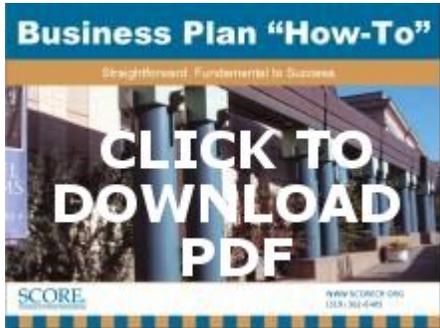


SPECIAL LESSON: BUSINESS PLANS: MAKING A "WINNER."



- Does the thought of assembling a business plan bring on anxiety?
- Do you question why you need one?
- Do you find yourself wondering what others expect in a Business Plan?
- Do you wonder how to start?

Constructing a business plan can intimidate many aspiring entrepreneurs. In this special lesson, we will demystify this often scary business necessity; discuss how it can be a valuable learning experience and

perhaps even fun. We will walk you through four simple steps to arrive at a Plan and clarify how it vastly improves your chances of success. While there are many volumes written on the subject, we thought you might benefit from the basics that have built successful global businesses right here in Cedar Rapids.

Getting in the mood

Business planning can be a fabulous and joyous exercise if you view it as a sales pitch for the "doubters" in your world; the people who have implied your idea won't work. Entrepreneurs, by definition, are folks who know they have a better idea than others who have gone before—regardless of what anyone else thinks. If you view the business plan as a production to unequivocally convince others that you are about to take the world by storm, you will find yourself in the right frame of mind. Better yet, if you keep asking yourself "Am I crazy?" until you have documented your business well enough to answer "No Way"—and have others say the same thing—the result will be an outstanding Plan.

BUSINESS PLAN IN "NUTSHELL"

ACTUAL PLAN COMPONENT: EXECUTIVE SUMMARY

1. **THE PRODUCT** – Describe what it is.
 - Describe it here: A service, product, system, project, you name it...
- **THE MARKET** – Describe how many you CAN and WILL sell to.
3. **MARKET CAPTURE**
 - What you'll do to be better than & thwart competition.
4. **FINANCIALS**

	2008	2009	2010	2011	2012	2013
Units Sold	-	305	977	1,640	2,345	
Revenue	\$ -	\$ 2,414	\$ 7,777	\$ 10,528	\$ 13,389	
Gross Profit	-	\$ 1,677	\$ 6,004	\$ 7,214	\$ 9,879	
Cash Flow	\$ (1,068)	\$ (7,007)	\$ (498)	\$ 78	\$ 2,017	\$ 11,426

Rate of Return 42%

Only this really matters.
 (Profit on your investment after XX months)

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Debunking some myths

- Business Plans are NOT DONE for the bank. They are done for your survival. They are your personal "roadmap."
- Business Plans do not need to be fancy, multicolored, word-processed, high quality documents. In fact, a set of chicken scratched documents are as good as any to start if they truly answer the "Am I nuts?" question above.
- Business Plans do not need to be lengthy. Ten pages of information are plenty to get a plan across. In fact, let's think ten pages—soup to nuts.

(This is not to say you should not exhaust yourself reading, studying, considering and collecting information about the business you want to start, but all of this does not need to go into the plan. You may fill a file drawer with background information and calculations, but this is not your plan, this is research.)

A WARNING:

Have fun, spend some time on it. Three to six months planning usually results in a winner. If you adhere to the following four steps, you will greatly increase the chances of your business succeeding. Do any one wrong and you risk failure. They are that critical.

THE 4 PARTS TO A PLAN -- 4 STEPS TO SUCCESS

1. **PRODUCT DEFINITION** – The first thing you must do is “define” your product(s).

- a. What is it the business sells and how do you describe each specific “product.” A product can be a service, part, system, project, program or whatever you choose to call it.

The key is to first describe to a layman what it is in general terms; Example: We will produce a robot that walks around a room while singing the 'Sound of Music'.

If you expect to have more than one product, one product definition per page is strongly suggested.

- b. Once described in general terms, define each product as precisely as possible and give it a label. How is it built and what specific pieces make it up? This helps to determine cost properly—which is critical. (Product definition in too fine a detail is not possible—the more precise the better.) Example: Cup of Coffee consists of beans, grinder, water, means of flowing the water over the beans (brewer), containers, cups, cream, sugar, spoons, saucers, etc., etc. Exhaust yourself thinking of these things.

- c. If in doubt about how to do this, learn from an expert such as those at [SCORE®](http://SCORE.org). They counsel businesses at no cost.

