Small Business Banking

Business Plan Workbook

Create your business plan without creating a headache
THE PLAN
A Step-By-Step Business Plan Workbook

INTRODUCTION

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

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

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

The Plan helps you find hidden business flaws and makes you think carefully about each phase of your business.

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

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

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

Your business plan should be neat and organized to make a professional impression. Write text in a word processing program that will point out misspellings and grammatical errors. For financial data, use a spreadsheet program.

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

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

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**Business Loan Basics**

**ASK YOURSELF THESE QUESTIONS:**

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

**LENDERS USE THE EIGHT “C’S” RULE:**

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

**BASIC QUESTIONS A LENDER WILL ASK YOU:**

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

**BEFORE MEETING WITH A LENDER:**

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

WHEN MEETING WITH A LENDER:

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

The Appendix

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

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

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

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

FORMULAS

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

The Executive Summary (your Cover Letter) briefly explains the rest of your business plan in about one or two pages.

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

YOUR COVER LETTER SHOULD READ SOMETHING LIKE THIS ONE:

December 31, 2008
The Green Rose
456 Oak Street
This Town, USA 67890

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

Re: Loan Request for $300,000

Dear Mr. Nelson,

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

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

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

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

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

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

Respectfully submitted,

Ed Rose

Tim Green

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

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

Briefly mention your markets and customers.

Include key facts about your competition.

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

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

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

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

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

date
your address

Lender's name, bank name, and address

Re: Loan Request for $__________ (fill in amount)

Dear (fill in lender's name)___________________________:

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

The market for this business... (include one brief paragraph about the industry and its growth)

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

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

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

Attached is our business plan which backs up our request. If you have any questions, please contact (name)____________________ at ________________ (include phone number).

Sincerely,

__________________
Your signature(s) and printed name(s) here
BUSINESS DESCRIPTION

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

Legal Business Description:
Sole proprietorship, partnership, limited liability, “C” or “S” corporation. List the state where the business is incorporated.

Purpose:
Describe the intent of your business.

Type of business:
Retail, wholesale, service, manufacturing, contracting, professional, importing/exporting.

Goals:
Include both current and long-term projections.

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

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

INDUSTRY:
100 design firms and designers exist in our territory. Advertising agencies (about 235) are also competitors but their specialty is not design. Many companies have relocated to Orlando so the demand for our services is growing. The number of start-up companies numbered 6000 last year... etc.

PROFESSIONAL RELATIONSHIPS:
ACCOUNTANT:
Larry Stuart, CPA, 123 Main St., Winter Springs, FL 32781. Ph: 407-678-9012, Fax: 407-678-7890
ATTORNEY:
Linda Johnson of Johnson and Smith, 456 Elm St., Winter Park, FL 32789. Ph: 407-234-5678, Fax: 407-345-6789
BANKER:
INSURANCE AGENT:
PROFESSIONAL ADVISORS:
Claire Velleca, Velleca Consultants, 1 Park St., Orlando, FL 32701 Ph: 407-222-1456, Fax: 407-419-1989

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

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

Reasons for starting, buying, or expanding business.

Professional Relationships:
Include name, address, and telephone/fax numbers for your accountant, attorney, banker, insurance agent, and professional advisor(s).
## Business Description

### General
- **Business name**
- **Location**
- **Mailing address**
- **Phone number**
- **Fax**
- **Tax identification number**
- **E-mail address**
- **Web site address**

### Professional Relationships
Include name, address, and telephone/fax numbers
- **Accountant**
- **Attorney**
- **Banker**
- **Insurance agent**
- **Professional advisor(s)**

### Owners
Provide the following information for each principal in the company.
- **Name**
- **Business title**
- **Home address**
- **Telephone number**
- **Social security number**

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

### Legal Business Description
(sole proprietorship, partnership, corporation, etc.)

### State
What state is your business organized in? What states will you operate in?

### Type of Business
(retail, wholesale, service, manufacturing, contracting, etc.)

### Business Status
New, ongoing, expanding, or buying a business.

### Date
Your business started or will start.

### Keep Track
- **Reasons**
  - for starting, buying, or expanding business.
- **Products and Services**
  - Provide a summary.
- **Purpose**
  - Describe the intent of your business.
- **Goals**
  - **Current goals (within the next year)**
  - **Long-term (over the next five years)**
- **Industry**
  - Provide a brief summary of what's going on in your industry. Include economic trends, outlook, growth patterns and forecasts. Include details in the **APPENDIX**.
MANAGERS & EMPLOYEES

Managers

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

Employees

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

Costs

- Include managers’ job descriptions, salaries, benefits and resumes in the APPENDIX.

General

- Describe any resources available from outside the business. For example, you may use an accountant for financial reporting.
- Some functions can be outsourced. The monthly cost for this service is included in the APPENDIX. For example, you can outsource a direct mail program to a marketing firm.
OPERATIONS & LOCATION

HOW WILL YOUR BUSINESS OPERATE?

☐ How will the product be produced and sold?

☐ How will your services be rendered?

☐ What months, days, and hours will your business be open? Is the business seasonal?

☐ If so, show how you will adjust your time, schedule, inventory, and personnel.

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

SUPPLIERS

☐ If you need suppliers and other companies to complete your product or service:

☐ What and how much will you need?

☐ Where will you get these products and services?

☐ How much will they cost?

☐ What system will you use for materials processing and inventory control?

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

☐ If you’ve requested financial, managerial, or technical assistance from your suppliers, include details in the APPENDIX.

LOCATION

☐ What kind of space does your business need?

☐ Why is the area and location desirable?

☐ Does this location affect your costs?

☐ How much are utilities, taxes, and other expenses?

☐ Is it easily accessible?

☐ Is public transportation available?

☐ Is there adequate parking?

☐ Does your business comply with zoning laws?

☐ Do you own or lease the building? Include zoning statements from local government in the APPENDIX and approval letters from local and state inspectors. If owned, provide a copy of the deed in the APPENDIX. If leased, the term of the lease must be renewable to match the loan period you are requesting. Include a copy of the lease (or proposed lease) with terms, conditions, length, and cost in your APPENDIX.

