

# **THE TACTICS OF CREATING A BUSINESS PLAN**

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## **INTRODUCTION**

Creating a business plan is not easy. That may be why only 28% of entrepreneurs actually write one. This guide is an attempt to make things easier for you.

In this guide, we have provided you with an outline for a comprehensive business plan. But there is much more. We have also included a number of possible responses for each section—responses similar to what a professional business plan writer might produce. Also, we have included a number of links to online resources and collections of data to help you with the tactics of completing each section.

There are a few things in this guide that you will not find anywhere else. Most business plans state that they will rely heavily on “word-of-mouth” as a primary form of marketing. This is fine, but word-of-mouth marketing does not just happen by itself. It must be carefully cultivated and strategically crafted with an underlying architecture. In this guide, we have included an extensive framework and set of questions to help you develop a formal strategic word-of-mouth plan.

Also, there is an extensive amount of detail related to developing a sales forecast—a section deeply neglected by most planning books. With regard to this topic, we have provided advice on where to find the necessary information you will need as well as detailed steps on its usage.

Don’t worry about the length of the manual—there’s more here than you’ll need. Also, don’t feel that you have to answer every question—at least not yet. Many of the answers you can’t know in advance. But you should nonetheless think fairly hard about each question. Your future will thank you for it.

Best wishes.

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# THE BUSINESS PLAN

## Business Description

1. **Purpose of the Plan:** Why are you developing this business plan?  
*Some options may include:*
  - a. To determine the feasibility of a new business venture.
  - b. To act as the work plan for the operations of the business.
  - c. To obtain debt-based capital (such as bank loans, lines of credit, etc.) for the start-up of a new business or the growth of an existing business. For this purpose statement be sure to include the specific amount of debt being requested.
  - d. To obtain a private placement of capital (private investors, angels, venture capital) for the start-up of a new business or the growth of an existing business. For this purpose statement be sure to include the specific amount of equity requested.
  - e. To buy or acquire an existing business that is for sale. Include the name of the business and its respective asking price.
2. **Business Name:** What is the name of your business and where is it located? To check for start-up name availability go to [https://www.ai.org/sos/bus\\_service/online\\_corps/nameavail.asp](https://www.ai.org/sos/bus_service/online_corps/nameavail.asp)  
To check for internet domain availability go to <http://www.networksolutions.com/>
3. **Type of Business:** What type of business is the plan for?  
*Some options may include:*
  - a. A new start-up, independent business.
  - b. An expanding existing business that was started in \_\_\_\_\_.
  - c. A franchise business. (start-up or existing)
4. **Who are we?** What business are you in and what do you stand for? Describe not only the *type* of business that you are in but also describe what it is that you are *really* selling from a human fulfillment point-of-view. For instance, an errand service is really in the business of selling time (and convenience). To help you get started, think about what it is your business really sells boiled down to one word. Also, describe the basic principles or ideology that you stand for. For an example, go to [http://www.sephora.com/help/about\\_sephora.jhtml?location=sephora](http://www.sephora.com/help/about_sephora.jhtml?location=sephora)
5. **Story of the Business:** What is the reason for the existence of the business? *Some options may include:*
  - a. For a start-up business, you might tell the story of how you came up with the idea or what marketplace need or problem you are attempting to solve.
  - b. For an existing business, you might tell the story of how and why the business was formed and what critical obstacles it has overcome and what success it has experienced.

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6. **General Industry Sector:** What general industry is your business in? *Some options may include:*
    - a. Service industry
    - b. Retail industry
    - c. Wholesale industry
    - d. Transportation industry
    - e. Manufacturing industry
    - f. Construction industry
  7. **Specific Industry Sector:** What specific industry grouping do you operate within? To find your industry classification name and code go to <http://www.census.gov/epcd/www/naics.html> and select NAICS Search.
  8. **Industry Structure and Trends:** What is going on in your industry that is significant? *Some options may include:*
    - a. *Industry Size*—How big is the industry and how fast is it growing? To find information on how to research your industry go to [www.library.georgetown.edu/guides/american corps/](http://www.library.georgetown.edu/guides/american corps/) Also look at *Hoover's Industry Snapshots*.
    - b. *Industry Threats*—What 5 or 6 industry trends most threaten our continued success?
    - c. *Barriers to Entry*—How hard is it to get into our business?
    - d. *Switching Costs*—How easy is it for a customer to change from one business to another?
    - e. *Threat of Substitute Products and Services*—How big of a threat are products and services that could be substituted for ours? What are they?
  9. **Basic Value Proposition:** What basic value does your business provide, what need does it fill, or what problem does it solve?
  10. **Core Strategy:** What fundamental strategy is your business model based upon? *Some options may include:*
    - a. Cost Leadership Strategy—being the low cost producer.
    - b. Differentiation Strategy—the development of unique products and services.
    - c. Niche or Focus Strategy—seeks to serve narrow market segments.
  11. **Key Success Factors:** What are the 2 to 3 most important activities or factors influencing your business that contribute to the accomplishment of your goals? *Some options may include:*
    - a. Selecting the best location(s).
    - b. Keeping costs low.
    - c. Speed of product and service delivery.
    - d. Recruiting and attracting talent.
    - e. Employee training and education.
    - f. Proprietary leverage of products and services.
    - g. High switching costs between competing products.
    - h. Negotiating favorable partnering agreements.
    - i. High market visibility through brand building and advertising.
    - j. Selection of strategic partners.

