start and end dates as well as government entities that might operate on a July 1st through June 30th cycle. Or, the business cycle might refer to the timing of when bills are paid by the company The business cycle might also refer to the ebb and flow

of how the company obtains sales. That is, what are the busier months for sales and the slower months? This Business Cycle is of significance because of what it means for the ability of the business to plan and prepare for the important sales months for the business.

Once a business has a feel for the Business Cycle, many things can happen for the business to capitalize on this important period. First, the business must understand why it will be busier than at other times. This occurs most often because of the amount of exposure that transpires on a national level for most industries.
For example, if you sell swimming pools, every April, May & June there is a lot of advertising that occurs that raises the level of awareness for the industry as a whole. And, when you, as a swimming pool retail store add to the advertising messages, along with your local competitors, the customer is now the most prepared to consider this type of purchase. As a result of this peak to your Business Cycle, you are able to gain more sales then during any other selling periods.

Finally, the importance to a business of knowing about the Business Cycle occurs in the planning periods each year of running your business. One, as one year ends, you begin to plan again for the next year and pay a lot of attention to the Business Cycle (the good selling periods and the slower periods of business that occurs for your industry). Second and most important, understanding your Business Cycle requires that other business functions are implemented to take full advantage of the peak selling times. That is, 1) ordering the stock you will need prior to peak selling periods, 2) training your employees and preparing them to handle this busy selling period for the business, 3) getting the business ready internally for looking its best during this busy selling period, 4) planning your advertising and special events so they occur during your Peak Selling Period.
As a result, knowing what the Business Cycle means to your business and then reacting to it in a proactive manner can have a tremendous payoff for any business

Collateral

By definition, Collateral is something of value given or pledged that a debt or obligation will be fulfilled. The significance of Collateral is what value it can bring to a start-up business. If you are calculating the amount of money you will need for your small business loan, there are two parts to the equation.

1. How much money you are asking the bank to borrow to finance your start-up.
2. Your contribution to the business start-up which is typically 20% of the total dollars to borrow.
   FOR EXAMPLE... If you are asking the bank for $100,000, your contribution will be $20,000 or 20%, making the total amount of working funds at $120,000.

Now, the significance of Collateral is that in some situations, the bank will allow you to pledge equipment as Collateral to the 20% contribution by you to the deal. If for example you were starting a lawn care business and you already had trucks and lawn cutting equipment, the bank might allow for this Collateral to be a contribution to your 20% of the loan amount. However, the equipment value will typically not be valued at market value but at something less than this.

Demographics

The bank will determine this value and each situation with each individual banker will most often be different and always reflect the lending practices of each bank.

If you locate your business in Kalamazoo, Michigan or Gary, Indiana (any town, anywhere)...there are specific characteristics about the population you try to find that is a match to who you have identified as potential customers that are most likely to buy your products and services Understanding the profile about the community or communities that you will serve is important information for you to consider. How we price our products, package, and distribute them are all factors of knowing the characteristics of the community, or more specifically, the demographics. Obtaining the demographic information will create a profile of the market based on zip code and street locations in your market. The collection of this information can be found from
various sources, such as:

- Census information......found in your local library
- County busines patterns......contact your local chamber of commerce
- Survey of buying power.......found in your local library
- Department of Commerce and Community Affairs Community profiles.....available at your state capital

What will this information provide for the person studying demographics?
The information will give in great detail information regarding-

- age
- income
- education
- size of families
- gender

Another source where you can learn about the housing statistics, business profiles, retail Spending, construction/development, and additional information about the area profile can be found from such business organizations as the Regional Commerce Growth Association and your local chamber of commerce.

Executive Summary

The purpose of the executive is to summarize the business in a concise manner. The executive summary most often will be several pages in length. This format allows a person, such as a potential investor or lender, the ability to quickly look inside the business to gain an opinion about, and gauge their thoughts about how successful you might be at planning, organizing, and implementing your business idea. The executive summary is best written when person becomes more informed about the business planning process.

While the Executive Summary can vary in the topics it might cover, the following Executive Summary Format is one version of an Executive Summary. Read through this format and answer as many questions as you can regarding your current business idea...

A. Describe the business.
1. What industry are you in and how do you participate in this industr(For example, if you are in the oil industry, do you drill, refine, transport, wholesale, or sell retail to the customer).
2. Briefly describe the products and/or services (if your business isdrilling for oil, how many different grades do you produce and sell? And, what other services do you provide to the customer such as delivery, quantity discounts, etc.).
3. State how the customer buys the product and /or service (at the store level, from sales reps, from the telephone, from a catalog, etc.).
4. Describe how and where the customer gets the product (at a retail store, via the mail, via the internet, etc.).
5. Comment on the quality of the product and the uniqueness of the product (quality is an overused term, be honest. Uniqueness may be what your ingredients that make it more special or more identified to what your customers are looking for).

B. Describe the management.
1. What is your experience at operating this type of business (give specific examples).
2. If your experience is lacking, explain how you can effectively own/ operate this type of business.
3. Describe the help via a company support system, a franchise support plan, or another person(s) either inside the organization or through some other support system offered.
4. Explain the overall staff you will employ and the assets they bring to the organization.
5. Summarize the overall management experience and business knowledge and how this will be a winning team for your company.

C. Explain your financial resources.
1. Describe the means you will look towards for injecting funds into the business.
2. Describe any special financing programs that you might utilize for financial assistance for your startup business.
3. Describe any investors that might be involved in the business. Also, describe what financial contributions they might offer and the payback plan.
4. Describe any prior financial companies you may have worked with and how you were able to obtain financing from them.

D. What are the initial financial needs for the business. Include (1) a list initial equipment needs, (2) financial operating needs, (3) total amount to get the business up and running, and (4) show the loan amount with an initial payback schedule.

****This information is generated in the preplan- doing the math. See this section for help in generating these figures.**

"TAKE A CLOSER LOOK"

This is an important part of the business plan. It should show an understanding of how the company generates income, and spends money for the operation. Ultimately, it shows your ability to forecast the figures, showing how the business makes money, AND at what pace. If the figures look like the business will easily make money and be profitable then your business plan should reflect this. The reasons for this occurrence should reflect things such as your expertise in the business, a product that has a high markup, or something in great demand by the customer. If the figures look more bleak and it appears the company will struggle, then your business plan should also reflect this. Large expenditures for startup equipment, a slow growth product, or fierce competition are all reasons why your business might struggle.

Considering what usually happens, most businesses will struggle initially because 1. There is enormous amount of initial expense getting the business up and running including. 2.. The company has a learning curve, that is, the business is new to the industry and has to learn how to compete for business 3. The company has an identity problem. Nobody knows who it is and what it does until the marketing kicks in. A lot of work has to be done to gain the exposure the business needs. And, the pressure is not only to attract customers, but to give them good service, pricing, etc. as the means to develop them as customers to the business.

E. What is the market for your business

Why will people buy from you considering the competition? Will your product be better made, better priced, better advertised, better designed, or available at a better location to purchase? Will your offer better service in terms of longer hours of operation, better technical support, more knowledge about the product and the industry in general, or just the intense concern to really please the customer?

Finally, what drives the customer to want your product or service? Is your product a necessity (food, gas, clothes, etc.), a security (fence company, home alarm company), a convenience (24 hour copy center, on call auto repair shop, 24 hr grocery store), a luxury item (expensive car, boat, jewelry), or a leisure or sporting item (golf clubs, travel agency, etc.). As you can see, it can be a single reason why someone might buy your product or service (a 7-Elven store is convenient but most often not better in pricing, service, etc.) or many reasons why the customer buys your product/service. Why will someone buy your product and/or service? Be specific and realistic (start making your list as to why someone would buy from you):

NOTES & DIALOUGE:

F. What are the initial objectives of the company.
(Your first chance to discuss initial goals & objectives of the copmapny)
Examples:

- **Will you do the business part time and consider full time once you have reached x amount of customers, or, x amount of sales, or, x amount of time (1 yr, 1.5 yrs, etc)?**
- **Will you compete against x company to obtain x share of the market for this product & service?**
- **Will you spend x dollars initially to do a comprehensive marketing plan to gain immediate exposure in the industry?**
- **Will you work with x partner with specific responsibilities to make sure the business plan is completely handled with detailed goals & objectives?**
- **Will you borrow x dollars from family member x and repay them on a x year schedule?**
- **Will you offer x services that the competition is not offering to gain immediate customers in the market?**
- **Will you offer x pricing to attract x customers to get them interested in your company with the idea of gaining their business to support the other products and services that you also offer?**
- **Will you obtain x professional services to immediately make sure you have the accounting or legal issues being handled for the company?**

WHAT ARE YOUR INITIAL OBJECTIVES OF YOUR BUSINESS?
(This list is more general...more details of these objectives can be discussed in your business plan).

1.

2.

3.

4.

5.

6.

7.

8.

9.

10.

Goal Setting:

Goal setting is an important element to the success of your business. Without knowing what you are working towards as a business, the possibility of becoming very average is considerably likely. Furthermore, if you don't know where you are headed, it only follows that your employees do not know where they are headed as well. This dangerous position occurs for many companies, and over time leads them to poor sales and performance (and eventually out of business).

Consequently, setting goals is an important function of the business. How you do this is a personal decision. If you like to do this exclusively, then do so. Just make sure you spend the time necessary to get the goal setting done so that the company has a sense of direction. Employees like to know what this direction is, and most often want to be a part of the process of getting there. And, if you like the input employees can provide, you may make them a part of the goal setting process. Regular meetings with them will probably be important to the success of what they can do and what can be done as a company. The end result is reaching the goals and objectives that you have set forth for your business.

Understanding how to set short, intermediate, and long-term goals regarding the products/services of your company:

Short-term goals are the stepping stones to reaching the intermediate and long term goals of your business. If, for example you wanted to ad a new division to your company, then a series of short and intermediate goals would be discussed and followed in an effort to reach the long-term goal you want to achieve. If your long-term goal, as previously mentioned, were to offer a new division to your company, this addition would be stated as a long-term goal. Intermediate goals might be the process of adding staff to support this objective as well as formulating a new marketing plan to properly advertise this new adventure. And finally, the short-term goals might be the immediate adding a new office area that would house this new division. To properly achieve this entire objective, a formulated plan of action would be necessary to chart this idea from start to finish:

OBJECTIVE (including time-line):
Increase sales by adding a new division to the company- manufacturing and sales of cookbook manuals to begin selling in 6 months.

Short term goals:
˜Determine where new division will be located.
˜Determine what changes/additions will be necessary for this new division.
˜Determine what staffing will be necessary for this new division.
˜Determine what marketing efforts will be necessary to launch the new products and services- rough draft.
˜Consider what management personnel will be involved in this new division.
˜Rough draft of cost structure for producing new products and list of equipment needs.
˜Consider sales increase potential with addition of new division.

Intermediate goals:
˜Begin interviewing for the staffing of new division.
˜Have firm dates of when marketing plan of action will begin.
˜Narrow choices of management that will be involved in new division.
˜Have in place costs of manufacturing of new product.
˜Have in place equipment necessary for production of cookbook manuals.
˜Begin construction of additions needed for new division.

Long Term Goals:
˜New division of company is in place.
˜New management structure in place to accommodate new division.
˜Staffing is completed for new division.
˜Production of new product is occurring.
˜Marketing plan is already in action to support new division.
˜Sales for the company is increasing based on adding new division to the company.
˜Evaluation of the added division is to occur. Key things to watch are sales, production, and service to the customer.

Goal setting for a start-up company will take a different look than our example above. Some of the types of goals and objectives that might be discussed in your business plan might be similar to the following list:

Immediate Goals & Objectives (first year):

- Implement sales plan of $000 by offering xxx products at xx pricess (show formula) with sales goals of xxx per month.
- Develop all staff by designing a personnel plan with five sections, titles of each section are xxx, and the personnel plan to be completed and in place by xxx.
- Increase management skills by community college classes with xxx titles to be completed by xxx.
- Enhance employee empowerment by more delegation of xxx duties, increased pay based on xxx performance as agreed upon with the following employees...
- Establish marketing budget of xxx to be implemented over the next xxx months.
- Formulate the start-up of my business by using a sub-chapter S formation, using xxx accounting services to handle this function.
- Meet the expectations of paying bills, meeting employee tax schedules, and year-end tax filing by using xxx accounting services.
- Create local exposure by joining xxx organizations and attending their functions on a monthly basis.
- Establish traffic to the business as to reach xxx in sales for the first 12 months.