☐ Are improvements, renovations, furniture, fixtures, equipment or machinery necessary? Show quotes in the APPENDIX.

☐ Retailers:

☐ Research and show traffic patterns in the APPENDIX.

☐ What other businesses are in your immediate area?

☐ Wholesalers, manufacturers and other businesses:

☐ Are you located near your customers and suppliers?

☐ Do you have easy access to major highways, railways, and airports?

☐ Provide photos and a summary of your location including a floor plan, blueprint or plot plan (if building) in the APPENDIX.

CLOTHES WITH CLASS

We are a school uniform shop. Business hours will be from 10 to 5, Monday through Saturday. Our plan is to purchase fixtures to display uniforms and furniture to create a relaxed retail atmosphere. A computer system to track customer purchases and inventory will be leased. These costs are included in the Appendix.

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

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

A floor plan of the building is included in the Appendix. We have divided the area into retail space and warehousing/office space. 700 sq. ft. will include retail displays, three dressing rooms, restroom facilities and two purchasing counters. The remaining 800 sq. ft. will warehouse stock. It includes a delivery receiving area, two offices, and a small employee lounge with restroom. The 20-space parking lot is adjacent to the building.
MARKETING has been defined as “the activity of presenting products or services to customers and potential customers which makes them eager to buy.” Especially in today’s crowded marketplace, where competition is fierce, savvy small business owners should never underestimate the power of smart marketing. The right product or service at the right price is only the beginning. You must also identify your audience, promote your product and find the best distribution method.

THE PRODUCT OF ALL YOUR HARD WORK
First and foremost, believe in the success potential of your product or service. Then think about things like:
• Benefits of your product. If you’re not clear on them, no one else will be.
• Research and development. Will you need it? If so, include detailed plans and costs in the APPENDIX.
• What licensing requirements, restrictions, registrations or regulations affect your business?
• What about legal issues? Are there patents, copyrights or trademarks to think about? What are the costs involved?

THE PRICE IS RIGHT
Determining just the right price for your product or service is a delicate matter. Keep in mind that:
• The price will be affected by the quality of your product, customer demand and the competition (see page 15).
• The selling price must cover all your operating expenses (materials, labor and overhead) and also include a margin of profit. To determine what this is, you need to calculate your breakeven point (see page 30).

PLAN TO PROMOTE, THEN PROMOTE YOUR PLAN
Your promotional plan will be implemented with several marketing tools. These days, a web site is an increasingly important piece of the promotion pie. In addition, there are a handful of proven methods for promoting your product, such as:
• Advertising tells your target market about your product or service. But how do you approach it, with so many choices available? Which publications are best? Is radio and TV advertising where you should be? Researching web sites is a good place to start your advertising plan. Ask professional organizations for referrals when looking for designers and writers to help develop ads. Media buyers help you reach the biggest audience for your dollar. When putting together your business plan, include advertising ideas, schedules and budgets in the APPENDIX.
• Direct Marketing means contacting prospects by traditional mail, email or phone. Take, for example, a nature camp company that wants to mail out brochures. Buying a list of subscribers to an outdoor magazine seems smart. But measuring results is key. Say you mail 5,000 postcards and get 100 responses. That’s a 2% response level. Of those, how many turn into orders or become clients? Keeping track of these things helps you determine which databases are best, and how much it costs to gain an order or client.
• Public Relations (PR) is more than getting publicity. It’s a great way to build an image or a brand identity. Through your business activities, you influence the attitudes of your audience. For example, your company makes sunblock, so you sponsor a sandcastle contest at the beach. In order to get publicity — media coverage at no cost to you — you send press releases with pertinent information well in advance to area newspapers, radio and TV stations.
• Promotional/Sales Material rounds out the marketing picture. Items like a logo, a catalog, a price list, and business cards can position you as a polished marketer, helping the sales process go more smoothly. Think about what promotional materials you’ll need and what they’ll cost. Include samples, costs and ideas in the business plan APPENDIX.
• Trade Shows can be a great way to get your product in front of people, to get leads and take orders. Shows can be a great place for your sales force to meet your customers in person. In addition, it’s a chance for you to talk with others in your industry and share information. Many times, trade associations are present at shows, presenting an opportunity for you to gain valuable insights.

FULL SALES AHEAD
• Who will sell your products?
• Can you do it yourself or will you require a sales staff, reps, agents, brokers or wholesalers?
• Think carefully about their compensation — will they work for a salary, commission, or both? Include sales expenses in the APPENDIX.
KNOW YOUR CUSTOMERS

- It is crucial to figure out who is most likely to use your product or service. These important group or groups are your market or markets.
- In most cases, slicing your market into smaller groups (called segments) is helpful in targeting them. For example, if your product is gourmet dog biscuits and you want to do a postcard mailing, you would naturally want to narrow your mailing list down to dog owners.
- How do you get started gathering customer and marketing data? There’s a wealth of knowledge on web sites, through case studies, in magazines, newspapers, reference books, trade journals and government statistics.

QUESTIONS TO ASK YOURSELF

- Where are your customers — local, regional, national or international?
- What’s the size or your target market? Is it small (ballet students in Des Moines, Iowa) or large (new parents across America)?
- When will your product be used — daily, weekly, monthly? Is there a peak season or will demand be steady?
- If you’re targeting consumers, what are the demographic similarities? Think about age, income, gender, education, type of residence, marital status, profession, lifestyle, hobbies and size of household.
- If you’re targeting businesses, what size are you targeting? Know their annual sales, the number of employees and the number of locations. Be sure to identify the decision maker in the business. For example, if you’re sending a letter to physicians, you should know that generally, doctors only get the mail that makes it past the office manager’s desk.

YOU’VE GAINED A CUSTOMER. NOW WHAT?