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12. **Uniqueness:** How is my business deliberately choosing to be different? *Some options may include:*
- a. Think about the collective set of beliefs held by your industry. Now answer this question: What specific beliefs have you purposefully chosen to violate?
  - b. On what specific component of the business transaction is your business different? How?
    - i. Price
    - ii. Product
    - iii. Access
    - iv. Customer Experience
    - v. Service
13. **Driving Forces:** What is changing in the world AND what opportunities does that create for your business?  
*Some options may include:*
- a. *Social and lifestyle forces*—includes demographic forces, values, and attitudes.
  - b. *Economic forces*—includes the economy as a whole, industry forces, competitive forces, and forces at work on or within our organization.
  - c. *Political forces*—includes the overall political direction and any laws, regulations and court rulings.
  - d. *Technological forces*—includes technology fundamental to your business (enabling) and technology from another industry carried over to yours (disruptive)
  - e. *Environmental factors*—includes changes and trends taking place in the physical environment.
14. **Goals and Objectives:** What are the major milestones to be reached within the next 3-5 years. *Some options may include:*
- a. Create additional product lines.
  - b. Expand delivery of services into new areas.
  - c. Diversify the revenue base of the company.
  - d. Recruit additional key members of management team.
  - e. Expand further geographically.
  - f. Reach breakeven or some other financial milestone.
  - g. Acquire another business or competitor.
  - h. Franchise the business.
  - i. Find and secure \$X additional funding.
  - j. Re-evaluate suppliers and strengthen relationships.
  - k. Develop strategic partnerships for the development or delivery of new products and services.

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## Products and Services

1. **Product Description:** What is it that you sell?  
*Whether you resell or make the product, some questions to address may include:*
  - a. What does your product do?
  - b. What need is addressed by the product(s)?
  - c. What are its features and benefits?
  - d. Who supplies the product or materials? To find suppliers go to <http://www.thomasregister.com/>  
*If you manufacture the product, you might discuss:*
  - e. How is it produced?
  - f. What materials and labor are required?
  - g. How will its quality be measured and controlled?
  - h. What's its technological lifespan?
  - i. What research and development has been conducted and what still needs to be done?
  - j. What patent, trademark, or copyright protection has been secured? For patents/trademarks go to <http://www.uspto.gov/>  
To obtain a copyright go to <http://www.loc.gov/copyright/>
  - k. What packaging is used? To obtain UPC barcodes go to <http://www.uc-council.org/>
  - l. What product liability insurance is necessary?
  - m. What regulatory issues may apply to your product?
    - i. [Federal Trade Commission](#)
    - ii. [Food and Drug Administration](#)
    - iii. [Consumer Product Safety Commission](#)
2. **Service Description:** What services do you deliver?  
*Some questions to address may include:*
  - a. What services do you offer?
  - b. How do they work?
  - c. What materials or equipment is needed?
  - d. What are your labor needs to provide these services?
  - e. What are your days and hours of operation?
  - f. What are the steps in your service process and the benefits you offer your clients?
3. **Pricing Strategy:** How are your products and services priced? For help with pricing go to <http://www.sba.gov/library/pubs/fm-13.txt>
  - a. Pricing Objectives: What are you trying to achieve with your pricing strategy?  
*Some options may include:*
    - i. Survival: Adjusting price levels so that sales levels match organizational expenses.
    - ii. Profit: Identifying price and cost levels to maximize profit.
    - iii. Return On Investment: Identify price levels that enable the firm to yield targeted return on investment.

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- iv. Market Share: Adjusting price levels so that the business can maintain or increase sales relative to competitors.
  - v. Cash Flow: Setting price levels to encourage rapid sales.
  - vi. Status Quo: Identifying price levels that help to stabilize demand and sales.
  - vii. Product Quality: Set prices to recover research and development expenditures and establish high-quality image.
- b. Basic Strategy: What exact methods will be used in determining your prices? To review the Clayton Act which regulates pricing and pricing practices go to <http://www4.law.cornell.edu/uscode/15/13.html>  
*Some options may include:*
- i. Skim Pricing: Sets the price arbitrarily high with the intent of capturing short-term profits.
  - ii. Penetration Pricing: Sets the price arbitrarily low in an attempt to discourage competition and appeal to a greater portion of your market segment.
  - iii. Fixed Pricing: A price set by the manufacturer or middleman and is not subject to negotiation between the final buyer and seller.
  - iv. Variable Pricing: A final price negotiated between a buyer and a seller.
  - v. Price Lining: Establishes only a few prices for all of the items within a given product line.
  - vi. Keystone Pricing: A percentage markup applied to the product's cost.
  - vii. Customary Pricing: Sets prices at a level that is considered standard for the product.
  - viii. Psychological Pricing: Strategies that try to make the product's price more desirable.
  - ix. Prestige Pricing: Pricing to encourage consumers to equate pricing with quality and status.
  - x. Geographic Pricing: Charging different prices for different regions of geography.
  - xi. Pricing Leader: Will you be a price leader or follower?
- c. Product Costs and Margins
- i. Product and Service Price Listing
  - ii. Product and Service Costs
  - iii. Product and Service Margins (price less costs)
- d. Ancillary Pricing Strategies  
*Some options may include:*
- i. Quantity discounts
  - ii. Cash discounts
  - iii. Trade discount (reducing the product's list price to middlemen)

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- iv. Seasonal discounts
  - v. Promotional allowances (reduces the product's list price to middlemen who promote the product or service in some prescribed manner)
  - vi. Forward dating (not charging for the products until a later date)
  - e. Shipping Issues
    - Some options may include:*
      - i. FOB Factory Pricing: The costs of transporting the product from the seller to the buyer are borne by the buyer.
      - ii. Freight Absorption Pricing: Paying some of the transportation costs in order to bring the product's price in line with those charged by competitors in a geographic area.
      - iii. Uniform Delivered Pricing: A standard price charged regardless of location.
      - iv. Zone Pricing: Charging different prices for different regions of geography.