Intermediate Goals (three years):

- Establish traffic of xxx customers to the business as to reach xxx sales goals as planned.
- Expansion of the business by adding xxx products and xxx services to help support xxx sales plan.
- Maintain good customer relations by xxx employee relations plan.
- Addition of quality personnel to help develop and grow the business.
- Allow for management of company to earn xxx in salary for year x.
- Continued good community relations by belonging to xxx organizations.
- Continued involvement by management as indication to the customer that upper level management cares and is involved with the business.
- Improve the look of the business by xxx projects this year, xxx projects next year, etc.
- Support expansion of the business by implementing xxx marketing plan using xxx marketing budget.

Long Term (5 years):
-Merge with company xxx to reach sales level yyy.
-Add product xxx and service yyy to reach sales goals of yyy.
-Committ marketing plan xxx to build and maintain sales goal of yyy.
-Hire person xxx to allow for owner to be less involved in the business.
-Belong to orgainzation xxx with possibility of being elected president.
-Reach traffic count xxx to maintain sales level yyy.

As shown, goal setting for a start-up business usually involves traffic counts, sales goals, marketing goals, community involvement goals, management goals, and employee goals. Also, it can include other areas such as investor relations, professional assistance, new personnel, physical upgrades of the business, and discussion of potential new products and services to the business.

Once goal setting is in place, your activity in the business can be more effective by knowing what it is your trying to accomplish. Your mind set will often times allow you to do a better job hiring personnel when you know what it is that you need to get accomplished and how others can help you reach these goals and objectives. AND, once you become better at setting goals, this confidence becomes more evident in your day to day decision making. As a result, you learn the value of goal setting, which keeps you moving forward in your business knowing you have a plan of action to follow.

Legal Business Formation:

One of the most important decisions for a start-up company is the formation of ownership. The issues regarding how the company will be taxed, the protection you have as an owner, and the rate at which you get paid are just some of the issues that are affected by the legal business formation. For the best choice (considering the objectives you would like to achieve as a business owner), consulting an accountant or someone knowledgeable in this field can be helpful.

For immediate comparisons regarding the general advantages of the basic business entities; Sole Proprietorship, Partnership, Corporation, Sub-Chapter S, and Limited Liability Corp., the table below is a quick guide to this information:

SOLE PROPRIETORSHIP

Advantages....................	Disadvantages
.Easy to start	.Unlimited liability
.Owner entitled to all profits	.Incur all losses
.Personal involvement	.Limited capital
.Easy to dissolve	.Sole responsibility
.Owner makes all decisions	.Unstable
	.Harder to expand
	.Less opportunity to specialize

PARTNERSHIP

Advantages.............	Disadvantages
.Easy to start	.Unlimited & joint Liability
.More Capital	.Personal disagreements
.No tax on business	.Unstable
.Personal involvement	.Less control on decisions
.Greater borrowing power	.Frozen investment
.More managerial expertise	
.Greater opportunity to specialize	

CORPORATION

Advantage	Disadvantage
.Limited liability	.Double taxation
.Increased capital	.More complicated to form
.Greater chance for expansion	.More government regulation
.Stability	.Information disclosure
.Easy to transfer ownership	.More conservative management
.Increased borrowing power	.Impersonal
.Increased chance for managerial talent	.Limited input into decision
.Maximum opportunity for specialization	
.Separate legal entity	

SUB-CHAPTER S

"Same legal protection as corporations
"Limited to number of shareholders
"Shareholders taxed at individual rates
"Restrictions on benefits plans

Marketing, The Overall Concept:

Once we have determined our product or service and have methods of production in place, we now have something to offer the customer. It is also at this point that the overall marketing efforts of the company begins. Marketing in the broad sense is the overall image of our company in action, that is, how we go about providing the product and service of our business in view of the public eye.
Simply put, marketing is on one hand the image we try to portray, and on the other hand, the perception the customer has of our business. As a result, our marketing efforts never end and are always evaluated by the customer.

In following this definition, marketing is the price of product, the look of our product, and the quality of our efforts to service the customer. However, marketing goes beyond the physical look and feel of of our products. How we dress as employees, the look and cleanliness of the vehicles of the company, the style of our letterhead, and the sound and look of our advertisements all support our marketing efforts. And finally, our attitude as a company should support the image we are trying to convey. If what we say and do is connected and properly delivered to the customer, than this marketing image we are trying to convey might be the same as the perception that the customer has formed about our business.

Mission Statement:

The use of a mission statement is for unifying all the employees of the company to a common purpose. A mission statement is written so that the big picture or goals of the organization are stated for the purpose of everyone in the organization. The mission statement typically relates the values of the organization and the style of how business is conducted in that environment.
Furthermore, the product mission, economic mission, and social mission of the company Is stated and explored so that everyone within the organization has a sense of how the leaders of the company stand on these important issues.

Positioning Statement:

The positioning of a business is best done by simplifying what your company does and how it can help the customer. In today's cluttered world of advertising messages, your ability to keep your message simple IS BETTER. How can you achieve this objective?

Begin the positioning process by writing a short paragraph about your product and service(s) as it relates to what you will do for the customer regarding: quality of the product (or service), pricing, service, and the ability of your company to deliver your product & service to the customer.

For example:
I wrote a business plan for a convenience store a few years ago. After review of the competition and consideration of how to develop the primary decisions of how this convenience store would operate, the result was to be entirely different from the competition. The <u>positioning statement for Serv-U</u> <u>Convenience</u> therefore was stated as:

"Serve-U is a convenience store that provides a product of need in a fun, exciting environment with exceptional merchandising and sales help."

As a result of this description, it became clear the approach to the convenience store business would be much different than the competition (where it was found to be the typical man/woman at the register with little contact with the customer) and in this short message, we could use these points in our advertising to communicate this to the customer. Thus the purpose of the positioning statement became the most important element in the approach of the business. Once this was determined, our advertising, hiring & training of employees, and expectations of our vendors all became a by-product of this positioning message of the company.

Pricing:

Pricing your product & services, most often, is affected by internal and external factors That you have collected about the marketplace. Internally, factors such as overhead, company profit structure, and company marketing tactics (discount coupons, vendor discounts, etc.) all affect the pricing strategies. Externally, competitor pricing, the local economic conditions, and pricing laws affect the pricing strategies of the business.

As the external and internal considerations are evaluated, the final decisions on Pricing are made. Also understand that price usually reflects a certain value that the customer will receive. Higher pricing usually means more value and service, moderate pricing usually means good service and value, while lower pricing usually reflects average to lower quality and service for the lower price paid by the customer.

Research & Development:

How can your company actively compete in the industry when there seems to be so many new developments that can alter where customers buy their goods and services? This can be intimidating, especially if you're financial situation does not allow you this same opportunity. And, if you are new to the industry as a start-up business, this can be even more difficult since you have not yet established relationships that are so important to developing new products and services. As a result, the research and development process has to be a part of how you collect information about what your competition is doing, and what goods and services your customers would like that might not be currently offered in the marketplace.

Research and development is collecting information that can be of use to both short term and long term customer satisfaction. The basis of collecting this information can be categorized as customer orientated, competitor orientated, market orientated, and employee orientated.

Customer Orientated:

Through your working relationships with the customer, you can gather information on an on-going basis by simply asking your customers about your product and services. This can be done through surveys via written communication, or by phone, on a fairly regular basis. The surveys can be short or long depending on the amount of information you are asking for. The kinds of questions can range from how well your company delivers its products and services to suggestions on how to improve your product and services. Surveys can also be done on site if the ability to get this information is easy for the customer. However, one important rule is to compensate the customer for their time and insight when doing a survey. This small gift can be a discount, free giveaway, etc. and when done, keeps the customer involved and loyal to your business. In affect, you have continued to give them a reason to remain a customer for a long time.

Competitor Orientated:

By keeping up-to-date with your competitors, you can also make your product and services more attractive to your customers by finding out what they do perhaps better or different than you. You can find this information by calling or visiting the competition on a every so often basis. Also, keeping up on the competition is a good practice. The information you obtain can continually lead to improvements within your own company.

Market Orientated:

It can be to your advantage to keep yourself aware of the good practices that are done by other companies. By reading local newspapers, business publications, industry information, you can pick up on ideas that can be practiced in your own business. Companies that reach a higher level of distinction for their good practices usually have found successful ways of servicing their customers. Learning how this can be done can likewise be an advantage to your own business.

Employee Orientated:

Considering how much time your employees spend with the customer, their insight on how the customer likes or dislikes what you are doing for them can be extremely important information that you should know about. However, many owners or managers do not gather this information nor cultivate their employees to keep a close gage on the customer in attempt to give this feedback to their supervisor. As a result, your built in eyes and ears of the business is not working for you. Therefore, it might be important to make sure your employees are giving you honest feedback about what is occurring with the customers. To put this practice in place, it is important to make sure this is taking place, and, in order to make sure it continues, you might want to set up incentives for your employee for reporting back to you with this information. In addition to providing incentives, you might give these same employees more empowerment to allow them to recognize problems and the ability to fix them without making the customer wait for your involvement. Correcting customers' problems is invaluable, and can go a long way to building their loyalty to your company.

Selling/Packaging/Distribution:

The process of selling your product and service is more than the exchange of dollars for the item. Selling the product is the starting point in which the item moves from the manufacturer to the buyer. In this process, decisions as to how the product will be manufactured, packaged and distributed are all part of the selling process. Questions to consider about packaging include type of materials to wrap or hold the product in, the method for carrying the product, to the color or colors of the package.

Questions regarding distribution include what means will the product be shipped (mail, truck, rail, etc.), and where will the products be made available, such as retail outlets, or via magazines, direct mail, etc.

Sales Forecasting:

One of the important elements to writing your business plan is the ability to forecast the amount of sales that your business will do on an annual basis.

The question that becomes most asked is how do I project sales if my business has not yet been in operation? From this question the real work begins. Moving from the unknown to an estimate of sales can be achieved. Without the ability to do this, your business idea can not be validated. If you have a business idea, but can not show an investor or banker how this makes money, your business idea has limitations. And, if you are looking for others to invest in the idea, this will be a difficult task.

Forecasting sales can be done by various approaches. Sales forecasts can come from 1) using a similar model. That is, finding a similar company in the same industry and exploring how they obtain sales. Once this is found, you can use this information and modify it to your own situation. 2) Sales can be forecasted by a working formula that the business operates from. For example, if you have a restaurant, then the seating capacity along with the hours/meals that you serve can be factored into the potential sales that you generate. 3) Using a formula that averages your products by pricing; high, medium, and low price points grouped, then, each group averaged. The average of each group is multiplied by the total amount planned that each group will sell each day, week, month. This monthly figure is then multiplied by 12 which equates to an annual sales total. Samples of model 2 & 3 are shown below:

Restaurant Sales Forecast.

The start-up company has projected first year sales at $600,000. The management of the company is experienced at owning and managing restaurants. Sales are to be strong the first three months as people try out the new restaurant. Sales calculations are based on seating capacity, number of meals and how much the tables are turned over at each meal.

Meal	# of seats	average turn/seat	occupancy factor	patronage	average check	table sales/meal	days per week	weekly sales	weeks per year	yearly sales
lunch M-F	100	3	½	150	$4	$600	5	$3000	50	$150,000
Dinner M-F	100	2	1/2	100	$10	$1000	5	$5000	50	$250,000
Dinner	100	3	2/3	200	$10	$2000	2	$4000	50	$200,000
						Total Sales		$12000		$600,000

Example 2- Wedding Photographer.

A photographer has packages of wedding pictures he can take for his clients. Prior to the Wedding event, the photographer meets with the client to discuss the package they might be interested in.

The photographer in advance knows his costs and can present three levels of packages to choose from. The photographer, like any business owner, has set weekly goals of what he would like to sell to the potential customers and it is his job to sell the products in a way that can lead to the sales he wants to achieve.

Sales packages by pricing:

1. Gold Premium......... $3,000
2. Gold Bonus............ $2,750 upper price level, avg. price $2,750 x 1 per week = $2,750
3. Gold Plus............... $2,500

4. Silver Premium......... $2,000
5. Silver Bonus............ $1,750 middle priced level, avg. price $1,750 x 2 per week = $3,500
6. Silver Plus...............$1,500

7. Basic Plus................ $1,000
8. Basic Extra............... $750 lower priced level, avg. price $750 x 3 per week = $2,250
9. Basic Plan................ $500

Weekly sales are shown from above. $2,750 + $3,500 + $2,250 = $8,500 week
$34,000 month (week sales x 4)
$408,000 annual sales (monthly sales x 12)

The objective of setting sales goals is to be realistic so that what is projected can be Achieved. As shown in this example, if the wedding photographer does not sell the more expensive packages, thenmore less expensive items have to be sold to make up the volume. Although this can be done, the photographer knows in advance that the expensive packages are only slightly more costly for him to do for the customer but the price points are greatly higher and more profits can be realized. As a result, when the more profitable items that a business sells are not being sold, then the less priced and profitable items are therefore needed to be sold to keep sales at projected levels. While this can occur, the real down side to this sequence of events is that more items have to be sold, at less profits, and consequently, the business is working harder for less profit. THAT IS WHY companies plan for sales, but plan for selling products that are more profitable and achieve better results for the business.