- How will you get your product to the consumer? Consider the cost of product storage, packing material, handling and shipping.
- Will you accept credit cards? Determine (1) the cost of leasing or buying credit card equipment and (2) the percentage paid for credit card sales.
- Who will help customers with information requests, new orders, status inquiries and returns?
- Will you allow customers to pay you at a later date? What are your credit policies (for example, do you want invoices paid in 30 days)? What is your follow-up procedure for slow-paying customers?
MARKETING: WEB SITES

WHY DO I NEED A WEB SITE?
These days, having a web site is like having a business card. Even a simple web site will:
• Act as a virtual storefront to sell your product or service
• Make your company more visible to a worldwide audience
• Position you as a resource for information
• Complement your other marketing efforts

SET YOUR SIGHTS ON THESE QUESTIONS
• What will your site name be? What if the name of your company is already taken?
• Who will help develop your site and how much will it cost?
• Will you use an Internet Service Provider (ISP) or host your own site?
• What information will be included on your site?
• Will your product or service be for sale on the site?
  Who will handle the transactions and fulfill the orders?
• What security barriers will be in place, to protect your company’s information from outsiders?
• How will privacy be handled once you collect data from site visitors?
  How will the data be used?

HOW DO YOU CREATE TRAFFIC?
Think about ways you'll promote your site:
• Will you register with search engines so you come up in a search?
• Will you want a tracking program to monitor how many people visit your site?
• What about advertising on related web sites? What will the costs be?
• Will you allow other companies to place ads on your site?
  What will you charge?
• Will you consider exchange links with other sites that complement yours?
  (Visitors to your site can click on a link to their site, and vice versa)

INVITE THEM BACK
Attracting visitors to your site is one thing, but giving them a reason to return is quite another. Give some thought to these questions:
• How will you make your site “sticky?” — appealing enough so visitors come back.
• What are the costs for maintaining your web site?
• Who will be responsible for updating the site? How often?
• Who will respond to email inquiries?

NO SITE IN SIGHT?
Even if you don’t have a web site, you can still take advantage of the Internet by:
• Setting up an email account so you can send and receive information
• Asking other web sites to include your company information on their “link lists.”
• Paying for ads on web sites that relate to your product or service
MARKETING: YOUR COMPETITION

DON'T UNDERESTIMATE THE POWER OF THE COMPETITION
Healthy competition is what makes the marketplace go around. Today's smart business owners not only know their competitors, but learn from them. By knowing what your competitors are offering customers, you can try to do better. First and foremost, you must be clear on why a customer would buy from you rather than one of your competitors. This is called your USP — Unique Selling Proposition.

PUT IT ON PAPER
You’d be surprised how a competitive analysis can help you understand the competition. Include as many of your competitors as possible. Each competitive analysis should show:

• How your business is better and different. Include factors such as quality, service, price/value, creativity, flexibility, prestige, knowledge and innovations.
• Ways in which your business is the same as your competitor.
• The strengths and weaknesses of your competitors. How are they performing? Are they strong or weak, and why?
• The pricing differences between you and them. Is a cheaper product available? If so, why is yours more expensive? In the APPENDIX of your plan, show products and price comparisons.
• Ways your competitors promote their business. Include ads, events, sales, web sites and anything else they use.

KEEP A LEVEL HEAD
When thinking about your competition, be careful not to put too much emphasis on “stealing” customers or market share from them. It’s healthy to know how much of the market you need to gain from your competitors, but be sure you can meet the demand when you do.

<table>
<thead>
<tr>
<th>NAME</th>
<th>LOCATION</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Good Earth</td>
<td>Memphis, TN</td>
<td>Family-owned business, 25 years old, 30 employees, good location</td>
</tr>
<tr>
<td>Landscapes Unlimited</td>
<td>Memphis, TN</td>
<td>Medium-sized business, new facility looks clean and modern</td>
</tr>
<tr>
<td>Reggie &amp; Ruth</td>
<td>Memphis, TN</td>
<td>Twenty-year old company, but their small size (only three employees) prevents them from gaining large projects.</td>
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Competitive Analysis for TAIT’S ALL-NATURAL LAWN COMPANY
Tait’s offers chemical-free, family-safe fertilizers, plant growth and weed-control products. Our products are so safe, customers can let their children play on the lawn immediately after treatments.

Tait’s All-Natural, with a mix of 20 full-time and part-time employees, intends to grow, if you will, with a solid base of homeowners. In addition, we are prepared to handle commercial contracts.

COMPETITORS:
Tait’s All-Natural has three competitors in the local area; two are family-owned with over 20 years of experience.

Not one of our three competitors offers natural products, nor do they sell plants, bushes and trees grown with natural products.

We will be the only business in our category.
BUYING A BUSINESS

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

CHECKLIST
for buying a business

☐ Talk to the business’ customers and suppliers.
☐ Review financial statements and tax returns from the last 3 years.
☐ Develop a purchase and sale agreement which shows:
  ☐ the purchase price components - down payment, allocation of the price, and how it will be financed
  ☐ how the business will be conducted until purchased
  ☐ the liabilities you are assuming including accounts payable, loans, leases, contracts, taxes, and legal
  ☐ the value of the assets you are buying including Accounts Receivable (quality and the age of the invoices), inventory (value and age), machinery/equipment/furniture/fixtures (age, condition, and value), patents/trademarks, and real estate.
  ☐ that the purchase and sale agreement is subject to financing and inspections
☐ Know how you will finance the business. Is the seller willing to finance all or any of the business (especially the goodwill - the difference between the value of hard assets and the business’ purchase price)? What are the terms, rates, and conditions? Develop a Loan Request (see page 18).
☐ Determine who will pay for closing costs including legal services, points, appraisals and environmental inspections.

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

ORANGE DOT MACHINE

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

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

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

LEGAL STATUS: S Corporation registered in Connecticut

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

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

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

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

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

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

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

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

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

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

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

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

Top Ten Questions To Ask Before Buying a Franchise

1. How many franchises are there and how many in your area? Don’t be afraid to ask for a list, then to visit as many as you can. If possible, speak with the owner(s) about some of the real-world realities of running the business.