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## Marketing Analysis and Strategy

1. **Target Customer:** Which target markets will we serve?  
For each targeted market, answer the letters a. through e. below:
  - a. *Customer Type:* What type of market are you targeting?
    - i. Consumer market segments and/or
    - ii. Business and industrial market segments
  - b. *Geographic Description:* At what level of geography will you target your customers?
    - i. Location
      1. International
      2. National
      3. Regional
      4. State
      5. County
      6. City
    - ii. Density
      1. Urban
      2. Suburban
      3. Rural
  - c. *Demographic Factors:* What major common characteristics do the members of this market share? *Some options may include:*

*For a consumer: These are US Census categories...*

Age	Labor Force
Ancestry	Language Use
Births	Marital Status and Living Arrangements
Children	Migration
Computer Ownership and Use	Occupation
Deaths	Overseas U.S. Population
Disability	Poverty
Education	Program Participation
Elderly	Race
Families	Small Area Income and Poverty
Fertility	School Costs
Foreign Born	School Districts
Gender	School Enrollment
Grandparents	Voting and Registration
Health Insurance	Wealth
Hispanic Origin	Well-Being
Households and Families	Working At Home
Immigration	
Income	
Journey to Work	

*For a business:* Use the size of the business measured by employees or sales levels as well as industry sector such as:

Mining  
Utilities  
Construction  
Manufacturing  
Wholesale Trade

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Retail Trade  
Transportation and Warehousing  
Information  
Finance and Insurance  
Real Estate and Rental and Leasing  
Professional, Scientific, and Technical Services  
Management of Companies and Enterprises  
Administrative and Support and Waste Management Services  
Educational Services  
Health Care and Social Assistance  
Arts, Entertainment and Recreation  
Accommodation and Foodservices

Additional sources of market research:

[Consumer Spending Surveys](#)  
[Statistical Abstract of the United States](#)  
[The American FactFinder](#)  
[USA Counties](#)  
[Understanding USA](#)  
[Mailing Lists and Databases](#)

- d. *Psychographics*: What psychographic characteristics will you use to segment your target market? Psychographics is a system for measuring consumers' beliefs, opinions and interests. It's like demographics but instead of counting age, gender, race, etc., it counts psychological information (opinions on abortion, religious beliefs, music tastes, personality traits, etc.) Marketing research usually combines demographic and psychographic information. For help with psychographics go to <http://www.sric-bi.com/VALS/> or visit <http://cluster2.claritas.com/YAWYL/Default.wjsp?System=WL>
- e. *Market Size*: What is the size of this market?
- i. To estimate the size of a consumer target market in numbers of customers, go to <http://www.census.gov/population/www/index.html> and locate the demographics and geography of your targeted customer.
  - ii. To estimate the size of a consumer market in dollars go to <http://www.bls.gov/cex/home.htm> to determine what consumers within specific demographic categories spend on your products and services. Then simply multiply these dollar amounts by the size of your market found in the above step.
  - iii. In addition, to estimate the size of a consumer target market in dollars, go to <http://www.census.gov/epcd/www/econ97.html> and find the description and geography of your industry.
  - iv. To estimate the size of a business market in numbers go to <http://www.census.gov/epcd/www/econ97.html>. To find dollar expenditures for businesses go to <http://www.census.gov/csd/bes/>

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2. **Competitive Analysis:** With whom does your business compete?  
To locate potential competitors go to  
<http://www.infousa.com/homesite/index.html?106> or  
<http://www.thomasregister.com/>  
*Some questions to address may include:*
- Who are your four most substantial direct competitors?
  - Who are your indirect competitors?
  - How are their businesses? Steady? Increasing? Decreasing?
  - What have you learned from their operations and advertising?
  - What are their strengths and weaknesses?
  - How does your business, product, or service differ from theirs?
3. **Positioning Message:** A positioning message is a short idea that is based on deep understanding but expressed with incredible simplicity. It states what the business stands for and what makes it distinct in a very short phrase. It's one part hook—one part call to action. It positions the business in the mind of the customer in a very strategic way. For instance, Nike: *Just Do It*. The Wall Street Journal: *Adventures in Capitalism*. BMW: *The Ultimate Driving Machine*. CNN Headline News: *Get To The Point News*. What positioning message will you deliver to your customer?
4. **Word of Mouth Strategy:** How will you create word of mouth buzz?
- The Nature of the Product or Service: Does the nature of your product or service tend to generate discussion or create a high level of involvement among customers? If the nature of your product or service does not generate buzz on its own, don't panic. You will just have to use other buzz-creating tactics to create a level of involvement among your customers. *Some product and service categories that do create buzz might include:*
    - Exciting products such as books, records, and movies.
    - Innovative products such as the web browser.
    - Personal experience products such as hotels, spas, books.
    - Complex products like software or medical devices where customers ask questions to reduce their exposure to risk.
    - Expensive products such as computers and consumer electronic devices.
    - Observable products such as clothes, cars, and cellular phones.
    - Products that evoke an emotional response.
    - Products that advertise themselves.
    - Products that leave traces of themselves.
    - Products that become more powerful as more people use them.
    - Products that are compatible with other products and services.
    - Products that "do the rest."

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- b. The Idea: What idea are you trying to sell?
    - i. Stickiness: How does your idea make an impact? How is it memorable? Is your idea remarkable, thought-provoking, important, profitable, funny, horrible, or beautiful?
    - ii. Medium: In what medium will your idea be encapsulated? (picture, a phrase, written article, video, CD-ROM)
    - iii. Velocity: How fast might the idea spread from one person to another?
    - iv. Smoothness: How easy is it for a customer to spread the word to another customer?
    - v. Tools: What tools will we give our customers so that they can spread our message?
    - vi. Persistence: How long will your idea stick around? What's its lifecycle?
  - c. Network Hubs: Who are the opinion leaders in the networks you will target? *Some questions to address may include:*
    - i. Who are the opinion leaders or network hubs in these networks and how will you identify them?
    - ii. What type of opinion leader are they?
      1. Connectors are people specialists—they are important for more than the number of people they know. Their importance is also a function of the kinds of people they know.
      2. Mavens—which is Yiddish for one who accumulates knowledge—are information specialists. They are socially motivated to spread information about markets, products, and ideas.
      3. Salesmen are persuaders—in order for an epidemic to start, some people are actually going to have to be persuaded to do something.
    - iii. How do these individuals interact?
    - iv. How often do they interact?
    - v. Where do they hang out?
    - vi. Who influences them?
    - vii. How many other customers are they connected to?
    - viii. Why might these opinion leaders pass on our message to others?
      1. To benefit their reputation.
      2. For selfish benefits or interests.
      3. To help others save time.
      4. To help others reduce risk.