Target Market:

Once a business can identify the profile of who would be likely to buy his product or service, the identification of a Target Market is taking place. Simply put, all companies have something to sell and the decisions they make to model, price and package their products and services are done to meet the needs of the end user. If for example you are manufacturing children's clothing, your end user are children. However, the decision makers are typically the mother's of the children and therefore, your best ability to sell these items are to convince the decision makers to buy your products.

What are your products and services and who are your target markets? Are you selling to general consumer's, to small business owners, to purchasing agents of specific industries like hospitals or automobile companies, or are you selling to housewives? And, is there more than one target market? To be the most effective as a business, there are benefits to selling and marketing your products and services to similar groups because the buying decisions are most often the same.

Trade Area:

The trade area is the geographic range of where your customers might come from. This can Be five miles from your location, five states, or five countries. The geographic distance has no boundaries but rather should be a realistic reflection of where your customers might come from. A restaurant owner of a single location is usually realistic to count on his customers in a 5-10 mile radius from his business. However, a large car dealer might find his trade trade area several states that surrounds the business location.

The importance of knowing the trade area is certainly necessary when you want to advertise your business. Without this knowledge, your ability to choose what newspapers, radio stations, or other advertisements would be not possible. Also, if you wanted to do a direct mail ad to your customers, knowing your trade area would allow for you to choose specific zip codes that fall within this trade area boundary. As a result, the trade area information becomes a link between your business location and the customers you serve.

Finally, describing the trade area for your business is best done by using a map and circling the entire trade area that you have determined to be where your customers come from. If it is within a few miles of your business, one enlarged portion of the local area copied from a map can show this trade area range. If you serve the entire state or several states, you might show one map with all the locations circled and then follow this up with several more area maps that give a better view of each area that you serve.

By this process of knowing your trade area, changes over time will occur. The neighborhoods that you might serve can change over time. New developments and closing businesses factor into this equation. The areas that you serve never remain the same, and by keeping yourself up to date on these changes, can only make your ability to understand who your customers are and where they are coming from as accurate as possible.

Exploring Your Business Idea

By Exploring Your Business Idea, you can reveal particular unique features and special elements about your products and services that can help you better explain, understand, and ultimately sell to the customer. In this next section, Exploring Your Business Idea, use the questions as one process of learning all you can about your business idea before your business begins. The extra work will pay off later!

TOPICS FOR:
EXPLORING YOUR BUSINESS IDEA...

Products and Services Explored
More about the Company
Location Explored
The Management Team
Marketing Analysis
Marketing Strategy
Financial Plan
Company Goals and Objectives
Concluding Summary

Developing your business plan is a lengthy and detailed proposition. This process has tremendous value in that,

1. **The business planning process forces you to make an determination of what you think about the ability of business to compete in the market.**
2. **It Analyzes the ability of the business to make money.**
3. **It analyzes the competition and can give you ideas on how to capitalize on these weaknesses.**
4. **It can force you to evaluate the competition and go to market with a product or service that is not being offered.**
5. **The planning process can reinforce the need to place people with different skills and talents in the correct places to the benefit of all in the company.**
6. **It can show you the value to discuss your idea with other professionals, family members, and friends before you commit your time and money to the overwhelming project.**
7. **It can allow you the ability to be prepared before the business is fully in operation, making your chances for survival improved.**
8. **It can allow you the opportunity to work your business on a part time basis with your eye on taking your idea into a full time operation at the right time.**
9. **It can reinforce to you the need to find competent business associates to help set up your own board of directors for the benefit of keeping your business on track.**

1. Idea Explored. Part One- PRODUCTS AND SERVICES EVALUATED.

A. Product/Services Evaluated.

Industry/business explored:

What is currently going on in the specific industry that you compete in?
-What companies dominate the industry?
-What products are the most popular and why?
-What will be the most popular products in the next five years? ten years? beyond.
-What technology changes are occurring if any?
-Are there any opportunities to get more customers considering new technology and how it can redefine your products and services?
-How does your company stack up to the leading companies in terms of the ability to compete on product pricing, quality, service, and overall marketing efforts to get the business?
-What other trends are occurring in the industry in terms of growth, or declining sales, popularity of the products, and overall marketing efforts?

Products/Services offered:

What is your list of products/services being offered?
Make an inventory of your products and services.
-How does your list compare to the competition?
-What products are most popular?
-What products make the best profit margins?
-How does your service compare to the industry standards?
-Is your service a feature of your business or an afterthought?
-Is service in your industry important to the customer?

Products/Service Inventory:

Product (make list)	Service (if applicable)	Reason for producing product/service

B. Vendor Relations Explored.

Your vendors can either be an asset or a liability to your business. Vendors are important in that they bring to us the important items that we need to directly build our product and service, or, to use in running our business. How vendors perform this function is very important. If we are truly getting the best products, the best price, and the best delivery, then vendor A is an asset to my business. However, if vendor A is sending me deliveries where I find less than quality products, at a price that may or not be the best I can find, and the quality of service for these goods is average, then perhaps vendor A is a liability to my business.

Because the flow of goods and services to your business can be overwhelming, a vendor log may be your best way to keep track of the performance of the many deliveries that occur at your place of business. Be ready to challenge your current vendors about their performance if over time, your level of expectations is not being met. A bad assumption to make is to assume your vendors are honest and have your best interest in mind. Things like less than good service and rising prices can slowly creep in without you ever noticing. Consequently, having alternate vendors is often a necessity, and, can also create a price bidding in your favor when you present vendor A with a option you are considering that vendor B has proposed. Competition for your business is a good thing!

VENDOR LOG: ____________________
(list Your Company Name)

Vendor Name______________________________________

Address______________________________________

Phone________________**Contact Person**________________

How long you have been buying from vendor______________________

Frequency of purchase______________________________

Realibility (list dates and times when problems have occur):

Date_______**Problem**______________________________

Date_______**Problem**______________________________

List of items purchased **Frequency**

______________________________ ____________

______________________________ ____________

Alternate Suppliers List:

Product________________ **Current Vendor**______________ **Alternate(1)**__________________

(2)__________________

(3)__________________

Product________________ **Current Vendor**______________ **Alternate(1)**__________________

(2)__________________

2. Idea Explored. Part Two- DISCUSSION ABOUT THE COMPANY.

A. Start Up Experience.

Discuss any prior experience you might have had in a start up business. Include the basic start up strategy, how the business was financed, what industry the business competed in, and what the overall strength of the company was (superior service, product, management, growing market, sound financing, strong marketing and selling skills, etc.).

B. Existing Business Purchase.

If you will be purchasing an existing business, report on the following:

1. **How long business existed?**
2. **Reason for business being sold or closed.**
3. **Reputation of the business.**
4. **Will a new staff be created or will previous employees be involved in new business?**
5. **Report on the status of past 3-5 years financial statements.**
6. **Comment on the status of the area the business is located (growing or declining?).**

7. Comment on the status of the physical condition of the business.
8. Make an overall assessment of the business purchase (great, good but with some improvements, average and why).

C. Organizational Structure.

To effectively manage a business, it can be helpful to breakdown the areas of responsibility and place people in the proper areas to ensure the business has a sound operating strategy. This can easily be done by listing the main areas of responsibility. Then, place the person(s) responsible for carrying out the duties associated with these functions.

AERA OF RESPONSIBILITY	PERSON ASSIGNED TO THIS AREA
Hiring...part-time...	Jim
full time	...Sue
management..	Jim
Accounting...bill paying...	Diana
Ordering Product..	Jim
Maintenance of the Faciltiy..contracts for landscaping.......	Mike
contracts for snowplowing	...Mike
contracts for equipment maintenance	...Mike
contracts for electrical	...Mike
Merchandising product and displays.................................	Cindy
Marketing- Sales..	Paul
Advertising	...Sheryl
Customer Relations..	Karen
Employee Relations..	Bill

D. Operations Development.

How your company makes money is a reflection of how well you run your company. That is, the decisions made
about how the business operates, and, who is responsible for operational duties. The following would operational
issues:

- Total hours a week the business is open to the customer.
- Total hours a week production occurs (one shift, two shifts, etc.).

- Who is making the pricing decisions and what factors are involved in theses decisions?
- Condition of the equipment? When does updating occur and who is involved in these decisions?
- Automation in the business. Do changes need to occur, and what are the benefits considering the costs?
- Is there an opportunity to increase the hours of operation to the benefit of the customer?
- Is there quality control measures to ensure the overall quality to the customer that you have promised?
- Is there better management techniques to train, motivate, and assist the employees of the company?
- What distribution methods are you using...and, are there opportunities to modify or better align distribution?

E. Cash Flow Management.

What structure is in place for this important element of your business? Cash flow relates to invoicing, bill paying and collections, employee taxes, employee payroll, and year end tax reporting. There are various routes you can take to get this accomplished, however, being timely in all these areas is important to the reputation of the business.

- Will invoicing and invoice paying be done via an employee or an accounting service?
- Will employee payroll be done in house or via a payroll service?
- Will monthly statements be generated by an in house department or be done via an accounting service?
- Will year-end tax filing be done via an accounting service?

While these functions can be done by in house staff, it is more common today to hire an accounting service that is geared to handling these functions for a fee that is arranged by both parties. Finding accounting services geared assist small business is more common today. Talk with your business associates, friends, or other professionals about any recommendations they might give you.

F. Personnel Plan.

One of the most important documents that you will need is a Personnel Plan. This document can be developed and placed in a binder for employees to review. It is important to have any of the issues you discuss with your employee is some form of writing that both you and your employee have signed and dated. The course of direction that you have set and agreed upon with your employee is important to both parties. Keeping these issues in an agreed manner can help an employee on the right track from the very beginning of their employment with your company. Some of the issues that can be discussed in a Personnel Plan include:

- Employee pay and job benefits.
- Employee job description.
- Employee training & review for pay increase.

~Employee incentives.
~Employee reprimand and dismissal.
~Company mission statement and how it directs all employees.
~Company management style and how it works with and develops its employees.
~Overall classification of employees by department, skills, or primary job or function.

G. Technology Management.

The technology that a company employs can be stationary or ever changing, and greatly depends on the thought process of the ownership. Is the company progressive, or more cautionary to changes in the business? This decision can also be a by-product of the age and conditions of the factory and the cost structure for improvements considering the amount and magnitude of the equipment that drives the business. An auto manufacturing plant has considerable decision making processes when considering making internal changes as compared to a one-hour photo processing business.

While the discussion has been primarily on the main production of a facility, Technology Management also relates to the office and selling portions of a business. The in office uses of faxes, computers, and copiers are part of the technology management as well as the cell phones, pagers, and portable computers of the management and sales people of the company. Through all the technology opportunities, decisions are made based on the cost/benefits of replacing existing equipment and how it positively affects the operation of the company.

H. Cite Short, Intermediate, And Long-Term Goals Regarding The Operations Of The Company.

Considering the areas discussed, what goals can be discussed regarding:

1. Organization Structure.
   Long term goal- (Example. Make current assistant manager Mark the manager of the business within 12 months).

   Intermediate goal- (Example. Meet with Mark at midpoint of his promotion to discuss his progress to becoming manager. Also, discuss Mark's progress with other management and employees to get feedback regarding his progress towards becoming manager).

   Short term goal- (Example. Discuss with Mark the opportunity of becoming full time manager. Lay out the responsibilities, expected level of accomplishment, incentives, hours required for the position, and any other factors regarding this new job. Set timetable for training period to reach manager status. Also, have backup plan should Mark not successfully reach full time manager status).

Now, consider your organization and list your goals regarding the organization of your company.

1. Long term:
   Intermediate:
   Short term:

2. **Long term:**
   Intermediate:
   Short term:
3. **Long term:**
   Intermediate:
   Short term:
   ****List as many goals as necessary considering the Organizational Structure.**

2. **Operations Development.**
   Long term goal- (Example. Increase the hours of operation of the business from 9am to 5pm currently to 8am to 6pm. Goal to be accomplished in 6 months).