2. How long has the franchiser been in the industry? Ask how long they have been selling franchises.

3. How financially healthy is the franchiser? You have a right to see their financial statements, which should be included in the Disclosure Document. Make sure you are comfortable with all the numbers.

4. What does your initial cost cover? Discuss things like the licensing fee, training, equipment, starting inventory and promotional fees. Find out if the land will be purchased or leased, and whether the building will be constructed or renovated.

5. Will the franchiser help finance the business? If so, you still need to develop a business plan with financial projections.

6. What ongoing costs will you pay the franchiser? Discuss royalties, training, insurance and advertising.

7. Will you be required to buy supplies from the franchiser or their designated suppliers? Will prices be competitive?

8. Do any restrictions apply when competing with the competition?

9. What is the length of the partnership? Be clear about the terms covering renewal rights.

10. Do you have the right to resell the franchise?
LOAN REQUEST

HOW MUCH WILL YOU NEED?
You must invest 25% - 50% of your own money. Show how much and where your money will come from. Also provide information about money coming from investors. Show how much money you are requesting from the lender.

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

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

HOW WILL THE LOAN BE REPAYED?
The lender wants to see the loan repaid from the business’ income. If necessary, the lender needs to know that the loan could also be repaid by selling an asset or by a cash infusion from an investor.

IF YOUR LOAN REQUEST IS REJECTED, ASK:
- Why it was rejected.
- If you can correct the problems and re-submit the request.
- If you should go to another lender or seek alternative financing.

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

<table>
<thead>
<tr>
<th>EXAMPLE</th>
<th>Market Value</th>
<th>Discount Percentage</th>
<th>Discounted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>$100,000</td>
<td>50%</td>
<td>$50,000</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>$50,000</td>
<td>50%</td>
<td>$25,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>$80,000</td>
<td>25%</td>
<td>$60,000</td>
</tr>
<tr>
<td>Total</td>
<td>$230,000</td>
<td></td>
<td>$135,000</td>
</tr>
</tbody>
</table>

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

Lenders require appraisals of your collateral and they discount the value of your assets. The total discounted collateral amount must equal the total loan amount requested. Typical discounts include: saleable inventory at 50% or lower, fixed assets at 50% or lower, collectable accounts receivable at 25% or lower, and furniture/fixtures/machinery/equipment at fair market value of book value (in the APPENDIX include the, model, year, serial number and fair market value).

**AMOUNT NEEDED**
- Amount Requested $ __________
- Owner’s Investment $ __________
- Other Investors $ __________
Total $ __________

**USE OF FUNDS**
- Inventory $ __________
- Working Capital $ __________
- Equipment, Machinery, Computers $ __________
- Furniture & Fixtures $ __________
- Other $ __________
- Real Estate $ __________
Total $ __________

Repayment
- Period: _______ years
- Source: Business Cash Flow
- Collateral:
  - Accounts Receivable $ __________
  - Inventory $ __________
  - Equipment & Machinery $ __________
  - Furniture & Fixtures $ __________
  - Equity in Real Estate $ __________
  - Other $ __________
Total $ __________

**Loan Decisions**
The “1-2-3 Method” on page 30 helps you calculate your maximum loan amount.
FINANCIALS

FOUR FINANCIAL STATEMENTS ARE INCLUDED IN THIS SECTION:

1. **Personal Financial Statement**
   - Your own personal financial health will be carefully examined by the lender. See page 20.

2. **Balance Sheet**
   - This is a snapshot of your business. A moment frozen in time. See page 22.

3. **Income Statement**
   - Think of this as your business’ “report card” over a period of time. See page 24.

4. **Cash Flow Statement**
   - This will show how much money comes in and how much goes out. See page 26.

HINTS FOR DEVELOPING FINANCIALS:

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

WATCH FOR THESE COMMON FINANCIAL PROBLEMS:

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

- **Little or no record keeping**
  - You must keep meticulous records for yourself, the IRS, and your lender.

- **Failure to seek outside help**
  - Consult an accountant, gain business advisors, contact the Small Business Administration/SBA (www.sba.gov) or your state’s Department of Economic Development (look in the phone book or search on the Internet). Your advisors’ input is valuable but don’t be totally dependent on them. Educate yourself. You should have a basic understanding of your company’s finances. Know how to read your own financial statements and reports.

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

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

- **Failure to personally guarantee the loan repayment**
  - If the business fails for any reason, the owners must repay the loan. Lenders need to be assured of your total commitment.

ACCOUNTING METHODS

**Accrual vs. Cash**

There are two ways to handle your accounting - **accrual** or **cash**.

1. **The cash method** means you don’t record a sale until you collect money, and you don’t record an expense until you pay for it.

2. **The accrual method**, the one lenders want, means:
   - **Sales are made but payments are not immediately collected.** Your customers pay later, which creates “accounts receivable.”
   - **Business purchases are made, but paid for later, creating “accounts payable.”**
   - **Assets (like equipment) are depreciated over their lifetime.** This is tax deductible.
   - **Net Income does not always mean cash since money is tied up in accounts receivable and inventory.**
**WHAT’S THE BIG IDEA?**

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

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

---

**PERSONAL FINANCIAL STATEMENT**

<table>
<thead>
<tr>
<th>Date</th>
<th>__________________________________________________________________________</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your Name and Address</td>
<td>________________________________________________________</td>
</tr>
<tr>
<td>Business Name and Address</td>
<td>________________________________________________________</td>
</tr>
<tr>
<td>Social Security</td>
<td>________________________ Date of Birth: __________________________</td>
</tr>
<tr>
<td>Phone:</td>
<td>___________________ Fax: ___________________________ E-mail: ______________</td>
</tr>
</tbody>
</table>

**ASSETS & LIABILITIES**

**ASSETS (what you own)**
- Cash: $ _________________________________
- Savings Accounts: $ _________________________________
- Retirement Accounts: $ _________________________________
- Accounts & Notes Receivable: $ _________________________________
- Life Insurance, cash surrender value: $ _________________________________
- Stocks & Bonds (market value): $ _________________________________
- Real Estate (market value): $ _________________________________
- Automobiles (market value): $ _________________________________
- Other Property: $ _________________________________
- Other Assets: $ _________________________________