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- d. Customer Networks: What is the nature of the networks you are targeting? *Some questions to address may include:*
- i. To what social or expert networks do your customers belong? *Some options may include:*
    1. Trade associations. For a comprehensive listing go to the [trade association database](#)
    2. Social clubs, networking, and peer groups
    3. Professional organizations
    4. Chambers of commerce
    5. University courses and continuing education
  - ii. How many sources of information does your customer rely on? Which ones are the most important?
  - iii. What other kinds of information spread through the same networks?
- e. Seeding Tactics: How might you seed your products and services (or representative samples of them) throughout the network?
- i. What might you give to network hubs or to members of multiple networks to seed the network?
  - ii. How might you give people the ability to directly experience your product or service?
    1. Sampling programs
    2. Touring Programs
    3. Demo programs
- f. Word of Mouth Tactics: What techniques will you use in building buzz? *Some options may include:*
- i. Can you tell a story, creating suspense by withholding information and releasing it gradually?
  - ii. Can you use a sneak preview?
  - iii. Can you build anticipation?
  - iv. What can you do to surprise people?
  - v. Can you be outrageous?
  - vi. Can you limit access to your product creating demand?
  - vii. Can you take your customers behind the scenes?
  - viii. Can your story include a hero?
  - ix. Can you construct prefab messages for your customers?
  - x. Can you stage an experience or an event?
  - xi. Can your product be given as a gift?
  - xii. Do you have a referral or awards program?

To learn more about the tactics of creating buzz and effective word of mouth campaigns see the following:

- [Unleashing the Ideavirus](#) by Seth Godin
- [The Anatomy of Buzz](#) by Emanuel Rosen
- [The Tipping Point](#) by Malcolm Galdwell
- [The Secrets of Word of Mouth Marketing](#) by George Silverman

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5. **Advertising and Promotions:** What media and channels will you use in delivering your message? *Some options may include:*
- a. Direct Mail (For help go to <http://www.the-dma.org/> )
    - i. Objectives for direct mail
    - ii. Proposed distribution numbers
    - iii. Mailing list source
    - iv. Cost of mailing creation and printing
    - v. Cost of postage
    - vi. Expected response rates
  - b. Trade Shows
    - i. Objectives for each show
    - ii. Number of shows, locations, and dates  
For help in identifying trade shows go to <http://www.tsnn.com/>
    - iii. Cost of shows
  - c. Yellow Pages (call 800.249.4449 to advertise)
    - i. Objectives of yellow pages ad
    - ii. Due date for advertising
    - iii. Size of advertisement
    - iv. Yellow page category
    - v. Cost of advertisement
  - d. Newspaper (For a listing go to <http://www.newsdirectory.com> or <http://www.mediapost.com> )
    - i. Objectives of newspaper ads
    - ii. Name of newspapers and estimated circulation numbers
    - iii. Ad types, dates, frequency, and sizes
    - iv. Ad development and space costs
  - e. Magazines (For a listing go to <http://www.newsdirectory.com> or <http://www.mediapost.com> )
    - i. Objectives of magazine ads
    - ii. Name of magazine and estimated circulation numbers
    - iii. Ad types, dates, frequency, and sizes
    - iv. Ad development and space costs
  - f. Radio (For a listing go to <http://www.mediapost.com> )
    - i. Objectives of radio ads
    - ii. Radio station names, locations, format, and estimated listener base
    - iii. Length of spots, time of airing, and frequency
    - iv. Ad development and space costs
  - f. Television and Cable (For a listing go to <http://www.mediapost.com> )
    - i. Objectives of television ads
    - ii. Television station names or cable network names, locations, and estimated viewer base
    - iii. Length of spots, time of airing, and frequency
    - iv. Ad development and space costs

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- g. Outdoor Advertising (For a listing go to <http://advertising.utexas.edu/world> )
    - i. Objectives for outdoor advertising
    - ii. Location of ads and traffic counts
    - iii. Ad development and space costs
  - h. Email Advertising (For a summary of laws governing this type of advertising, go to <http://www.techlawjournal.com/cong106/spam/Default.htm> )
    - i. Objectives for email advertising
    - ii. Email list source
    - iii. Number of email messages sent and expected response rates
  - i. Telemarketing (For a summary of laws governing this type of advertising, go to <http://consumer.net/telemarketing/tcpainfo.asp> )
    - i. Objectives for telemarketing campaign
    - ii. Phone list source
    - iii. Number of calls placed and expected response rates
    - iv. Telemarketing costs
  - j. Specialty Advertising
    - i. Types of specialty advertising used
    - ii. Distribution strategy
6. **Public Relations:** What types of publicity tactics will you employ?  
*Some options may include:*
- a. Press releases. For help with writing a press release go to <http://www.pressflash.com/anatomy.html> Some possible reasons to issue a release might include:
    - i. Start-up of new business venture
    - ii. New partnering arrangements
    - iii. Support of a social cause
    - iv. Reports on industry conditions
    - v. New uses for established products
    - vi. Product endorsements
    - vii. Winning of quality awards
    - viii. Company name changes
    - ix. International business efforts
    - x. New product launches
    - xi. Research developments
    - xii. Employment, production, and sales records
    - xiii. Award of contracts
    - xiv. Innovative marketing activities
    - xv. Winners of company contests
    - xvi. Speeches of top management
    - xvii. Merit awards to organization
    - xviii. New certifications
  - b. Public speaking engagements
  - c. Public events

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7. **Personal Selling:** Do you require a sales force or the services of sales representatives? How will you handle the following:
    - a. Recruitment and selection of sales personnel
    - b. Training sales personnel
    - c. Compensation and motivation
    - d. Controlling and evaluating sales force performance
  8. **Sales Promotions:** What inducements or incentives will you offer? *Some options may include:*
    - a. Consumer Sales Promotions
      - i. Coupons
      - ii. Demonstrations
      - iii. Frequent-User incentives
      - iv. Point-of-Purchase displays
      - v. Free samples
      - vi. Money refunds or rebates
      - vii. Contests or sweepstakes
    - b. Business or Industrial Sales Promotions
      - i. Quantity discounts
      - ii. Free merchandise
      - iii. Cooperative advertising
      - iv. Dealer listings
      - v. Buy-back allowances
  9. **Distribution:** What part of the distribution process does your business handle, if any? *Some options may include:*
    - a. Warehousing
    - b. Order processing
    - c. Inventory management
    - d. Packaging
    - e. Materials handling
    - f. Receiving
    - g. Transportation and shipping
  10. **Customer Experience:** As an end-to end process, what customer experience will your business deliver? *Some options may include:*
    - a. Identities
      - i. Names
      - ii. Logos
      - iii. Trademarks (To obtain a registered trademark go to <http://www.uspto.gov/> )
      - iv. Service marks
      - v. Signage
    - b. People
      - i. Salespeople
      - ii. Service providers
      - iii. Customer service providers
    - c. Communications
      - i. Brochures
      - ii. Catalogs
      - iii. Newsletters