   Intermediate goal- (Example. Make sure staffing and training will be in place for the new hours. Also, make sure the advertising that will announce this change is prepared including a schedule of when and how often the ads will run).

   Short term goal- (Example. Investigate what your needs will be for the operation if the current hours of operation are changed by two hours for the sake of the customer. Consider the costs and benefits for such a change including the staffing requirements that will be necessary and the advertising needed to accurately tell the customers what change will be taking place. Also, survey the customer and make sure the proposed new hours will be receptive and conducive to their schedules. Or, if at first not conducive, find out if over time the change would be beneficial to them).

   Now, consider your organization and list the goals and objective you would like to make regarding the Operations Development.

1. **Long term goal:**
   Intermediate goal:
   Short term goal:

2. **Long term goal:**
   Intermediate goal:
   Short term goal:

3. **Long term goal:**
   Intermediate goal:
   Short term goal:
   ****list as many goals as necessary considering the Operations Management of your company.**

   3. Cash Flow Management.
   Long term goal- (Example. Move payroll processing/paying from an in-house function to a payroll processing company to occur in the next three months).

   Intermediate goal- (Example. Narrow list to possible companies who could be chosen to handle the payroll duties

considering the amount of responsibilities to be done and the amount of money you might be willing to pay).

Short term goal- (Begin process of consideration of moving payroll function from in house to an outside company that could handle the responsibilities as outlined. A cost analysis of in-house to an outside company to handle this function would be considered including the decrease of man-hours and how that will affect those persons providing the function currently).

Now, consider your organization and list the goals and objectives regarding Cash Flow Management.

1. **Long term goal:**
   Intermediate goal:
   Short term goal:
2. **Long term goal:**
   Intermediate goal:
   Short term goal:
3. **Long term goal:**
   Intermediate goal:
   Short term goal:

****List as many goals as necessary considering the Cash Flow Management of your company.**

4. Personnel Plan

Long term goal (Example. Offer a quarterly employee incentive plan. Plan to be in place within 6 months).

Intermediate goal (Example. Meet with employees regarding the upcoming incentive plan giving specifics on how the plan will work, and the timeline of start date, who qualifies, etc.).

Short term goal (Example. Get input from employees and other staff and management regarding the important elements of how the incentive plan can work).

Now, consider your organization and list the goals regarding the personnel plan you would like to implement.

1. **Long term goal:**
   Intermediate Goal:
   Short term goal:
2. **Long term goal:**
   Intermediate goal:
   Short term goal:
3. **Long term goal:**
   Intermediate goal:
   Short term goal:

****List as many goals as necessary when considering the Personnel Plan goals of your company.**

4. **Technology Management.**

1. Long term goal- (Example. The purchase of new computer system to occur within 12 months).
2. Intermediate goal- (Example. Pricing of potential replacement models in place including the technical support associated with each system being considered. Also, key persons who need be involved in the decision making process able to give their input into the needs of their particular departments, etc.).
3. Short term goal- (Example. A study to analyze the current computer system and its uses as compared to the benefits of replacing the system or upgrading the current system).

Now, consider your organization and list the goals and objectives regarding the Technology Management.

1. Long term Goal:
   Intermediate goal:
   Short term goal:

2. Long term goal:
   Intermediate goal:
   Short term goal:

3. Long term goal:
   Intermediate goal:
   Short term goal:
   **List as many goals as necessary considering the Technology Management of your company.

3. Idea Explored. Part Four- LOCATION REVIEW.

A. Choosing The Best Location.

Location for your business is a decision that has many possibilities. Finding the BEST location may be a choice based on more than on variable. What are some of the considerations?

If location *is important* to your customer, than you might want to consider:

-Shopping Centers. Walk by traffic means the customer is practically already in your store. Parking is not usually convenient, especially during busy shopping seasons. Primarily for retail business.

-Outlet Centers. Much like shopping centers but customers have to open a door from the outside to get in.

Parking for the customer is extremely convenient because they can park near the store they shop. Typical for retail business and local services.

-Power Centers. Anchors like Home Depot, Wal-Mart, etc. The big stores are the main draw and your business may or may not be a fit. Typical for stereo/appliance stores, grocery stores, hair salons, drug stores, etc.

-Neighborhood Locations. Usually good visibility to a main highway, however, with traffic patterns traveling to and away from your business, reaching your location can sometimes be difficult. Typical for auto repair, gas stations, fast food restaurants, video stores, etc.

-Independent Building. If your business is large enough, sometimes creating your own location independent of other tenants can occur. Visibility may or may not be good. Typical to hotels, fitness centers, hardware stores, etc.

If location is *not important* to you, you may consider:

-Business Centers. Tenants share common buildings with accessible parking. Typical for insurance, graphic artists, insurance agents, etc.

-Big City Downtown's. Most often the locations consist of high rise offices where parking is via parking garages or parking meters and is not very convenient to the customer. Typical for architects, lawyers, accountants, employment agencies, advertising agencies, radio stations, television stations, etc.

-Small Neighborhood Downtown's. Somewhat off the beaten path but convenient to the local traffic. Typical tenants are insurance agents, small hardware stores, restaurants, printing companies, etc.

-Rented Office Space. Typically found located above a small business, or a section of a existing business where space is rented out. Usually for small business accountants, advertising agencies, etc.

-At Home. More common today than ever. Many small businesses begin at home and remain there until they outgrow the amount of space they can operate from. Typical for people that are used for sub-contract work like party planning, event planning, home decorating, accounting work, etc.

Having considered the described options for your business location, what might be your first choice? Second choice? Third choice and why?

Use the outline below to list your top three preferred locations and why you would locate there:

1st Choice:
Discuss Why:

2nd Choice:
Discuss Why:

3rd. Choice:
Discuss Why:

B. Surrounding Area Discussed.

If location is important, then the surrounding area near the business needs to be explored. If you are trying to build your business from the local neighborhoods and businesses, then driving the area can help you better determine the types of homes, the types of people living in these homes, etc. A radius of 1 mile, 3 miles and 5 miles can be drawn on a map to give you guidelines as to what major roads and landmarks are prevalent, and also show dead areas , where no homes or businesses exist.
What have you found in these areas? What new developments are taking place? What new roads are being developed? What types of businesses exist? If you, for example, have a restaurant and a large office complex is .5 miles away, what type of potential business is this for you?

Now, considering the subject of exploring the surrounding area, what have you found regarding the area that will surround your business? Describe below:

1 mile radius:

3 mile radius:

5 mile radius:

C. Site Specifics.

If you are going to locate your business via renting or buying a building, what are the specifics about the facility that you will operate your business from? This means, what is the physical makeup of the entire location from the parking lot to the boardroom? Questions to answer include:

- Describe the location of the business (main roads to your location including your business address):
- Describe the size of the building (Square feet):
- Describe the entrance road to the business:
- Describe the condition of the parking lot(s):
- Describe the sidewalks around the facility including the walkway into the business:
- Describe the out buildings or storage facilities:
- Describe the lighting in the area including the parking lots:
- Describe the security measures you have employed for your employees:
- Describe the condition of the rooftop of the business:
- Describe the condition of the heating/air conditioning units for the building:

Overall, what is your assessment of the facility:

Good points:

Areas that might need improvements. Discuss time frame for upgrades (immediate, 6 months, 1 yr, 3 yrs):

D. Lease Arrangements.

If you have made any agreements regarding a lease arrangement for a building, equipment, or vehicles; list the item and give the general arrangements regarding a signed lease:

Signed lease/building:
Length-
Option years-
Leasehold improvements-
Item covered/not covered-
Rent/taxes/insurance-
Overage or percentage rent-
Common area maintenance charges-
Marketing fund charges-

Signed lease/equipment:
Length-
Interest rate-
Maintenance agreement-
Warranty-

Signed Lease/Vehicles:
Length-
Interest rate-
Maintenance agreement-
Warranty-

E. Zoning/Permits/Licenses.

Considering your location, state any zoning issues, permits to be obtained, or licenses required. Consider location and the type of business you will operate (for example, a restaurant might not be affected by zoning issues, but would need a operators license, a city or county license for tax paying purposes, and a permit to operate from the health department). If you are not sure of the requirements, call you local city or county office and find out what is required based on whether you are located in the city or county boundaries.

Zoning issues:

Permits to be obtained:

Licenses to have in your possession:

****See the section, non-business planning writing activities: a checklist to starting a business.**

F. Community Relations.

Considering your business and the potential length of time you might contribute to the area you locate in, have you given thought regarding being a good neighbor? That is, getting involved in the local organizations, community events, school projects, church events, etc. As a business, you already are counting on the local area to support what you do, therefore, in return, there is always something you can give back to the area as well. You may want to be very involved in the business groups like the chamber of commerce, rotary, Jaycees, etc. or helping the schools might be more your passion. Whatever you prefer, a simple strategy regarding your community relations might be helpful before you get bombarded by all the requests that come your way throughout the year. Once established, you can keep these community objectives, and make changes as necessary.

Sate your Community Relations Objectives for your business:

G. Cite Any Short, Intermediate, Or Long Term Goals Regarding The Location Of Your Business.

(See Goal Setting from the Understanding Basic Concepts section on goal setting if help is needed in setting goals regarding your business location).

1. Long term goal:
   Intermediate goal:
   Short term goal:

2. Long term goal:
   Intermediate goal:
   Short term goal:

3. Long term goal:
   Intermediate goal:
   Short term goal:

5. Idea Explored. Part Four-MANAGEMENT TEAM.

A. Begin On Top.

What group have you assembled for the management of your business? Is this an experienced group in the industry? What are the highlights of your résumé's? What would your management group do to make your business better, different, or stronger than the competition? Are there any new ideas that you have discussed? Or, have members of your management group brought new ides they have used in other management situations?
To review your management, use the format below to summarize their strengths/weaknesses/major accomplishments:

Member One (name):
Other info (age, family, organizations/ member of, etc.):

Past management positions (list company, job title, and who reported to):

List accomplishments for each job:
Job 1.

Job 2.

Job 3.

List overall strengths of member one:

List any weaknesses of member one:

Summary of why member would be a fit to your organization:

Member Two (name): *repeat same list a described above

Member Three (name): *repeat same list as described above

****List as many members as necessary regarding your organization.**

B. Other Personnel.

In addition to the management of the company, other personnel will be needed to help run your operation. If you have this personnel plan already in order, then describe what their contributions will need to be below:

Staff member #1 (name and prior work record):

List the job title and type of work this person will be expected to perform for your company:

Staff member #2 (name and prior work record):

List the job title and the type of work this person will be expected to perform for your company:

****List any other members that you will hire, their past work record, and the type of work they will do for you.**

D. Personnel Plan Developed.

Considering the management team and the other employees you will bring into your organization, what plan of action will you take to hire, pay, and generally do for them regarding benefits, incentives, vacations, hours of work, etc? This information should have already been organized in section 3, discussion about your company. If not, what are the initial arrangements that you will make with the persons you will employ as you start your own business?

Management person one (name):

Financial package:

Management persons investment in the company if applicable, and what their return will be (specifically):

Pay structure-

Benefits-

Incentives-

Initial job title-

Potential position with the company (what level can the person move into?)-

Other specifics regarding the hire of this person-

****Repeat this information for all management persons to be hired by your company.**

Other personnel hired.
List person's name:

Pay structure:

Benefits:

Incentives:

Initial job title:

Potential position with the company (what level of job can person move into?):

Other specifics regarding the hiring of this person:

***Repeat this information for other personnel hired by the company.**

E. Professional Assistance.

If you can not hire personnel to handle certain duties within the company such as the accounting functions, than hiring for these services is likely. Assistance to small business in terms of professional services can easily be done. The range of services can be from accountant, lawyer, financial advisor, public relations advisor, advertising assistant, graphic designer, to management advisor is all readily available to any small business. What your initial needs might be regarding these types of services can be described below:

Professional Title:
Name of company or person hired:
Terms of agreement (length of service, pay structure):

Specific duties that will be performed:

Professional Title:
Name of company or person hired:
Terms of the agreement (length and pay structure):

Specific duties that will be performed:

***List as many professional advisors as needed along with specifics of their service.**

F. Is This A Winning Team?

Now that you have assembled your initial TEAM for your company, what can you say about the strength of this team and the overall assessment of how you can begin your business using the persons you have chosen to help you achieve your goals and objectives?

Overall assessment of the team you have chosen to help you run your business.
Strengths (what can this group do collectively to assist you, and, what will this allow you to concentrate doing with the help this group will offer?):

Areas that might need to be watched (what might be potential weak areas and what signs or assessments can be made to gauge their performance according to the standards you have set?):

G. Cite Short, Intermediate, And Long-Term Goals Regarding The Management Of Your Company.

Now that the management of the company has been explored, cite short, intermediate, and long-term goals regarding the management and other personnel of the company.