**TOTAL ASSETS**: $ _________________________________

**LIABILITIES (what you owe)**
- Accounts Payable: $ _________________________________
- Notes Payable: $ _________________________________
- Residential Mortgage, balance: $ _________________________________
- Investment Mortgage, balance: $ _________________________________
- Installment Loan Balance, auto: $ _________________________________
- Installment Loan Balance, other: $ _________________________________
- Unpaid taxes: $ _________________________________
- Other liabilities: $ _________________________________

**TOTAL LIABILITIES**: $ _________________________________

**NET WORTH (assets less liabilities)**: $ _________________________________

**TOTAL LIABILITIES + NET WORTH**: $ _________________________________

---

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

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

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

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

**Real Estate**: Total included here. In the APPENDIX, list each and include: type of property, date purchased, original cost, and the present market value. Also include the mortgage account number, balance, and monthly payment.

**Unpaid taxes**: Describe in the APPENDIX the type of tax, who taxes are owed to, the amount, when it is due and whether there is a lien on any property.
### PERSONAL FINANCIAL STATEMENT

**INCOME & EXPENSES**

**ANNUAL INCOME:**
- Salary, Bonuses, and Commissions $ ________________________________
- Dividends, Interest, Investment income $ ________________________________
- Real Estate Income $ ________________________________
- Other Income $ ________________________________
- **TOTAL ANNUAL INCOME** $ ________________________________

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

This statement is true and accurate.
I authorize any inquiries necessary to verify its accuracy.

(Your signature and date) _________________________________________

---

In the **APPENDIX**, include copies of:
- **Assets:** life insurance statements, stocks and bonds, real estate, and personal property.
- **Liabilities:** notes payable, mortgages on real estate and unpaid taxes.
- **Loans/mortgages:** monthly payment amount and a copy of the last statement.
- **Three years of tax returns** for each owner.
## BALANCE SHEET

### WHAT'S THE BIG IDEA?

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

### YOUR BALANCE SHEET INCLUDES THE FOLLOWING:

**ASSETS**
- What the company owns
  - Current Assets
    - Can be converted into cash in one year
  - Accounts Receivable
    - Sales made but not collected
  - Inventory
    - Inventory on hand, waiting to be sold
  - Total Current Assets
    - Add up all of the Current Assets
  - Non-Current Assets
    - Takes one year or more to turn into cash
    - Fixed Assets
      - This includes property, plant, and equipment
      - Less Depreciation
        - Subtract Accumulated Depreciation
  - Advances to Owners
  - Total Non-Current Assets
    - Add up all the Non-Current Assets

**Fixed Assets (net)**
- Fixed Assets minus Accumulated Depreciation

**Total Assets**
- Add Current Assets and Non-Current Assets

**LIABILITIES**
- How much the company owes
  - Current Liabilities
    - Liabilities due within one year
    - Accounts Payable (A/P)
      - Purchases not paid for
    - Current Portion of Long-Term Debt
      - One year's worth of loan payments
    - Note Payable
      - Due within one year
  - Long-Term Liabilities
    - Due for more than one year
    - Loan Payable
      - Due after one year's worth of payments
  - Total Liabilities
    - Add the Long-Term and Current Liabilities

**CAPITAL OR NET WORTH**
- The business' equity
  - Owners Investment
  - Retained Earnings
  - Total Capital
    - Add Owners Investment and Retained Earnings
    - Equal to Total Assets

**Max Computer Company Balance Sheet**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities + Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash 10,000</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable 75,000</td>
<td></td>
</tr>
<tr>
<td>Inventory (ending) 85,000</td>
<td></td>
</tr>
<tr>
<td>Total Current Assets 170,000</td>
<td></td>
</tr>
<tr>
<td>Fixed Assets 140,000</td>
<td></td>
</tr>
<tr>
<td>Less Accumulated Depreciation (25,000)</td>
<td></td>
</tr>
<tr>
<td>Fixed Assets (net) 115,000</td>
<td></td>
</tr>
<tr>
<td>Advances to Owners 6,000</td>
<td></td>
</tr>
<tr>
<td>Total Non-Current Assets 121,000</td>
<td></td>
</tr>
<tr>
<td>Total Assets (170 + 121) 291,000</td>
<td></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
</tr>
<tr>
<td>Current Portion of Long-Term Debt 6,000</td>
<td></td>
</tr>
<tr>
<td>Note Payable 100,000</td>
<td></td>
</tr>
<tr>
<td>Accounts Payable(A/P) 41,000</td>
<td></td>
</tr>
<tr>
<td>Total Current Liabilities 150,000</td>
<td></td>
</tr>
<tr>
<td>Long-Term Liabilities</td>
<td></td>
</tr>
<tr>
<td>Loan Payable 54,000</td>
<td></td>
</tr>
<tr>
<td>Total Long-Term Liabilities 54,000</td>
<td></td>
</tr>
<tr>
<td>Total Liabilities (150 + 54) 204,000</td>
<td></td>
</tr>
<tr>
<td>Owners Investment 20,000</td>
<td></td>
</tr>
<tr>
<td>Retained Earnings 67,000</td>
<td></td>
</tr>
<tr>
<td>Total Capital 87,000</td>
<td></td>
</tr>
<tr>
<td>Total Liabilities &amp; Capital (204 + 87) 291,000</td>
<td></td>
</tr>
</tbody>
</table>