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- iv. Annual reports
  - d. Environments
    - i. Buildings
    - ii. Offices
    - iii. Factory spaces
    - iv. Retail and public spaces
    - v. Trade booths
  - e. Information Technology
    - i. Websites (to learn how to put metatags on your website go to <http://ag.arizona.edu/ecat/html-basics/metatags.html> )
    - ii. Digital branding
    - iii. Customer relationship management systems (for advanced information on CRM tactics go to <http://www.1to1.com/Building/CustomerRelationships/entry.jsp> )
11. **Location:** Where will your business be located?  
For assistance on how to choose a location and negotiate leases go to [http://www.nolo.com/encyclopedia/sb\\_ency.html#Subtopic160](http://www.nolo.com/encyclopedia/sb_ency.html#Subtopic160)
- a. What are your location needs?
  - b. What type of space do you need?
  - c. What will it cost to lease or buy the needed facilities?
  - d. What is the term and duration of any leases?
  - e. What traffic counts does the facility experience? For help in obtaining average daily traffic counts go to <http://www.ai.org/dot/div/traffic/count/index.html>
  - f. How accessible is the location?

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## Management and Operations Section

1. **Management Team:** Who are the key people who will manage the business?
  - a. Key Managers
    - i. Education and Background:
    - ii. Skills and Capabilities: What strengths do they bring to the table?
    - iii. Position and Responsibilities: What they will do and what will they oversee?
    - iv. Compensation: How will they be compensated? For benchmark salary and wage data go to [http://www.bls.gov/oes/oes\\_emp.htm#overview](http://www.bls.gov/oes/oes_emp.htm#overview)
    - v. Resumes
  - b. Board of Directors
    - i. Officers
    - ii. Board Member Background and Expertise
  - c. Advisory Board
    - i. Member Names
    - ii. Member Backgrounds and Expertise
  - d. Professional Service Providers
    - i. Attorneys
    - ii. Accountants
    - iii. Bankers
    - iv. Insurance Agents
    - v. Outside Consultants
2. **Personnel:** What are the personnel needs of the business?
  - a. Number and types of personnel needed.
  - b. Training Needs: What types of skills training will your business provide?
  - c. Compensation Systems: How much will the different types of personnel needed be compensated? For benchmark salary and wage data go to [http://www.bls.gov/oes/oes\\_emp.htm#overview](http://www.bls.gov/oes/oes_emp.htm#overview)
  - d. Payroll Administration: Who will handle the administration of payroll? For help with payroll administration go to <http://ebs.adp.com/> or <http://www.paychex.com>
3. **Legal Structure:** How will your business be legally structured? For help with selecting a legal structure go to <http://www.cedcorp.com/ks/structure.pdf>

*Some options may include:*

  - a. Sole proprietorship
  - b. Partnership
  - c. S Corporation
  - d. Corporation
  - e. Professional Corporation
  - f. Limited Liability Company
  - g. Limited Liability Partnership

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4. **Insurance and Risk Management:** What types of insurance will you carry in reducing the liability of your business? Include not only the types of coverage but also premium amounts and coverage limits. *Some options may include:*
- a. Property Insurance
    - i. Fire and Theft
    - ii. Renters Insurance
    - iii. Inventory Coverage
  - b. Casualty Insurance
    - i. General Liability
    - ii. Product Liability
    - iii. Professional Liability
    - iv. Errors and Omissions
    - v. Surety Bonding
  - c. Time Element
    - i. Business Income Interruption
    - ii. Extra Expense Coverage (from interruption)
  - d. Automobile Insurance
    - i. Commercial Auto Policy
    - ii. Motor Carriers Policy
  - e. Employee Insurance
    - i. Personal Disability
    - ii. Life Insurance
    - iii. Medical Insurance
    - iv. Worker's Compensation
5. **Accounting Systems:** What systems will you use to account for the operations of your business? For help with small business accounting systems go to <http://www.quickbooks.com/>

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## Financial Projections

### The Sales Forecast

When developing a sales forecast you need to remember there is no right or wrong answer. The best you can hope to do is to come up with a range of numbers, then based upon your expenses and marketing strategy, choose a number somewhere within your forecasted range. Presented below are a number of methods for determining some possible forecasted sales levels for your business. In addition to finding the breakeven point for your business, you should try to complete at least three of these methods. By doing this, you will have come up with at least a high, medium, and low projected sales level. You can then rationalize where your business might fall in that projected range when selecting your final sales level.

- **Breakeven Sales Level:** The first thing to do in creating your sales forecast is to determine the approximate breakeven point of your business. The breakeven point is where the sales of your business are equal to its expenses meaning there are no profits. This is obviously an important number to calculate since you will want to know in advance where your business turns profitable before choosing your final projected sales figure. There are two numbers you need to know when calculating your breakeven point: your total annual fixed operating expenses and your gross margin as a percent of sales. To find your total annual fixed operating expenses, you need to total all of your expenses that do not vary or increase with the sales of your products or services. Some examples might include:

Expense	Total Annual Amount
Salaries	
Payroll Taxes	
Rent	
Phone	
Advertising	
Electricity	
Gas	
Travel Expenses	
Insurance	
Legal and Accounting	
Repairs and Maintenance	
Supplies	
Office Expenses	
Leased Equipment	
<b>Total Expenses</b>	

Next, you need to find the gross margin of your business as a percent of sales. Gross margin is simply the money left over when you sell a product after you subtract its expenses. For instance, if you sell a pair of shoes for \$40.00 and they cost you \$25.00 then your gross margin would be \$15.00.

Your gross margin as a percent of sales would therefore be 37.5% which is \$15.00 (your gross margin) divided by \$40.00 (your sales price).