1. **Management.**
   Long term goal:
   Intermediate goal:
   Short term goal:

2. **Other Personnel.**
   Long term goal:
   Intermediate goals:
   Short term goal:

3. **Professional assistance.**
   Long term goal:
   Intermediate goal:
   Short term goal:

****List any other long, intermediate, and short term goals regarding the management of your company.**

5. Idea Explored. Part Five-MARKETING PLAN OF ACTION-ANALYSIS.

A. Results of the Marketing Research.

If you have reviewed the pre-plan section regarding market research, then discuss the results of your findings as a starting point for the marketing plan of action for your business (if you have not done any market research or do not intend to do so, then begin this section on part b., defining the market):

Type of market research that was conducted (intercept study, phone survey, focus group study, other):

Who did the research (yourself, someone you instructed, or a research company you hired)?

How many surveys were completed for each study?

What was the length of the studies? (One week, 6 weeks, 3 months, etc.):

What conclusions can you make regarding the market research that has been conducted? (report on such findings as what the customer thinks about your business idea, the products or services you will offer, how frequent you will make them available, where the customer can get these products and services, what prices the customer will be willing to pay, what the potential customer thinks about the competition, and what they think about the industry in general):

****Show samples of each type of research done in the supporting documents section of your business plan****

B. Defining The Market.

Defining the market occurs by when customer demographics and the trade area identified.

Part One. Customer Demographics.

Customer demographics are the statistics we can collect regarding the profile of our customers. The purpose of these statistics assist us in knowing more about who buys our products and services, and helps us to reach these people with our advertising messages.

What do you know about your customer in regards to?

Age-
Sex-
Income-
Education-
Profession-
Lifestyle:
Married, single, family, etc.-
Hobbies, activities, recreation-
Professional associations-
Political organizations/affiliations/aspirations-
Community organizations/contributions-
Overall likes/dislikes that might be important-
Reasons why they would buy your product and or service-

Having gathered this information, the next step regarding customer demographics is to categorize the primary makeup of your customers. That is, the largest group that buys, and the common characteristics that bring these people to your company (seeking your products and services).
This categorization will be defined as Primary Customers and a percentage of these customers to the entire business can also be listed. Following the Primary Customers, Secondary Customers can also be listed.

The Secondary Customer list can be one group or several groups. A listing of these Secondary Customers can be assembled and the percentage of their patronage to the business can also be listed. Finally, this organization of primary and secondary customers to the business is an attempt to know who the customers are and how we can locate them when advertise our business. And, if this information is NOT known, it is still important to make your best assessment of these profiles. Continue to gather information about the customer so that you can become knowledgeable about who is interested about what you have to offer and to what extent they patronize your business.

Primary Customer (sample definition).
Business is a convenience store located in a rural area.

Male	**ages 24-49**
(60% of shoppers)	**average income of $27,000**
	profession- blue collar
	education- high school graduate
	married with 3 children
	owns own home
	drives a recreational vehicle (van or truck)
	prefers to buy American made products
	enjoys the outdoors (hunting, fishing, boating)
	probably a member of the NRA (National Rifle Association)

Reason to Shop a Convenience Store: Customer would stop in his travels to and from work for self or home needs.
Would also stop during his lunch break from job. Likes idea of convenience and willing to pay higher prices. Location and ease of parking are primary reasons he would stop at a convenience store.

Secondary Shopper:

Male	**ages 16-21**
(20% of shoppers)	**average income of $8,000**
	in school or has recently graduated
	may or may not have his own transportation
	still has interest in spending money that he has rather than saving
	attracted to the convenience store because of video games, magazines, candy & drinks

Female	ages 21-34 (20 % of shoppers)	average income of $24,000 high school graduate has own transportation house wife or has part time job married with two or more children Primary purchases are for self and family. Shops only for convenience and considers location, fast checkout, and store cleanliness as reasons to use a convenience store over shopping at a grocery store.

Considering the descriptions regarding the demographics of the customer, what can you say about the customers that will buy your products and services?
Sex-
Age-
Income-
Profession-
Lifestyle-
Hobbies/activities/recreation-
Professional/political affiliations:
Community organizations-
Overall likes/dislikes that might be important-
Reasons why they would buy your product/service-

**List primary and secondary demographic information about your customer.

Part- Two. Trade Area.
In addition to discussing the demographics about your customer, the trade area in another means to defining where customers come from. The trade area is the boundaries of which you have defined as to where the customer comes from, and it can be 1 mile from your business, 3 miles from your business, 100 miles from your business, the entire state of which your business is located, several states near where your business is located, the entire U.S., or International trade if that is applicable.

For example, if you sell real estate, there is a high probability that your trade area is going to be about a ten-mile radius from the location of your office. If you own a restaurant in a local neighborhood, it may have a five-mile radius of trade for getting its customers. However, if you are a wholesale distributor of motorcycle products, you may have a trade area of the state you live in and parts of the surrounding states as well.

The importance of knowing your trade area help you to, (1) better identify where the customer is coming from, (2) help you to know what exists around your business so you can attract the potential people to your business, and (3) allow you good information when it comes time to advertise your business.

In addressing the trade area in your business plan, using a map of the described area is helpful. As you begin to learn who these people are and where they are coming from, draw an outline of the zip codes and use main streets as a way to define the trade area for your business. Make notes about certain business such as business centers or office buildings if they present potential customers for your business. Also note new housing developments and other new construction so that you are fully aware of what is going on in the marketplace. DO NOT lose business or potential business because you were not aware of what was going on around you. The opening or closing of a business has implications on your business- make sure you are ready to incorporate the changes into your business especially into your marketing efforts. Finally, stop by any new location and show them that you are a viable business in the area and would like them to consider your products and services. Also, invite them to a community event or after hours social as a way to help them get immediately involved in the community. Your extra effort could pay off in many ways.

EXERCISE...
In an effort to visually express the trade area of your business, get maps of the areas where you will be doing business and draw some initial boundaries of where you perceive where your customers will come from. Get familiar with these areas as best as you can. Keep notes about what is going on- new developments, new housing, new businesses, new highways, etc.

C. Analyzing the Competition.

Much like knowing your trade area, knowing your competition is a similar exercise in being informed. Analyzing the competition means knowing who they are, where they are located, what their reputation is, how long they have been in business, and any other particular facts and information you can gather about them that can help you better market your own products and services.
Information that you can gather about you competition is an on going process. Once you begin, it becomes easier to analyze the competition. Another good exercise in gathering this information is to visit them and go through a first hand experience as to how they handle their customers. Note how good or not good they were in answering your questions, their level of knowledge, overall expertise, etc. This information will play a part in helping you better sell your products and services by knowing first hand how the competition handles their customers.

In keeping informed about the competition, the following list of information can be gathered to have an on going analysis of the competition:

ANALYZING THE COMPETITION:

Competitor Name:
Address:
Location:
Type of Business:

Competitor Reputation:
Quality of Staff:
Product/Service Features:
Product/Service Quality:

Competitor Advertising:
Marketing Strategy:
Advertising Budget:
Size of Business (sales):
Market Share (%):

D. Competitive Advantages/Disadvantages.

Upon completion of analyzing the competition, a competitive advantage/disadvantage exercise can take this information and put it into a useful form. Knowing your competition is important. However, knowing your competition well can be a business advantage. For your business to increases its chances to succeed, a summary of the competition, advantages/disadvantages will help to get up to speed in a quick manner about what is taking place in the marketplace. Once this information is gathered, it will become easier to stay informed about what changes take place because you will know who the good companies are, who are the average companies, and who falls into the poor performers. Likewise, you will be able to recognize the new companies to the industry.

COMPETITIVE ADVANTAGE/DISADVANTAGE REVIEW

COMPETITOR NAME	STRENGHT	WEAKNESS	COMMENTS
Cash & Keg (Convenience Store)	range of merchandise	entry to store	store has looked poorly run lately

E. Changes in the Marketplace.

In addition to knowing the competition, the are other factors that affect how customers buy. Economic forecasts always have implications and can be an influence for helping sales and hindering sales. As a result, knowing what the general economist forecast is important. For example, if spending is down, my prices might have to be adjusted to compensate for a slow economy. Likewise, if other changes in the marketplace occur, like additional competitors to my business, my strategy might be affected. My response might be to, (1) lower prices, (2) increase my advertising, (3) send a special offer to my best customers, (4) wait and see how the competitor does business and respond at a later time.

Changes in the marketplace are influences on our business and can best be handled by knowing what the changes are, and setting a strategy to offset the changes. Some of the information will come via the local news; some of the information will need to be obtained by being involved in the community. As this information becomes known, keeping notes on current affairs can be of value to the business. A notebook or file regarding this information will be useful, not only for the immediate impact that might occur but also for using this information as you write your business plan/business strategies on a yearly basis.

F. Customer Development/Relations.

In attempt to fully service the customer, effort must be made to keep some level of dialogue with the customer in various formats with the overall objective to use this information to better service the customer. Companies often times make the mistake in assuming their products and services are the best they can be and that the customer is pleased with what is being offered. When this happens, the door begins to open for other companies to steal the business. The more that door opens, the easier it becomes for the customer to make the switch to other companies.

How do you keep from making mistakes, and allow the competition the opportunity to get your customers? It begins with the attitude that you are concerned about offering your customers the best products and services you can offer and then working hard at maintaining this objective.

What can you do to keep informed about what the customer thinks about your products and services? There are many different ways you can do this. Suggestions follow. However, the main thing to remember is to ask the customer for feedback. Once you begin to do this, you will find how helpful and important this information is to the success of your company.

- Send a letter & a card on a yearly, semi-annually, or quarterly basis (frequency is whatever you determine is important). Use the letter to explain the purpose of the survey, and use the card to record their feedback. Make sure the card has postage for the return. Also, it is important to offer them an incentive for giving you the information. A discount on future purchases is a good value, or a small item with your companies advertisement.

- When the customer visits your place of business, ask them to also fill out a survey about your company. Upon completion of this, have them put their name in a drawing for gifts or a trip that you are paying for. If you need items for the giveaway, solicit other companies that can benefit from the cross promotion.

- Send invitations to your customers on a once or twice a year basis for a customer appreciation social. Ask them to bring a friend as a means to add to your customer base while at the same time showing your appreciation for your existing customers. By inviting them to your place of business, you can drop the business attitude and create a more casual flavor. When doing this, you may get the customer to talk more openly. From this, you may observe what the customer likes and dislikes in regards to the industry you do business in. This may include your company and your competitors. This can be extremely valuable information if you, (1) want to know this information, (2) do something with the feedback you get. Obtaining the information is only part of the equation.

  Listening to the customer and then making changes that you deem necessary is the Customer Development/ Relations program in full operation.

- Another way to gather important information regarding the customer is through a focus group which was explained in the pre-plan section of this business plan. While expensive, a focus group study can give some of the most important feedback that you might be willing to explore with your customers. Focus group studies are most often used when a new product or service is being introduced, or, when a company might find their sales flat and want to explore ways to regenerate sales based on the feedback they receive during the study.

G. Cite Short, Intermediate, And Long-Term Goals Considering The Marketing Analysis Of Your Business.

Consider your company and list the objectives you would like to make regarding Marketing Plan of Action- Analysis.

1. **Market Research.**
   Long term goal:
   Intermediate goal:
   Short term goal:

   Long term goal:
   Intermediate goal:
   Short term goal:

2. **Defining the Market.**
   Long term goal:
   Intermediate goal:
   Short term goal:

   Long term goal:
   Intermediate goal:
   Short term goal:

3. **Competitive advantages/disadvantages.**
   Long term goal:
   Intermediate goal:
   Short term goal:

   Long term goal:
   Intermediate goal:
   Short term goal:

4. **Changes in the Marketplace.**
   Long term goal:
   Intermediate goal:
   Short term goal:

   Long term goal:
   Intermediate goal:
   Short term goal:

5. **Customer Development/Relations.**
   Long term goal:
   Intermediate goal:
   Short term goal:

   Long term goal:
   Intermediate goal:
   Short term goal:

6. Idea Explored. Part Six- MARKETING PLAN OF ACTION- STRATEGY.

A. Company to Customer Analysis-The Positioning Statement.

Through the writing of your business plan, you have had the chance to thoroughly think about your product and service and how it can be of value to the customer. This ability to accomplish this is the process of Positioning the product in the mind of the customer. Positioning is the origin of the marketing messages and programs you will do to promote your business. Positioning gives your customer a basis of what they can expect when they purchase your product and service. Will they get the highest quality and the best service, good quality and good service, or the lowest quality and the absolute minimum service? And, considering the level of quality and service is the price. If you want the best...quality of product and service, you usually can expect the pay the highest price.