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

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

**Owners Investment:**
Also called capital or common stock in a corporation

**Total Capital:**
Also called net worth

These numbers should be the same.
<table>
<thead>
<tr>
<th>ASSETS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$__________________</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>$__________________</td>
</tr>
<tr>
<td>Inventory (ending)</td>
<td>$__________________</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>$__________________</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>$__________________</td>
</tr>
<tr>
<td>Non-Current Assets</td>
<td></td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>$__________________</td>
</tr>
<tr>
<td>Less Depreciation</td>
<td>$__________________</td>
</tr>
<tr>
<td>Fixed Assets (net)</td>
<td>$__________________</td>
</tr>
<tr>
<td>Advances to Owners</td>
<td>$__________________</td>
</tr>
<tr>
<td>Other Non-Current Assets</td>
<td>$__________________</td>
</tr>
<tr>
<td>Total Non-Current Assets</td>
<td>$__________________</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$__________________</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Liabilities</td>
<td></td>
</tr>
<tr>
<td>Current Portion of Long-Term Debt</td>
<td>$__________________</td>
</tr>
<tr>
<td>Note Payable</td>
<td>$__________________</td>
</tr>
<tr>
<td>Accrued Taxes</td>
<td>$__________________</td>
</tr>
<tr>
<td>Accounts Payable(A/P)</td>
<td>$__________________</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>$__________________</td>
</tr>
<tr>
<td>Long-Term Liabilities</td>
<td></td>
</tr>
<tr>
<td>Loan &amp; Notes Payable</td>
<td>$__________________</td>
</tr>
<tr>
<td>Total Long-Term Liabilities</td>
<td>$__________________</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$__________________</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CAPITAL</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners Investment</td>
<td>$__________________</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>$__________________</td>
</tr>
<tr>
<td>Total Capital</td>
<td>$__________________</td>
</tr>
<tr>
<td>TOTAL LIABILITIES &amp; CAPITAL</td>
<td>$__________________</td>
</tr>
</tbody>
</table>
WHAT’S THE BIG IDEA?

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

YOUR INCOME STATEMENT INCLUDES THE FOLLOWING:

| SALES | Less: Ending Inventory
| Net Sales | Gross profit is before returns and allowances. Net sales is after returns and allowances. |
| Less Cost of Goods Sold | This number becomes the beginning inventory for the next year’s Income Statement. |
| Labor | Gross Profit: Sales less cost of goods sold. This is your profit margin. |
| Beginning Inventory | Operating Income (or Loss) Shows how the business performed. |
| Purchases | Interest Expense Subtract interest expense. |
| Used to make product. | Net Profit before taxes |
| Used to make product only. Other labor-related expenses are included in the Operating Expenses section. | PROFIT Profit left after all expenses (including taxes) have been paid. |

**Date:** Represents activity for an entire period, at the end of that time period.

Max Computer Company
INCOME STATEMENT
December 31, 2008

| SALES | Operating Income (360 less 260) | Operating Income (or Loss) |
| Net Sales | Gross Profit (900 less 540) | Shows how the business performed. |
| Less: Ending Inventory | Cost of Goods Sold (625 less 85) = 540,000 | Net Profit before taxes |
| Beginning Inventory | Gross Profit = 360,000 | PROFIT Profit left after all expenses (including taxes) have been paid. |
| 75,000 | Operating Income: Gross Profit less Selling Expenses and General/Administrative Expenses. |
| Purchases | Operating Expenses: |
| 380,000 | Selling Expenses | $75,000 was the ending inventory for the previous year and became the beginning inventory for 2008. |
| Labor | General & Administrative | This number is pulled from the Balance Sheet on page 22. |
| 200,000 | Total Expenses | Important Note: Compare numbers in the current year’s Income Statement with the previous year. For control purposes, you need to know if income/profits and expenses are going up or down. |
| 625,000 | Operating Income (360 less 260) | Operating Income (or Loss) Shows how the business performed. |
| Less: Ending Inventory | Cost of Goods Sold (625 less 85) = 540,000 | Net Profit before taxes |
| 85,000 | Gross Profit = 360,000 | Less: Income Taxes Tax rates depend on your business’ legal status. |

| EXPENSES | PROFIT |
| Operating Expenses: | Net Profit before taxes (360 less 260) | Operating Income: Gross Profit less Selling Expenses and General/Administrative Expenses. |
| Selling Expenses | Operating Income (360 less 260) | Operating Income (or Loss) Shows how the business performed. |
| General & Administrative | Interest Expense Subtract interest expense. |
| Total Expenses | Net Profit before taxes (360 less 260) | Operating Income (or Loss) Shows how the business performed. |
| 260,000 | Operating Income (360 less 260) | Operating Income (or Loss) Shows how the business performed. |
| Interest Expense | Net Profit before taxes (360 less 260) | Operating Income (or Loss) Shows how the business performed. |
| 80,000 | Operating Income (360 less 260) | Operating Income (or Loss) Shows how the business performed. |

**Net vs. Gross Sales**

Gross sales is the amount before adjustments (like returns and allowances). The adjusted figure is Net Sales.

**Operating Income:**

Gross Profit less Selling Expenses and General/Administrative Expenses.

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

Start-up companies: Project month by month for the first year, quarterly for the second year and one whole year for the third year.
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of Statement</td>
<td></td>
</tr>
<tr>
<td><strong>SALES</strong></td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>$ __________</td>
</tr>
<tr>
<td>Less Cost of Goods Sold:</td>
<td></td>
</tr>
<tr>
<td>Beginning Inventory</td>
<td>$ __________</td>
</tr>
<tr>
<td>Purchases</td>
<td>$ __________</td>
</tr>
<tr>
<td>Labor</td>
<td>$ __________</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ __________</td>
</tr>
<tr>
<td>Less: Ending Inventory</td>
<td>-$ __________</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>$ __________</td>
</tr>
<tr>
<td>Gross Profit (sales less cost of goods sold)</td>
<td>$ __________</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses:</td>
<td></td>
</tr>
<tr>
<td>Selling Expenses</td>
<td>$ __________</td>
</tr>
<tr>
<td>General and Administrative</td>
<td>$ __________</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$ __________</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$ __________</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>$ __________</td>
</tr>
<tr>
<td><strong>PROFIT</strong></td>
<td></td>
</tr>
<tr>
<td>Net Profit before taxes</td>
<td>$ __________</td>
</tr>
<tr>
<td>Less: All Income Taxes</td>
<td>$ __________</td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td>$ __________</td>
</tr>
</tbody>
</table>
**WHAT’S THE BIG IDEA?**

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

**Tips for preparing Cash Flow Statements:**

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

- Begin with income at the top, followed by expenses and repayment of the loan.
- Show realistic assumptions. If sales increase 80% every year, this may seem unrealistic. Prove assumptions and include them in the **APPENDIX**.
- Cash jumps up from year 1 to 2 because start-up costs are large in the first year.
- Negative balances are common in the first year. They must be covered by providing more cash (loans or owners’ investments), or by reducing expenses.
- Increased sales can cause a cash drain (due to increased costs or labor). Show how you will overcome this.
- Show monthly figures in the first year, quarterly figures in the second year, and a lump sum or one figure in the third year.