Another example of calculating your gross margin as a percent of sales is presented below:

<b>Example</b>	<b>Dollars</b>	<b>% of Sales</b>
<b>(A) Average Sales Price of Product or Service</b>	\$40.00	100%
<b>(B) Average Cost of Product or Service</b>	\$30.00	75% (\$30.00/\$40.00)
<b>Gross Margin (A-B)</b>	\$10.00	<b>25%</b> (\$10.00/\$40.00)

If you have more than one product or service category, you can use a weighted average to find your gross margin percentage. The weight you choose for each product or service category should reflect where you expect the majority of sales to occur. The only thing you need to remember is that your allocated weights need to always equal 100%. Otherwise, you can assign as many weights across as many categories as you like. Remember, the goal is to simply arrive at a single gross margin amount as a percent of sales as demonstrated below:

<b>Example</b>	<b>Product 1 % of sales</b>	<b>Product 2 % of sales</b>	<b>Final Gross Margin</b>
<b>(A) Average Sales Price of Product or Service</b>	100%	100%	
<b>(B) Average Cost of Product or Service</b>	75%	80%	
<b>Gross Margin (A-B)</b>	25%	20%	
<b>Weight %</b>	<b>40%</b> (you assign this)	<b>60%</b> (you assign this)	100% (must always equal 100)
<b>Weighted Average</b>	<b>10%</b> (25%x40%)	<b>12%</b> (20%x60%)	<b>22%</b> (10%+12%)

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To find your projected breakeven point, simply take your total annual fixed expenses and divide by your gross margin percentage. The result is the breakeven point of your business in dollars.

For example, if your total annual fixed expenses are \$120,000 and your gross margin percentage is 60% then the breakeven sales level for your business in dollars would be \$200,000 (\$120,000 divided by .60 equals \$200,000). This means that your business would not earn any profits until you earned more than \$200,000 in annual sales.

- **Economic Census Data**

Economic census data provides the number of establishments, sales receipt levels, and payroll data for a number of industries across many levels of geography for the United States. It is available free from the US Census Bureau go to <http://www.census.gov/>

1. To use this data you must first select the general industry in which you will operate. Your choices are:

- Mining
- Utilities
- Construction
- Manufacturing
- Wholesale Trade
- Retail Trade
- Transportation and Warehousing
- Information
- Finance and Insurance
- Real Estate and Rental and Leasing
- Professional, Scientific, and Technical Services
- Management of Companies and Enterprises
- Administrative and Support and Waste Management Services
- Educational Services
- Health Care and Social Assistance
- Arts, Entertainment and Recreation
- Accommodation and Foodservices

2. Next, you'll want to select the level of geography you are interested in. A small retailer for example may only be interested in the county or city level of a particular state, where a service that spans the entire county may choose to look at national level data. You should be aware that the smaller you go down the chain of geography, the less chance you will have of finding any meaningful data. For example, many small counties or cities may not have any available data for your industry if there are a small number of establishments. In these cases, you need to work at the state level instead.
3. Once you have found the proper publication for your industry and level of geography, you need to find the category that best describes your business. These categories are listed down the left hand side of the charts. Although you may not be able to find your

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exact business description, choose the one that you believe is the closest to what it is that you do.

4. Once you find the best descriptive business category, the chart displays to the right the number of establishments, the total sales receipts of all of these businesses in 1,000s of dollars (very important!) and payroll data about the industry.
5. To find an average sales level for these businesses, simply take the total number of business receipts found in column two and divide by the number of establishments found in column one. The result will be the average sales level of these businesses.
6. You can use this sales level as one indicator of sales potential in a market. Be mindful that the numbers you find may seem high. This might be true especially if there are a number of very large businesses in the market that may skew the numbers upward. Nonetheless, it does give you some idea of the sales potential of the market and the number of potential competitors. It is important to keep in mind, that if you are starting a business that the market will not expand, rather the level of sales found in your market may be redistributed among the competitors. This is important to remember as the data shows activity without the existence of your business.

- **Internal Revenue Service Data**

IRS data provides the total number of returns, business sales receipt levels, and the deducted expenses for a given industry sector. It is available free from <http://www.irs.gov>

1. IRS data is divided by legal structure of the business in other words by sole proprietorships, partnerships (including LLCs), S corporations, and regular corporations. To begin finding the appropriate sales data, download the packet that corresponds to the chosen legal structure of your business below:

[Sole Proprietorships](#)

[Partnerships and LLCs](#)

[S Corporations](#)

[Corporations](#)

2. Once you have selected the appropriate data from above and it opens, you will want to forward through into the publication until you begin to see the charts of numbers located somewhere in the middle of the publication. These charts are sorted in several different ways. You need to first locate your respective industrial group in the column found on the right hand side. Get as close as you can.
3. Next, find the Number of Returns in the first column and the total Business Receipts found in the second column. Take the Business Receipts and divide by the Number of Returns. The result of this

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calculation is the average business receipt level for your industrial group by legal structure.

4. You can also use this data to find many variable and fixed expense indicators as well.

- **RMA Financial Statement Studies**

RMA Financial Statements Studies are a compilation of financial statements combined by industry sector and then sorted by the size of a business as grouped by assets, historical period, and sales levels. RMA takes financial statements, tax returns, and other financial data and compiles them by industry to find financial "norms" and indicators. It is a valuable resource for researching industry norms with regard to income, expenses, assets, and liabilities. There are also a number of ratios that indicate performance on many financial areas of a business.

This publication is available at many public libraries usually located in the reference section. You can also check your local Small Business Development Centers for its availability.

You should know that many banks use this reference as a benchmark when reviewing your financial projections, therefore, you should check your projections against these numbers if possible.