If you move down to good quality and service, you will usually find a better price. Finally, if you move down to the lowest level of quality and service, the lowest price will usually be associated with minimum quality and service.

Another example of positioning is as follows...

Suppose you are looking for athletic shoes for running. Your choices of purchasing theses shoes might be:

1. A small, nicely designed, both interior and exterior, shop in an upscale community. The employees would be well groomed. The products would be displayed in and around nice fixtures. The sizes, colors and selections you would want would be easy to find. The customer service, from knowing the products to assisting the customer during their entire visit to the store, would probably rate as superior. And, prices would reflect all the conditions that you are surrounded by- nice shop, nice part of town, good parking and well-lit area, good selection and great service. Consequently, the customer is willing to pay for everything you have provided for them in this situation and therefore pricing is higher than other places you could go to get athletic shoes.

2. A large athletic sport shop found in most areas around a large city. The shop is nice but not plush. The shoe selection is good, service is good, and prices are good. The sales help would be knowledgeable in shoes, but also in all types of athletic products and services. While the sales help would be available to help you, they might need to help other customers at the same time. As a result, the customer expectations would be to find a good selection, good sales help and good prices (and should generally not be disappointed).

3. A large discount store where shoes are a small portion of the products and services that are offered, AND athletic shoes are at a minimum quantity. Further, the condition of the store would be at a minimum level. Sales help, well, probably will not occur while you are trying to find what your are looking for. And, if you do find any sales help, their ability to answer your questions would likewise probably not be possible. Selection, such as colors, sizes, styles, as previously mentioned, would be at a minimum level.

However, if you are able to find what you wanted, the style, color and size of shoe, you might find the prices to be the lowest of any place you might have shopped.

Following this example, what are you offering your customers when it comes to size, color, style, and recognizable manufacturers. Also, do you offer top notch sales help, installation assistance, warranties, and follow up to the customer questions? How would you qualify your companies overall effort for the customer once they decide to do business with your company?
What will your business look like? What will the physical make up be like? And, what will this do from a psychology standpoint as you set a certain tone about your business to the customer. Also, what will your employees look like? How will they conduct themselves with the customer? What will your vehicles look like?
What will your invoices that the customers pay from look like? How will you position your company in the mind of the customer?

Once you have made these decisions, being consistent should be your greatest asset with the customer. That is, you have told the customer what to expect and if you deliver this expectation on a regular basis, your ability to build a good clientele becomes possible. Probably the best example of Positioning comes from one of the best know companies in the world- McDonald's. If you visit one of their stores in St. Louis, Denver, or Boston, the product, service, conditions of the stores, and pricing of the product will almost be exact. This consistency in delivering the same products and service to the customer has made McDonald's one of the best examples of how the company is able to position what they have to offer to the customer being identical to what the customer gets when they visit McDonald's.

Having a general understanding of what positioning means, the next step is to write your own positioning statement.
A sample of how this is done will first be shown.
The business that the positioning statement will be written for is called Serve-U, a convenience store in a rural setting. The store is 2,100 square feet on 2.5 acres and is in overall good condition. Sales projections for the first twelve months of business is estimated at $467,000. Parking and entering and exiting the store is convenient to the customer. Finally, the owner is also the on site manager and is very involved in the business. Likewise, the sales help is very well supervised and the customer service to be considerable better than what is typically found at most convenience stores. The Positioning Statement for Serve-U Convenience is as follows:

Serve-U is a convenience store that provides a product of need at a fair price in a fun, exciting, environment with exceptional merchandising and sales help.

As has been discussed, the positioning statement has set a certain tone about this business for the customer. Furthermore, this example of the positioning statement has stated that it provides products of need, at a fair price in an exciting environment along wit exceptional merchandising and sales help. And, as you can tell by this example, the positioning statement is no several paragraphs about the company but rather a short message about what the customer will find when the shop Serve-U. And, like the example of McDonalds, if the company is consistent about what they promise, then a good business can be developed. Finally, the positioning statement sets the tone for the advertising to follow. The next seven sections will further address how this positioning of the company will be discussed in the various advertisements about the company. What will be the positioning statement for your business? What can you say about the products, service, pricing and location of your business in a few short sentences?

Write the positioning statement for your business:

B. Selling The Benefits.

Positioning your product and service provides the basis about what the customer can expect from your company.

However, the positioning statement alone will not sell the customer. If the convenience store stopped sell the attributes of their product and service after the positioning statement, traffic to the business would never reach the levels that would be necessary for meeting expenses and further growth of the business. Likewise, if McDonalds only talked about clean well managed and good hot food everyday, the sense of urgency to visit one

of their stores would diminish. As a result, advertisements are focused on how good their Quarter Pounder and French Fries are. Or, how well priced their cheeseburgers are during the next two weeks. Or, how convenient their 30 locations are surrounding the large city that they service.

What you have now seen is the need to take the positioning statement and give specifics about the product and service you are offering the customer. Advertising is the ability to sell the benefits in action. Without question, a good advertising program can elevate the exposure of your business and effectively sell the goods and services that you offer. The benefits are the personal gains that the customer expects when they purchase your products and services, and, the better you are at knowing what these benefits might be and explaining them to the customer, the better motivated the customer is to make a purchase. As we know, the customer might be somewhat interested in the physical makeup of their favorite toothpaste for example, but probably extremely interested in how it fights cavities or makes their teeth there whitest!

If you offer good customer service, give specifics about this service and how it makes the customer life easier.

If you have superior selections for the customer to pick from, tell them.
If your company offers exceptional pricing and value, then tell the customer.
What are your products and services and what are the BENEFITS to the customer?

Make a list of your product and services and then list the benefits that the customers might think of in terms of being motivated to purchase theses products and services.

<u>**PRODUCT/SERVICE**</u>	<u>**CUSTOMER BENEFIT**</u>
Example:	
Auto tires, new	**smooth ride** **safe ride** **cool look** **better gas mileage** **upgrade in performance** **recognizable name brand** **affordable price if buy now**
Swimming pool, new	**family fun** **upgrade in house value** **swimming lessons for the children** **escape from the hot weather** **nicer yard then the neighbors** **recognizable name brand** **good price if buy now**

Explain your products/services and the customer benefits:

<u>**PRODUCT/SERVICE**</u>	<u>**BENEFITS**</u>

C. The Business Cycle.

Another important mix to the performance of your company, (that is, offering good products and services on a consistent basis), is understanding the business cycle. All companies that sell similar products and services have peak times when the customer is more apt to buy their products and services than other times. For example, a company selling swimming pools and supplies have a better opportunity of selling their products and services, if considering the weather conditions of the Midwestern part of the country, in the spring months of the year. For at this time, the awareness of the product is at a high level. Not only might you be advertising your products, but your competitors might be as well. And, because of the national advertising that is done in addition to the local efforts, the awareness of the industry has greatly risen and is a prime time for you to get traffic to your door.
Therefore, what is the peak time or times for your business? Will you respond to this important opportunity in terms of running ads for your business? Also, will you be prepared for this period by having adequate stock levels, trained and superior sales staff? Will you fully take advantage of an opportunity by ordering your products well in advance to make sure you can satisfy the customer? Missing this important opportunity, particularly when it often times only comes once a year, has to be planned for well in advance.

What are peak times for your business? What will you need to do in advance to plan for this busy time for your business?

Keep your busy season on top of your planning list...

Peak Season for my business is:

If I plan to be ready for my peak season by ordering stock and staffing for the peak season, I should order peak season stock by (at least 6 months in advance):

I should be hiring and training my staff by (at least 2 months in advance):

Also, to make sure my customer is informed about my great merchandise and is enticed to come to my business for their needs, I will have an advertising plan prepared and in place (at least 1-2 months before the peak season begins):

D. The 12-Month Rule.

This section on advertising is another opportunity of setting a goal and then measuring its results. The 12-month rule, which is the title of this section, is a time line that is suggested to use when measuring any planned objectives for the business. Simply put, trying advertising methods, are there are many to choose from, has to be used a minimum of 12 months to measure its effectiveness for getting traffic to your business.

Therefore, to be the most effective with your advertising, you have to:

- Have a sense about who your customer is.
- Have a sense of the advertising opportunities available, knowing what they can do for you and the best means to reaching your customer.
- Give your advertising an opportunity to work, that is, employ the 12-month rule from the beginning of the advertisement with an evaluation of how well it worked.
- Being consistent helps the customer. Through this process, using the 12-month rule, you allow your advertising to reach the customer on a consistent basis. Customers like to know about whom you are and what you have to offer them. However, this takes time to materialize and can not be done when you try one advertising method for a short time and then try something else. As a result, your best chance to succeed with your advertising is the 12-month rule. Use it and get the results your are looking for...

E. Advertising Objectives.

Decisions about your advertising are important. The dollars you spend must get the successful results. Furthermore, by doing some preplanning, this process can become more defined. The beginning of the advertising process should be first determining what your advertising is intended to do, that is, what are your advertising objectives and strategies? What are you expecting your advertising to do? What is your advertising being designed for?
For example, a start up business initially has different goals and objectives than a company that is well know in the market. Also, will your company have instant name recognition or will your advertising have to introduce your name, product and services to give you a chance to sell to the customer? As you can tell, setting initial objectives and strategies can help you begin to better define what you need to accomplish with your advertising considering your situation, what is occurring with the competition, and what is generally occurring in the marketplace.

As you begin your plans for advertising your new business, what will be the objectives of your advertising? What size-advertising budget will you plan for? What will be the things that will constitute marketing of the business, and what will be specifically advertising? Who will be responsible for the advertising, and who will be involved in the process?

Setting Advertising Objectives.

1. **How much will be spent?**
2. **What advertising mediums will be explored?**
3. **What type of message will appear in the ads?**
4. **What will be the frequency of the ads?**
5. **What will be the reach of the ads?**
6. **What will the cost per thousand tell you regarding the cost effectiveness of the ad?**

~SAMPLE...ADVERTISING OBJECTIVES FOR A NEW BUSINESS~

Objectives/Strategies:

1. **Objective. The initial challenge for our advertising will be to create exposure and identity to our new business.**
   Strategies.

a. **Contact the local city/township or county regarding the ordinances for sales and promotional possibilities that can be conducted on a business premise.**
b. **Plan a grand opening event that will include the local chamber of commerce. Include refreshments and giveaways to all that attend.**
c. **Schedule other grand opening events that will bring customers to the business covering a two-week period.**
d. **Create awareness for the new opening with newsprint ads.**
e. **Design a flyer to distribute to a five-mile radius of the business over the next 12 months.**
f. **Have employees wear badges that welcome the customer to this new business.**
g. **Have the local newspaper do a story of this new business opening.**

2. **Objective. Our business has placed a big emphasis on customer involvement.**
   Strategies..

a. **All customers to the business will receive a thank you the first time they buy our product.**
b. **All employees of the company are instructed to listen to the customer. Any concerns are written down and passed to the management of the company.**
c. **On a monthly basis, customers are asked to give suggestions regarding what they view as good things they encounter with the business as well as things they would like changed. The person with the best-written suggestion is rewarded. And, all the entries collected helps to develop a mailing list for the company.**

3. Objective. The process of finding out the primary and secondary customers of the business is important.
Strategies.
a. Use initial research collected of the market area as a starting point of the customer profile.
b. Create a form to record this same information about the customer (age, income, occupation, sex, etc.) and record who are buying your products and services on a regular basis.
c. From all interactions with the customer; surveys, store comment cards, promotions, etc. include information/questions that will help identify who the customer is.
d. Use this data of information to help create advertising, promotions, and merchandising that will be of interest to the primary shopper.

4. Objective. Customers find benefits in using your product/service. Reminding them of these attributes is important.
Strategies.
a. Reinforce these attributes in newsprint, brochures, in store/business materials and any other form of advertising that you do on a regular basis. Have your employees ready to serve the customer. Make sure they understand the business and how they in, i.e. what there place is in helping the company.
b. Use messages on stationary, small stickers on products sold, etc. to remind customers of how your company is positioned to help them.

5. Objective. Sometimes the customer can buy some of your products/services from another source at a better price. Consider what items that you can price lower to get the customer to not buy from the competition.
Strategies.
a. Send out frequent information to the customer to remind them about your good pricing on key items.
b. Make sure your employees highlight the better-priced items when possible.
c. Make sure these products and services are merchandised so that the customer is aware of the better-priced items whenever possible.