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

**ESSENTIAL OPERATING DATA**

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

1. **Accounts receivable**
   Previous unpaid credit sales, plus current month’s unpaid credit sales.

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

3. **Inventory on Hand**
   Any products available for sale at the end of the month.

4. **Accounts payable**
   Any accounts due at the end of the month.

5. **Depreciation**
   Assets wear out and lose value. The monthly depreciation value is established by your accountant (as allowed by the IRS).
WHAT’S THE BIG IDEA?
Ratios are your business’ scores. Even though ratios are not included in your business plan, they will be calculated by lenders to make decisions.

Lenders and investors compare your ratios to:
• acceptable bank ranges
• a company’s prior years
• your business’ history
• other companies in your industry

Industry averages are found in reference books and on the Internet. They include the RMA Annual Statement Studies, the Almanac of Business and Industrial Financial Ratios, Dun & Bradstreet, your industry’s associations, trade periodicals (magazines and newspapers for your industry), and the Small Business Administration/SBA (www.sba.gov).

1 ASSET MANAGEMENT RATIOS

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

\[
\text{Formula} = \frac{\text{Accounts Receivable}}{\text{Net Sales Figure}} \times 365 \text{ days}
\]

\[
\text{Formula} = \frac{\$75,000}{\text{Net Sales Figure}} \times 365 \text{ days}
\]

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

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

\[
\text{Formula} = \frac{\text{Inventory Figure} \times 365 \text{ days}}{\text{Cost of Goods Sold}}
\]

\[
\text{Formula} = \frac{\$85,000 \times 365 \text{ days}}{\$540,000}
\]

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

2 LIQUIDITY RATIOS

Working Capital
Number Source: Balance Sheet (pg. 22)

\[
\text{Formula} = \frac{\text{Current Assets} - \text{Current Liabilities}}{\text{Current Liabilities}}
\]

\[
\text{Formula} = \frac{\$170,000 - \$150,000}{\$150,000} = 0.56
\]

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

Quick or Acid Test
Number Source: Balance Sheet (pg. 22)

\[
\text{Formula} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}
\]

\[
\text{Formula} = \frac{\$170,000}{\$150,000} = 1.13
\]

**NOTE:** Tests a company’s short-term debt paying ability. This means there is is $1.13 in cash and current assets available to pay every $1 of current liabilities.
### Debt Management Ratios

#### Leverage (or Debt-to-Worth)
Number Source: Balance Sheet (pg. 22)

**Note:** Determines if a company has enough equity. Lower answers are better. Lenders prefer this ratio to be 3 or lower.

**Formula:**

\[
\frac{\text{Total Liabilities (pg. 22)}}{\text{Total Capital (pg. 22)}} = 2.34
\]

**Accounts Payable Turnover**
Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)

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

**Formula:**

\[
\frac{\text{Accounts Payable at $41,000 (pg. 22) \times 365 days}}{\text{Purchases (pg. 24)}} = 42.78
\]

### Profitability Ratios

#### Profit Margin on Sales
Number Source: Income Statement (pg. 24)

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

**Formula:**

\[
\frac{\text{Net Profit (pg. 24)}}{\text{Net Sales (pg. 24)}} = 0.0588
\]

#### Cash Flow to Current Maturities (Debt Service)
Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)

**Formula:**

\[
\frac{\text{Net Profit of $53,000 (pg. 24) + Depreciation of $10,000 (amount created for this example)}}{\text{Current Portion of Long-Term Debt (pg. 22). For new businesses, use one year's worth of loan payments.}} = 10.5
\]

### Your Business: Ratio Analysis

<table>
<thead>
<tr>
<th>Assets</th>
<th>1</th>
<th>Accounts Receivable Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Inventory Turnover</td>
</tr>
<tr>
<td>Liquidity</td>
<td>2</td>
<td>Working Capital</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Quick or Acid Test</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Current</td>
</tr>
<tr>
<td>Debt</td>
<td>3</td>
<td>Leverage (or Debt-to-Worth)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accounts Payable Turnover</td>
</tr>
<tr>
<td>Profit</td>
<td>4</td>
<td>Profit Margin on Sales</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cash Flow to Current Maturities (Debt Service)</td>
</tr>
</tbody>
</table>

**Your Answer**

<table>
<thead>
<tr>
<th>Accounts Receivable Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Inventory Turnover</td>
</tr>
<tr>
<td>Working Capital</td>
</tr>
<tr>
<td>Quick or Acid Test</td>
</tr>
<tr>
<td>Current</td>
</tr>
<tr>
<td>Leverage (or Debt-to-Worth)</td>
</tr>
<tr>
<td>Accounts Payable Turnover</td>
</tr>
<tr>
<td>Profit Margin on Sales</td>
</tr>
<tr>
<td>Cash Flow to Current Maturities (Debt Service)</td>
</tr>
</tbody>
</table>

**Note:** Shows your ability to pay term debts after owners’ withdrawals. Lenders prefer 2 or better.
**FINANCIAL FORMULAS**

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

1. **Determine your Net Sales**
   
   **Net Sales** $900,000
   
   100%

2. **Total your Variable Expenses and divide them by the Net Sales to calculate the percentages they represent**
   