1. To use this data look in the index found in the front of the book where you will find a listing of different industries. Try to find the industry description that is closest to your own. Once you have found the best definition, it will list the page numbers where the financial data can be found.
2. Once you locate the appropriate industry you will see a pair of pages. The data found on these two pages are divided into three columns. The left column has the data sorted by asset size of the businesses studied. The center column (which spans the center of the book between the two pages spread) has the data sorted by historical period. The right column presents the data sorted by the sales level of the businesses.
3. For this example, we will be focusing on the very right hand column of the three. This is the column sorted by sales levels. At the top of this column, you will see a number of categories labeled "0-1MM, 1-3MM..." and so forth. These labels indicate the sales volumes of the businesses studied in millions of dollars. Therefore, the column labeled, "0-1MM" represents businesses who had sales between 0 and 1 million dollars.
4. Right below this size label you will see the "Number of Statements." This represents the number of businesses that the study has aggregated under the chosen size category that you have chosen.

5. The numbers under the assets and liabilities labels indicate the composition of things owned and things owed by a typical business of this size in your industry. Here you can find out of every \$100 how much cash, inventory, accounts receivable, and short/long term debt this sort of business might have.
6. Underneath these labels you will see the "Income Data." Presented here is the breakdown of the gross profit, expenses, and net income for every \$100 in sales that the business takes in. This is valuable information when researching your margins and expense structures for a new business.
7. In your chosen column, at the very bottom of the page, you will see "Net Sales." This number shows the total number of collective sales shown on all of the statements studied in the appropriate sales category that you are looking at. Note that the number is shown in thousands ("M") so be sure to add three 0's to it.
8. If you were to take this number and divide by the Number of Statements found at the top of the same column you would have somewhat of an average sales level for the statements presented. Keep in mind that RMA data normally compiles information from mainly existing businesses. Therefore the sales levels may seem high to you. Nevertheless, it can serve as a valuable indicator on many different financial aspects of your industry.
9. There is a second way to use this data in finding a potential sales range for your business and that is to back into the sales figure number using the Income Data section. A sample income data section from the RMA book may look something like this:

<b>Income Data</b>	
Net Sales	100.00
Gross Profit	45.15
Operating Expenses	42.25
Operating Profit	2.9
All Other Expenses	1.8
Profit Before Taxes	1.1

If you were to add up all of your total annual fixed expenses of your business (which you did in the breakeven section above) you could use this number alongside the ratios above to determine what the relative sales level might be.

Say for instance that your total annual fixed expenses are \$125,000. Once you have this number, all you need to do is divide it by the number labeled Expenses from your RMA profile. Remember that the number on the RMA profile is a percentage so the number 42.25 shown in the example above would actually be .4225. The result might look something like this:

<b>Income Data</b>	<b>RMA Data</b>	<b>Your Numbers</b>
Net Sales	100.00	<b>\$295,858</b>
Gross Profit	45.15	
Operating Expenses	42.25	\$125,000
Operating Profit	2.9	
All Other Expenses	1.8	
Profit Before Taxes	1.1	

Therefore, in the above example of using RMA data, the relative sales level for your business when plugging in your projected fixed expenses from your business plan would be \$295,858 (\$125,000 divided by .4225)

- **Dun & Bradstreet Key Financial Ratios**

Dun & Bradstreet Key Financial Ratios are very similar to the RMA Financial Statement Studies presented above. This publication compiles the financial statements and tax returns for a good number of businesses across many industries. In fact, there are usually more industries and a greater number of businesses represented in each industry grouping than can be found in the RMA study. So if you cannot find your respective industry in the RMA index, Dun & Bradstreet Key Financial Ratios may be the place to look.

This publication can be found at many large public libraries. Also, many Small Business Development Centers have access to these studies.

Similar to the RMA compilation, the Dun & Bradstreet compilation contains the same analysis of balance sheet and income data as well as many operating ratios for an industry. The usage of the data is very similar to how you use the RMA Financial Statements Studies publication.

- **Troy's Financial Almanac**

Troy's Almanac is again similar to RMA and Dun & Bradstreet however, it is strictly based on IRS tax return data. While some of the financial ratios provide more detail, especially in the expense side of an industry group, there are less categories to choose from meaning you are forced to look at much larger industry snapshot. This resource can be fairly hard to find. The best bet is to contact a Small Business Development Center who may have access to this almanac.

- **Trade Association Data**

Many of the larger trade associations produce financial data and statement reviews and studies of their member's financial statements.

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Usually, these financial surveys are fairly expensive, especially if you are not a member of the association. Nonetheless, the financial picture they present offers a valuable set of insights about the financial workings of your industry, especially if you are not familiar with the industry to begin with.

To find potential trade associations for your industry see the *Encyclopedia of Associations* available at your library's reference desk, keyword search your industry association on the internet using <http://www.yahoo.com> or <http://www.google.com> or go to <http://info.asaenet.org/gateway/OnlineAssocSlist.html>

- **Observation Techniques**

Observation techniques work best for retailers, restaurants, kiosks, and other service-based business that cater to consumers. This technique simply involves watching and observing consumer traffic into stores, drive-thru windows, and other retail-like locations. It's important to track customer traffic, but it's even more important to track customer conversion rates meaning that people that actually become a customer by making a purchase. The final piece of information that you need is average purchase amount. While this information is a bit harder to determine, it's a critical assumption that must be studied. By multiplying customer traffic and purchases by the average purchase amounts a sales estimate can be determined for the business.

- **Retail Forecasts**

There are a couple ways to help with estimating sales for a retail establishment:

- *Sales per square foot:* Many trade associations and retailing associations publish sales per square foot data. These numbers can be very useful in estimating the sales of your establishment. For example, lets suppose you are opening an independent bookstore and you find data from the American Booksellers Association indicating that the sales per square foot for independent stores is \$174.50. If you take the available selling square feet from your proposed store and multiply by the rate per square foot you will have a good estimate of its sales potential. If the retailing space of your store is 1,500 square feet and the industry averages \$174.50 per square foot then you could estimate approximately \$261,750 (1,500 times \$174.50).
- *Inventory turns:* An inventory turn is how many times in a year that your inventory leaves the shelf. For instance, if the average inventory turns of a business is said to be 3.2 times, that means that the inventory moved from the shelf more than 3 full times during the year. This can be a very useful number

especially when planning for a retail store where the initial amount of inventory needed is unknown. Publications like RMA Financial Statement Studies and Dun & Bradstreet Key Financial Ratios as well as many industry trade associations produce this information. Let's consider an example. Let's say that you find that average inventory turns for your industry is 2.7 times in a year. Now let's suppose you are going to start with \$40,000 worth of inventory. Remember this inventory is valued at cost not retail so we must first convert this figure to retail dollars. To do this, just supply the mark-up you are going to use. Let's assume you are going to mark-up everything 200% therefore something that costs you \$50.00 will be sold for \$100.00. This further means that the current retail value of your \$40,000 worth of inventory is \$80,000. Now if you were expected to turn this 2.7 times, you would simply multiply the two numbers together. The resulting number of \$216,000 represents the estimate of sales you might expect from this level of inventory. It's important to note that if this level of sales falls below your breakeven point then you will not have enough inventory on hand to reach breakeven. To fix this problem simply increase and maintain a higher level of initial inventory.