6. Objective. Keeping customers is a challenge for all businesses. Actively seeking programs to keep custom interest and involvement is important for maintaining customers to the business.
Strategy.
a. Establishing a yearly promotional campaign that is designed to create excitement for the customer is essential to this success. Updating and evaluating this on a regular basis will be a key to making sure the programs are meaningful and effective.

F Sales and Promotional Strategies.

Sales and promotional strategies are the actual events you plan to support the advertising objectives you have determined are important to your business. Sales and promotional strategies are the daily, weekly, monthly event that you put in place to create the fun and excitement for the business. If you are selling cars for example, sales and promotional strategies are the sales contests that you have among the sales staff along with the rebate programs and free giveaways directed to the customer. If you are a wholesale distributor for example, sales and promotional strategies are geared to set company goals you are trying to obtain with discounts offered to the customer when the customer can place a larger order to help you accomplish this goal. If your business is cleaning homes (maid service) your sales/promotional strategy might be to add another service (laundry and dishes) at ½ the price for the next three months to help expand your service and potential sales with the idea that if the customer likes the service, it will then continue at a full rate.

Sales and Promotional strategies are all the small, medium and sometimes large expenditures by your company to help promote, and at the same time, generate sales in a given time frame. It can involve employee incentives, customer incentives, and extra spending to create a theme that reflects favorable upon your business.
When are they planned and why?
Sales and promotional strategies are planned typically for a twelve month period and help you think about how you can inject life into your selling activities. Sales and promotional strategies typically follow the other advertising you might be placing such as newsprint, direct mail, radio, etc. Also, sales and promotional strategies, like your planned advertising, are placed during peak times that your customer might be considering purchasing your product and service.

G. Advertising in Action- Sales and Promotions Budget/Sales and Promotions Schedule.

Now that the advertising objectives and sales/promotional strategies have been discussed, these ideas and strategies need to be communicated to your customer. The placement of your advertising and what it will say is this process of putting your advertising into action.
Placing your advertisement...
Your advertisement can be placed wherever you deem worthy of the cost and potential return on this investment. The traditional means include:

- Radio and TV
- Newsprint and magazines
- Direct mail and coupons
- Yellow pages
- Billboard
- Flyers and brochures
- Trade publications

However, do not forget other advertising opportunities, such as:
-News releases
-Sponsorships (special events you sponsor)
-Charitable events
-Trade shows
-Internet web page
-Co-op with vendors
-Co-op with other companies

Also, advertisements that are in less traditional places:
-On your company stationary
-Signs in your office or around the business
-Giveaways such as pens, pencils, etc.
-Employee shirts, hats, etc.
-Company vehicles

What your ads should look like:
Deciding what your ads should say is another decision that affects the total effectiveness of your advertising. Each type of advertising medium (radio, newsprint, direct mail, etc.) will also be a factor in terms of how your ad will be utilized.
However, knowing what you want to accomplish is the important element of every ad you place. Overall, the benefits of what you offer the customer is the primary objective of the advertising that you will do. The customer most often will evaluate your offer in terms of what the benefits are to them. Knowing what these selling benefits are to the customer is essential to your selling success (see the section above, selling the benefits). In addition to this, your ad should contain some other basic information:

1. Benefit to the customer
2. Offer to the customer
3. Why they should buy from you
4. Ask for action
5. Important info- phone, address, logo, co. name, hours, parking, forms of payment accepted, etc.

This basic format should easily set up most ads that you will do for your business. However, some of the other ads that you can do will be formatted to support other events and activities as necessary.

To make the advertising and promotional plans for your company organized and easy to follow, an advertising budget must be established along with what ads will be run and when. Following this, a sales and promotions schedule will list all the planned activities for the 12-month period it will cover.

EXAMPLE:
Advertising/promotions budget for the period of January 1, to December 31, 199_
For the BEST BBQ in ST. LOUIS
$42,000 (7% of gross sales of $875,00)

Month	$ planned/$ spent	radio	newsprint	yellow page	brochures	special events	giveaways	othe
Jan	$2,000		$800	$200	$1,000			
Feb	$1,500			$200				
March	$3,000		$1,200	$200		$1,100	$500	
April	$3,000		$1,200	$200	$1,000		$600	
May	$3,500		$1,500	$200		$500	$800	$500
June	$10,000	$6,000	$2,000	$200		$1,000	$800	
July	$10,000	$7,000	$1,000	$200	$1,000		$800	
Aug	$10,000	$6,500	$1,500	$200		$1,000	$800	
Sept	$5,000		$2,500	$200		$1,000	$1,300	
Oct	$4,500		$2,500	$200	$1,000	$300	$500	
Nov	$4,000		$2,500	$200		$1,000	$300	
Dec	$5,000		$2,500	$200		$1,000	$800	
Total yr	$61,500	$19,500	$19,200	$2,400	$4,000	$6,900	$7,200	$500

Following the budget, a calendar of special events can be created to help support the advertising plan. This calendar can show all the activities, such as an after hour event where drinks and food is served and customers enter their name for a prize drawing. These expenditures would be placed in the categories, (food and drink under special events) and the prize drawing under the giveaway column. As you become comfortable with the process, that is, budgeting the dollars and using a calendar as your planning guide, the time spent in handling advertising duties become much easier.

This is a difficult area for many small owners. One, they often times do not do any advertising. Two, when they decide it is time to do so, they are not at all sure what advertising vehicles to use, and, often times advertise at the incorrect times- when their potential customer is not actively interested in their product and or service. □

As you begin to follow the 12-month rule, the success of your advertising efforts can become more beneficial as you become more organized and precise with the timing and placement of your ads. Also, the real benefit of doing this planning in advance is that better decisions can be made.

SAMPLE
ADVERTISING/PROMOTIONS SCHEDULE

Month of: July, 2001 Advertising Budget: $10,000

Week One, Begin Date: July 1-5

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY	SUNDAY
		1 Newsprint ad- Suburban Journals	2 Radio Schedule-Through Sunday- KLOU KSD Newsprint ad-Post-Dispatch	3 Special Giveaway- Enter to win $500 Cash Prize through July 31st	4 Special Giveaway: Best BBQ T-Shirts with Flag Emblem (50 shirts)	5 Newsprint-Post Dispatch

Week Two, Begin Date: July 6-13

6	7	8	9 Radio Schedule-Through Sunday... KLOU KSD	10 Special Giveaways-Best BBQ T-Shirts W/Flag Emblem (50 shirts)	11 Special Event: County Music-Live Band	12 Newsprint- Post-Dispatch

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Week Three, Begin Date: July 13-19

13	14	15	16	17	18	19
					Special Event: Country Music Live	

Week Four, Begin Date: July 20-26

20	21	22	23	24	25	26
			Radio: KLOU KSD	Special Event: Country Music Live	Special Giveaway: Best BBQ T-Shirts w/Flag Emblem	Newsprint-Post-Disp atch

Week Five, Begin Date: July 27-August 2

27	28	29	30	31	1	2
			Radio Schedule KLOU KSD	Special Best BBQ T-Shirts	Special Event: Country Music-Live	News-Post-Dispatch

H. Cite Short, Intermediate, And Long-Term Goals Regarding Marketing Strategies.

1. **Advertising Objectives:**

2. **Advertising Promotions Budget:**

3. **Advertising Promotions Schedule:**

7. Idea Explored. Part Seven-FINANCIAL PLAN.

The financial plan of any company has tremendous implications. Obtaining cash (from loans and sales of the business), determining your legal business formation, investing your profits, buying/leasing equipment, collecting on due bills, and other strategies that you decide to follow regarding your financial plan are all important to your success. Therefore, having a sense of a financial plan can help you accomplish these goals.
Furthermore, it can keep you from making decisions as independent elements of the business but rather all part of a plan that you are trying to follow that can lead to financial success.
Can you do this alone? Or will you need to employ one or more persons/services to help you effectively reach your financial objectives?

A. Personal Resources.

One of the judgments that the bank will make in viewing the ability to make the loan will be your personal credit history. All applicants seeking banking or other financial assistance will have to show that they have the ability to handle their personal finances in a good manner. Anything less will become a potential obstacle for getting the loan. Other information gathered in this process will include net worth, that is, considering all your assets and liabilities accumulated to date to find if you are in debt, or have a positive cash flow. This likewise will convey another message to the banker. If your loan application has other problems, showing a negative cash flow might tell the banker that this is not a good loan to make. However, a positive cash flow might be the better picture that will help convince the banker to make the loan.

What does your personal cash flow situation look like? Can you easily say that you cash flow is positive? If not, take a look at the following personal financial statement (this will be much like what your banker will ask you to fill out) and evaluate your own personal financial situation. Does it look promising or do you need to start thinking of ways to improve your status? Be prepared, the banker is often times wanting to work with the client as best as he can but might have problems selling your plan to the bank board if it has too many negatives. If the process does not go well, you may find other types of lenders, but be prepared to pay much more for the loan if you have to take this route.

ASSETS		LIABILITIES	
Short-term:		Short-term	
Cash:		Accounts payable:	
Cash on hand	$________	Medical	$________
Checking Account	________	Dental	________
Savings account	________	Credit Cards	________
Money-market account	________	Miscellaneous	________
Receivables:		Contracts and notes payable:	
Amounts owed to you	________	Charge accounts	________
		Personal loans	________
Long-term:		Car loans	________
Personal property (resale value):		Furniture loans	________
House(s)	________	Other	________
Autos	________		
Jewelry	________	Taxes payable:	
Art Collections	________	Income tax	________
Furniture	________	Property tax	________
Other	________	Other	________

Investments:		**Long-term:**	
Other real estate	______	**Other loans:**	
Brokerage account	______	**On stocks, bonds**	______
Bonds	______	**On insurance policies**	______
Stocks	______	**Other loans**	______
Mutual funds	______	**Mortgage debt:**	
Other	______	**Home- 1st**	______
		- 2nd	______
Pension/retirement plans:		**Vacation home**	______
Life insurance(cash value)	______	**Other**	______
Company 401K	______		______
Other	______		______
	______		______
	______		______
	______		______
	______		______
	______		______
TOTAL ASSETS	**$______**	**TOTAL LIABILITIES**	**$______**

TOTAL NET WORTH (ASSETS – LIABILITIES) $______

B. Revenue And Profit Goals.

Summarize sales and profit goals for the first three years as accurate as you can. The formula to follow is:

	Year 1	Year 2	Year 3
Sales..	______	______	______
(COGS)..	______	______	______
.............Gross Profit	______	______	______
Variable Exp..	______	______	______
Fixed Exp			
.....................(Total Expense)	______	______	______
Net Profit before Taxes ______	______	______	______
Less......(taxes)	______	______	______
Net Profit(loss) after taxes______	______	______	______

****This Form Can Be Provided From Your Local Bank. The Format Will Look Like The Form Below And Can Be Used For Estimating One Year, Two Year, And Three Year Sales, Expenses, And Estimated Profit Or Loss****

ESTIMATED PROJECTION AND FORECAST OF THREE YEARS EARNINGS

Year	_____	_____	_____
Gross Receipts	$ _____	_____	_____
Merchandise Costs (COGS)	_____	_____	_____
GROSS PROFIT	_____	_____	_____
EXPENSES			
Officer's Salaries	_____	_____	_____
Employee Wages	_____	_____	_____
Accounting/Legal Fees	_____	_____	_____
Advertising	_____	_____	_____
Rent	_____	_____	_____
Depreciation	_____	_____	_____
Supplies	_____	_____	_____
Utilities (electric, water, sewer, trash)	_____	_____	_____
Telephone	_____	_____	_____
Repairs & Maintenance	_____	_____	_____
Taxes	_____	_____	_____
Insurance	_____	_____	_____
Bad Debts	_____	_____	_____
Miscellaneous	_____	_____	_____
TOTAL EXPENSES	_____	_____	_____
NET PROFIT	_____	_____	_____
Less Income Taxes	_____	_____	_____
NET PROFIT AFTER TAXES	_____	_____	_____
Less Withdrawals (Sole Proprietor)	_____	_____	_____
NET PROFIT REMAINING FOR LOAN PAYMENT	_____	_____	_____

C. Start Up Costs (Sources And Uses Of Funds).

To accurately project what your bank loan amount will be, an organized list of your needs, (capital equipment, supplies, owners salaries, marketing expenditures, etc.) are some of the necessary items to place here. During this process of collecting all this information, all your start up expenses must be listed in the sources and uses of funds statement. Once completed, this form will accurately show the loan amount you are expecting to work with, both the amount to borrow from the bank and your injection of funds into the business.