<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Goods Sold</td>
<td>$540,000</td>
<td>60% (540K/900K)</td>
</tr>
<tr>
<td>Selling Expenses</td>
<td>$90,000</td>
<td>10% (90K/900K)</td>
</tr>
<tr>
<td>Total Variable</td>
<td>$630,000</td>
<td>70% (630K/900K)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. **Subtract your Total Variable Expenses from your Net Sales to calculate the Margin.**
   
   | Net Sales            | $900,000 |
   | Total Variable Expenses | -$630,000 |
   | Margin               | $270,000 |
   | 30% or .30           |

4. **Divide your Fixed Expenses by the Margin and the answer is your Breakeven Point**
   
   | Fixed Expenses | $170,000 |
   | Total Variable | $270,000 |
   | Margin         | $566,667 |
   | Breakeven      |

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

---

**1-2-3 METHOD FOR LOAN DECISIONS**

**EXPLANATION**

1. **DISCOUNTED COLLATERAL**
   Also called COLLATERAL COVERAGE
   
   Every $1 borrowed must be covered by $1 in collateral. Lenders discount the value of assets (collateral) so the discounted value must equal the loan amount. This covers the lender in case of foreclosure. See page 18.

   **EXAMPLE:**
   
<table>
<thead>
<tr>
<th>Example</th>
<th>Market Value</th>
<th>Discount Percentage</th>
<th>Discounted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>$30,000</td>
<td>50%</td>
<td>$15,000</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>$50,000</td>
<td>50%</td>
<td>$25,000</td>
</tr>
<tr>
<td>Accounts</td>
<td>$20,000</td>
<td>25%</td>
<td>$15,000</td>
</tr>
<tr>
<td>Receivable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$100,000</td>
<td></td>
<td>$55,000</td>
</tr>
</tbody>
</table>

   **Example:**
   
   **ABC Company**
   
   This is a common discount formula used with collateral.

2. **THE ABILITY TO REPAY**
   Also called DEBT SERVICE COVERAGE
   
   For every $2 a business has in annual cash flow, the bank will allow $1 in loan payments.

   **Example:**
   
   The ABC Company needs to calculate how much they can borrow and afford to re-pay for a seven-year loan:
   
   - $12K net profit + 3K in depreciation = $15K annual cash flow
   - $15K x 50% = $7.5K the maximum lenders usually allow in annual payments is half of the annual cash flow
   - $7.5K/12 months = $625 maximum monthly payment
   - $625/$17.13* = $36.48 rounded to $36.5K
   - Monthly payment on a $1000, seven-year loan with an interest rate of 11% is $17.13

   **Example:**
   
   **ABC Company**
   
   Maximum loan based on the ability to repay is $36.5K

3. **EQUITY**
   Also called DEBT-TO-WORTH or LEVERAGE
   
   A business can borrow $3 for every $1 invested.

   **Example:**
   
   Assume ABC Company wants to refinance a $75K loan. The business has assets of $100K, liabilities of $75K, and Net Worth or Equity of $25K.

   **Example:**
   
   **ABC Company**
   
   Maximum loan based on equity is $75K ($25K in equity x 3)

   **Example:**
   
   **ABC Company**
   
   $75K

---

**THE LOAN DECISION**

The lowest of the three answers calculated here is the maximum loan size. The maximum loan size for ABC Company is $36.5K.
APPENDIX ITEMS CHECKLIST

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

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

In general, your Appendix should include:

- Patents and trademarks.
- Purchase-and-sale agreement and/or an offer to buy and any legal documents that apply to the purchase
- The use of loan proceeds: Include quotes and a breakdown of furniture, fixtures, equipment and machinery.
- Collateral: Make, model, year, serial number, and fair market value of furniture, fixtures, equipment and machinery.
- Cash Flow analysis to prove working capital needs.

To Do

Page 8 > BUSINESS DESCRIPTION
- Legal documents filed with your state or municipality

Page 9 > BUSINESS DESCRIPTION, EXPLAINED
- Detailed industry information including economic trends, growth patterns and forecasts.

Page 10 > MANAGERS & EMPLOYEES
- Managers’ job descriptions, salaries and benefits.
- Monthly cost and explanation of outsourced services or functions.
- Managers and employees resumes

Page 11 > OPERATIONS & LOCATION
- Include proposed rentals, leases or purchases of furniture, fixtures, equipment and machinery.
- Suppliers names, addresses, products or services supplied, costs/quotes, delivery/shipping fees, turnaround, terms of sales, contracts, and a purchasing plan.
- Details about assistance from your suppliers.
- Provide a copy of the deed if you own the business location. If buying the location, include a purchase-and-sale agreement and related legal documents. An appraisal of the building, the assets and liabilities along with an environmental inspection, will be done by the lender.
- If your location is leased, include a copy of the lease (or proposed lease) with terms, conditions, and cost.
- Show quotes for improvements and renovations.
- Traffic patterns if you own a retail business.
- Zoning statement from local government.
- Approval letters from local and state inspectors (building, fire, health, environmental, and occupational safety).
- Photos of your location, inside and outside. Include a floor plan, blueprint or plot plan (if constructing location).

Page 12 > MARKETING
- Detailed plans and costs for research and development.
- Advertising and promotional ideas, schedules and budgets.
- Compensation (salary, commission, or both) details for sales staff, reps, agents, brokers or wholesalers.

Page 15 > MARKETING
- Product and price comparisons of competitors.

Page 16 > BUYING A BUSINESS
- Pictures of the business location
- Detailed description
- Appraised value of the building, inventory and equipment.
- Inspection reports (if available). If not, let the lender order them.
- Copies of tax returns (past 3 years) from the seller and interim (year-to-date) Income Statement and a current Balance Sheet.
- Start-up companies: Provide projections month by month for the first year, quarterly for the second year and one whole year for the third year.
- Existing businesses: Three years’ fiscal year end statements plus an interim statement (not more than two months old).
- Provide a three-year projected Cash Flow analysis (monthly for the first year, quarterly for the second year, and a lump sum for the third year) to prove the need for working capital.
For more information:

CALL 1-888-877-2265
CLICK www.capitalonebank.com
VISIT your nearest Capital One Bank branch to speak with an associate