- **Project-Based Forecasts**

Businesses that work on a project basis can be especially difficult to forecast. Businesses that fall into this category include job-shops, project-based service businesses, contractors, and consultants. For these sorts of businesses it's important to think of the sales forecast as more of a goal-oriented exercise. Also you should try to breakdown your projects into several different categories. For example, a consultant may break their projects into small, medium, and large projects. They would then estimate what the average small project might bring in for income and what expenses it might take to complete the work. They would then perform the same exercise for medium and large projects. Your analysis might look something like this:

<b>Project:</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>
Typical Billable Hours	15	45	80
Rate per Hour	\$65.00	\$65.00	\$65.00
<b>Total Income</b>	<b>\$975.00</b>	<b>\$2,925.00</b>	<b>\$5,200.00</b>
Cost of Sales:			
-Labor	\$275.00	\$735.00	\$1,475.00
-Materials	\$120.00	\$850.00	\$1,120.00
Total Cost of Sales	\$395.00	\$1,585.00	\$2,595.00
Gross Margin	\$580.00	\$1,340.00	\$2,605.00

Once you have found your respective income and expense levels for each of your created categories, you then need to assign an estimated number of completed projects for each category in each month over the course of the coming year. These projected project numbers multiplied by their respective income estimates are added together to produce the forecasted sales for the year. For instance:

<b>Project</b>	<b>January Forecast</b>	<b>January Sales</b>	<b>February Forecast</b>	<b>February Sales</b>
Small	3	\$2,925.00	2	\$1,950.00
Medium	1	\$2,925.00	0	\$0.00
Large	0	0.00	1	\$5,200.00
<b>Total</b>		<b>\$5,850.00</b>		<b>\$7,150.00</b>

- **Seasonality Factors**

Every business is seasonal to some extent. Once you arrive at your final annual sales forecast estimate, you should think about how that sales number would be distributed over the months of the year.

A quick way to do this is to think of the year as 100% of your sales forecast number. If you divide 100% by the 12 months of the year you find the average month would represent 8.33% of the total sales forecast. But every month is not the same for every industry. Therefore you should identify at least what your four peak months might be. You should assign these months with a percentage higher than average—in other words greater than 8.3%. You might, for example, assign each of these peak months with 10% of the annual forecasted sales.

Next, you should identify those months that are below average in terms of sales levels. You might assign each of these months to a number lower than 8.3%—say around 7.5%. Remember, each of the twelve months must add up to 100% when you are finally done. The final step simply involves multiplying your annual forecast number by the applicable percents found for each month.

Here's an example:

Say your annual forecasted sales number for your business is \$250,000. The business is a retail business that is highly seasonal. It experiences a large part of its sales during the holidays in the fourth quarter and the first of the year is extremely slow. You might therefore come up with the following seasonality factors:

Month	Level	Seasonality Factor	Projected Sales
January	Low	4.5%	\$11,250
February	Low	5.5%	\$13,750
March	Low	6.5%	\$16,250
April	Medium	8.3%	\$20,750
May	Low	7.5%	\$18,750
June	Medium	8.3%	\$20,750
July	Medium	8.3%	\$20,750
August	Medium	8.3%	\$20,750
September	High	9.5%	\$23,750
October	High	9.5%	\$23,750
November	High	11.8%	\$29,500
December	High	12.0%	\$30,000
<b>Total</b>		<b>100.0%</b>	<b>\$250,000</b>

### Cost of Sales

Cost of sales are those expenses that vary with sales. They are the cost directly attributable to producing your product and service. Usually these costs are expressed as a percent of total sales. For instance, if your annual sales are \$100,000 and your direct costs for producing your products were \$55,000, then your cost of sales would 55% of sales.

This number can be very useful for determining your variable cost of your business once you arrive at your sales forecast. If you are not sure what your variable cost of sales might be, you can check with RMA Financial Statement Studies as discussed above. As you may recall, RMA is a compilation of financial statements sorted by industry. Even though it may not be apparent, a cost of sales percentage figure is included in this data. If you refer back to your RMA profile you may remember something like this:

Income Data	
Net Sales	100.00
Gross Profit	45.15
Operating Expenses	42.25
Operating Profit	2.9
All Other Expenses	1.8
Profit Before Taxes	1.1

The mean cost of sales for your industry is actually represented here, but is not shown for space reasons. To find your industry norm for cost of sales, simply subtract the gross profit figure from your net sales amount. In the provided

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example, the cost of sales as a percent of your total sales would be 54.85% (100.0 minus 45.15).

Now, using this number with your projected sales forecast from the above section you could estimate your cost of sales in dollars. Let's assume you arrive at an annual projected sales number of \$325,000. By taking your cost of sales percentage of 54.85% and multiplying by the \$325,000 figure you would arrive at \$178,262.50, which represents your variable cost of sales in dollars. The same financial benchmarks can be obtained from Dun & Bradstreet and the Internal Revenue Service as profiled above.

### **Financial Model**

As part of this guide, a financial model created in Microsoft Excel has been included. The spreadsheet walks you through a series of steps used for collecting your financial assumptions including your sales forecast. When you have completed the assumptions, a comprehensive set of projected financial statements are produced including an income statement, cash flow statement, balance sheet, and breakeven analysis summary. In addition, the spreadsheet has a financial diagnostics worksheet that examines your work for values critically out of range and produces an analysis of its findings in sentence form.

If you have Microsoft Excel, you can activate the [financial model](#) now.