To help formalize this list of NEEDS, the following form allows for:

(1) All fixed assets like capital equipment, buildings, vehicles, furnishings, etc.
(2) Starting inventory.
(3) Cash reserves for unexpected changes in sales, material costs and emergency fund.
(4) And finally any OTHER items not covered in this example.

Use the following form to organize your start up expenses.

INITIAL CAPITAL NEEDS

item	One Time	1-3 months	3-6 months	6-12 months	total

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Item	One Time	1-3 Months	3-6 Months	6-12 Mnths	Total
Owner Salary					
Wages & Salaries					
Operating Expenses					
Licenses, Permits					
Legal/ Professional					
Insurance					
Initial Expenses					
Cash Reserves:					
Inventory					
Emergency Fund					
Other:					
TOTAL CAPITAL NEEDS:					
Minus:					
Owner's Investment					
Other Investors					
Total To Borrow					

If your information is not complete, that is, you are not fully sure what a piece of equipment might cost, or, not sure what rent for a building will cost, do your best job to approximate. If rent information is not available, call landlords of buildings available for rent and ask what it would cost to rent the space including all charges associated with renting the space such as:

(1) rent per square foot of the building.
(2) additional charges such as common area maintenance, marketing funds, taxes, insurance etc.
(3) who pays for building improvements?
(4) who pays for building damages like roof leaks, etc?
(5) additional payments to the landlord for percentage rent.
(6) can the space be sublet?

As mentioned, the list of expenses you will assemble might be missing some specifics (for example, if you have not yet located the exact building you want to locate in). However, it is you job to give a complete list including your ability to come up with the best information possible. This is critical because of the loan process. The bank wants accurate information to make ONE loan to suit your needs and is not in the business to re-access your situation and make changes at a later date. The bank is counting on your ability to get good accurate information and has to be able to know that you have done your homework in showing what the business needs initially as well as what the operating expenses will be to accurately run the business.

D. Operating Statement.

Perhaps the most important statement you will work with at the beginning of your business plan as well as on a frequent basis when the business is up and running (perhaps as frequent as monthly) is the OPERATING STATEMENT. The operating statement is just as described, the business in operation. Your ability to generate sales and effectively run the operation (expenses) is conveyed in this statement. The operating statement will look similar to your sources and uses of funds statement. The differences will be that the capital items will no longer get listed on this monthly statement unless you are leasing equipment, and, the upper portion of this statement will show your sales for the business. The sales portion is important because of what must take place to support your expenses to the business. When sales are accurate, the operation can run as closely as planned. When sales are less than anticipated, the burden of handling the expenses for the business are magnified. As a result, stating what sales might be is one part of the process. Working towards sales goals with a well thought out selling and marketing plan is extremely important and vital to the whole operation, and if the sales are not at the performance level as anticipated for any length of time, this can often times spell disaster for the business.

Operating Statement for a sample business is shown. The operating statement as you will see is on a month to month basis.

	Mnth #1	Mnth #2	Mnth #3	Mnth #4	Mnth #5	Mnth #6	Mnth #7	Mnth #8	Mnth #9	Mnth #10	Mnth #11	Mnth #12	**Year Total**
Sales													
Cos Of Goods Sold													
Gross Profit													
Operating Expenses:													
Officer's Salaries													
Employee Wages													
Advertising													
Rent													
Supplies													
Utilities													
Taxes/Insurance													
Total Expenses													
NET PROFIT													

****Upon reviewing this information, give your operating statement for your start up business month to month for the first 12 months and show projections for the second and third years in yearly totals.**

E. Company Statement Review.

While the operating statement has been first discussed, other statements give additional information about the business. Five documents are the backbone to running your business: balance sheet, break-even analysis, income statement, cash flow, and the deviation analysis.

The operator of the business has two objectives regarding the financial performance of the company; to make a profit and pay bills as they come due. The ability to do this effectively is reflected in the income statement and the cash flow statement.

The break-even analysis is based on the income statement and cash flow as well. Break-even shows the

volume of revenue from sales that are necessary to exactly balance fixed and variable expenses. This

document can be used to help make information available for decision making in such critical areas as setting prices, purchasing or leasing new equipment, projecting profit (or loss) at different volumes, and even hiring a new worker. SAMPLES OF INCOME STATEMENT (PG. 11, 47) AND CASH FLOW (PG. 15).
The balance sheet records the past effect of the same types of decisions that the company makes. It records what the cash position (liquidity) of the business is and what the owner's equity is at any given point.
Together, the income statement, cash flow, break-even analysis and balance sheet reflect a comprehensive view of the business in operation. When the anticipated workings of the business are not on course, the deviation analysis is the work that needs to be done to find out where the problems might be. A close look at the projected figures in the operating statement and cash flow statement might show why the business is not performing as planned. Upon this review, comments about the deviations must be noted with a plan of action to get the business back on the planned course. This analysis is a regular function of the accounting practices where honest and level decision making must take place to keep the business from getting too far in danger. When this can occur, the chances for the business to survive, no matter what takes place, is more favorable and allows the business to continually compete in the market it is providing a product and service for. For a Start-Up, Details on the Cash Flow and Income Statement must be provided to the financial institution. The Breakeven Analysis (PG. 17) may also be discussed, it may be advantageous to be prepared for this.

F. legal Business Formation.

Financial planning for your business includes establishing your legal business formation. The choice you make will affect how the business is viewed from the customer, other businesses, and the government. It will also affect how you pay taxes each calendar year depending if the business has shown a profit or loss.
The best formation for your business should match your business goals and objectives. There are advantages and disadvantages of each. Consulting a financial planner or accountant will make clearer the best choice for your business. The possible legal formations and the advantages/disadvantages of each can be found in more detail in the Business Planning Concepts section under the title- Legal Business Formation.

G. Taxes And Insurance.

Taxes affect all business in regards to property tax, employee tax, salary and business earnings, and retail tax. How much will be paid may be a function of the selling or earnings during the business calendar year. However, taxes paid for the business or executive salaries may be determined by the objectives of the business via the legal business formation. By using the assistance of an accountant, these decisions can make earnings for the company or its officers more defined to the business by maximizing or minimizing taxes paid according to the overall financial plan for the company. Strategies can change as long as the rules of the law are followed. A good financial advisor can be instrumental to seeing that all financial objectives are reached, especially if a long-term plan is put into place.

Insurance is also an obligation of the business as it relates to property and or buildings, and employee and or customer safety. How much a business needs can be a function of the industry it is in. A shopping center owner has an obligation to all people who come on the property to make sure it is safe and therefore has large insurance needs coverage. On the other hand, most business provide health and medical insurance coverage through programs that are wholly or partially funded by the company, usually a by-product of the financial plan they have set forth.

What programs will your business set up regarding taxes and insurance? How much will you offer to the employees of the company?

Use the table below to review the set and optional plans that you might offer:

TAXES/INSURANCE TABLE

	what is offered	what is mandatory	optional
Taxes- employee payroll	% of earnings	quarterly payments to the IRS	
Taxes- building/property	Value of building & property	same	
Taxes- officer's earnings	deduction by earnings	same	how earnings are paid (stock options, etc.)
Taxes- Business	paid by earnings	same	how much is recorded as earnings
Insurance- building/property	according to value	same	how comprehensive & amount of deductible
Insurance- employee safety	according to value & deductible	n/a	if plan if offered
Insurance- employee health & investment	according to company	n/a	amount of co-pay if any

H. Compensation.

The compensation plan to employees, officer's, board of directors and investors is determined by the financial plan of the company. The obligations are often times and for all practical purposes should be in writing. The company determines the values of these payments. Rules are not placed on companies on how much to pay employees except when contracts govern these payments as they are for union wages earners like those in the automobile industry and other trades such as carpenter's, electricians, plumbers, carpenter's etc. Also, compensation can be paid in wages or given in stock options, 401K savings, company vehicles, expense accounts, and other forms of benefits that the company furnishes. As a result, it is the responsibility of the company to keep track of the pay and benefits it offers to its employees as it relates to expenses of the company.

I. Importance Of A Financial Plan.

In this section, the common theme has been the stressing of the need for a financial plan for your company. A business has many options it can utilize when considering the financing. The best plan is the one that the company considers in advance and puts in place through the guidance of finance or accounting personnel, either employed or paid as an advisor to the business. The success can be determined when planned goals are reached. It is only unsuccessful when a plan is not considered and only short-term objectives are followed. As a result, it is never too soon to garner advice when considering the benefits of what a good financial plan can do for a business.

J. List Short, Intermediate, And Long-Term Financial Goals For Your Company.

Financial Goals For Your Company:

1. Long-Term Goal;
   Intermediate-Term Goal:
   Short-Term Goal:

2. Long-Term Goal:
   Intermediate-Goal:
   Short-Term Goal:

8. Idea Explored. Part Eight-COMPANY GOALS & OBJECTIVES.

A. Restate Initial Goals (one or more if necessary) Regarding The Operations, Location, Management, Marketing, Financial, And Products/Services Of The Company.

Operations Initial Goal(s):
1.

2.

Location initial goal(s):
1.

2.

Management initial goal(s):
1.

2.

Marketing initial goal(s) for analysis:
1.

2.

Marketing initial goal(s) for strategy:

1.

2.

Financial initial goal(s):

1.

2.

Products/Services initial goal(s):

1.

2.

10. Idea Explored. Part Nine- CONCLUDING SUMMARY

A. Restate Desire to Own/Operate Own Business.

Now that your plan has been fully discussed, a summary of your desire to own/operate your own business can be easily done considering the work that you have done to support your business idea via this business plan. By restating your desire at the conclusion, it can support your business idea that you have placed full faith in. Anything less will only leave some doubts that a potential investor or financial institution might use as a reason to not invest in your business idea. As a result, your summary of why you want to own and operate your own business and why you feel it will be successful can be the final touches you need to get the financial assistance you need to get your idea into action.

Summary of why I want to own/operate my own business:

Summary of why my business idea will be successful:

B. Keys to Success.

Considering the industry you will compete in, list any things you might consider as keys to success. This might be from your prior experiences, or things you have learned in your research of the business. For example, if you are selling sporting goods and equipment, a key to success might be selling shirts to the local high schools. Or, the keys of success for a bread-n-breakfast might be to belong to certain civic organizations to ensure your business is being endorsed by the influential businessmen and women of the community.

List any Keys of Success for your Business:

1.

2.

3.

C. Network Of Support.

A business is not independent of the community it serves. Likewise, your ability to successfully own and operate your own business will be a lot of individual effort but at the same time, you will need to create a network of support. This network can come from many sources such as business associates, personal advisors, board of directors, executives of the company, family members, friends, local business owners, etc. What will be your network of support and how can this become another asset to your plan of being successful at owning/operating your own business.

Network of Support:

Name of business or individual	how you are associated	number of years
1.		
2.		
3.		
4.		
5.		

10. Idea Explored. Part Ten- SUPPORTING DOCUMENTS.

Items that help support your business plan can be placed at the conclusion of the business plan. These items can be a brief or as lengthy as necessary. A list of typical items follow, however, this list is not exclusive. Place any item you deem necessary that supports your business plan in this section.

a. Resumes of key employees.
b. Letters of endorsements (people that know you and can verify that you are capable of carrying out your business idea successfully).
c. Client/sales letters of intent (if you can show a banker or investor that you have potential clients as soon as you get your business started, get their endorsement via a letter).
d. Store/facility layout. If you are moving into a building, show how you will operate the business. This is especially important for a retail business in that it shows where cash registers will be located, customer flow, merchandise layout, etc.
e. Price quotes for service. If you need improvements on a building, parking lot, etc. prior to opening the business, a list of work and costs should be shown as quotes for service.
f. Competitor information. If you can collect any information about the competition such as advertising, pricing information, or samples of products, include this information in this section.
g. Legal documents. If you have applied for a trademark, signed a lease, or formed a corporation, or any other important function, show this information (because of the importance it will play on your obligations to the business) or report what stage it might be in.
h. Sample marketing/sales brochures. If you have formulated any marketing materials such as a brochure, business cards, etc. place this information in this section.
i. Price quotes for start-up needs. A lot of equipment, supplies, etc. might be necessary for getting your business started. Show prices for the items you will be soliciting funds for to get your business up and running.
j. Business plan endorsement. If you have shown your business plan to any professional, business associate, family member, etc. and any of these people feel strongly about what you have accomplished, have them put this endorsement in writing. This support can be of value to you as you try to sell your business idea to other important persons, especially investors and financial institutions that are involved in the funding of the business.

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