Part 1: The “PRODUCT”

- **WHAT YOU ARE SELLING?**
 - DESCRIBE THE “WHOLE SHEBANG.”
- **DESCRIBE EACH “PRODUCT”**
 - Part, Service, Item, System, Project, Program ...
 - Define Each – **Think 1 page per product**
 - Thoroughly. Cannot describe too precisely.
 - Write-down everything going into the product.

THE KEY TO PRICING & PROFITABILITY



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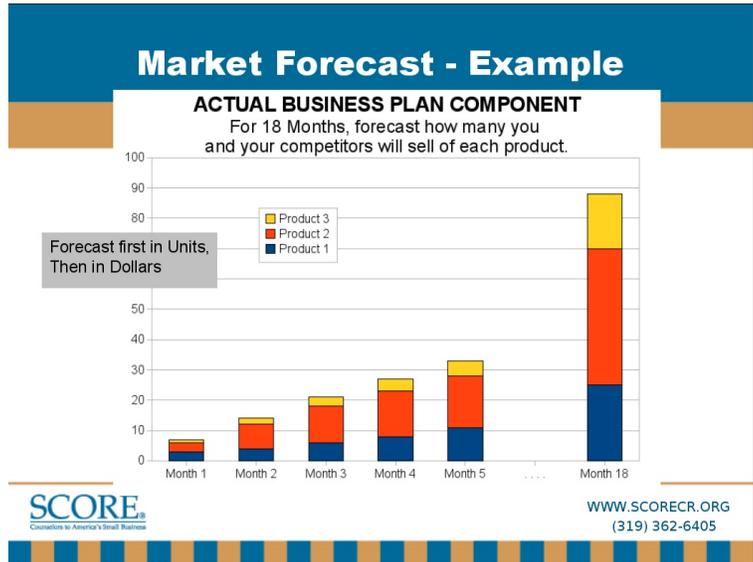
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2. **"MARKET COUNT"** – Define and then count the total potential customers (not the universe or mega-market but the ones you expect to reach over the next 18-24 months). Do this on a monthly basis.

Fancy word: Market Characterization.

a. FIRST, how do you describe your typical customer? List their characteristics with the key attributes first.

b. SECOND, how many customers will you plus your competitors have for each product in each month for 18 months? (Not how many you will sell each month but how many are out there to sell to. You must assume you will not be alone.) Write this down for each month over 18 month period— preferably in 18 columns. (Note: Spreadsheets are great for this.)



If the market is the same size each month for all of your products, that's great. If not, and you feel the available customer number is growing or shrinking, do the forecast/prediction for each month and product.

c. THIRD, how many of the potential customers will you sell your product to each month for 18 months? (Example: Month 1: 1; Month 2: 4; Month 3: 7;etc. to Month 18). If necessary, calculate this based on some assumptions. Be very conservative early on. The best businesses work very hard on this. Fancy word: market size and share.

3. **COMPETITIVE APPROACH:** List the the Market Capture Tactics for winning over the customers you predicted above. You MUST know your competitors well and develop tactics that enables you to successfully compete with them.

Fancy words: Competitive Advantage and Market Penetration.

Write down the things you can and will do that the competitors cannot or do not do. These are called your "competitive advantages." They must be good enough to get the unit sales you outlined above. The more, the

Part 3: Taking the Market

1. What do you have that competitors do not.*
2. What do the competitors do BETTER than you?
3. Month-by-month, how are you going to ensure you meet your forecast and/or take business from competitors?
 - > Month 1 ... a page of actions
 - > Month 2 ... a page of actions
 - > Month 3 ... to Month 18 ... same thing.
4. What will competitors do to thwart you?
 - What is gonna be your reaction?

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Fancy words: Competitive Advantage, Market Penetration

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better. One compelling advantage may be enough.

Write down, by month, what tasks that you will undertake to make the sales you predicted above. This must support/justify the unit sales above.

Anticipate and write down how your competitors may be able to outmaneuver you.

Construct strategies for you are going to counter each of the competitor moves if they make them.

4.

Competitive Advantage – CRITICAL

Most Important Factors to Customers

Dec 28 2007 exercise	Quality	Selection/ Custom	Experience	People	Ease of Return	Service	Atmosph
Customer 1			x			x	
Customer 2		x	x	x		x	x
Customer 3		x	x	x	x		
Customer 4	x	x		x			
Customer 5		x		x			x
SCORE	1	4	3	4	1	2	2

Customer
Survey
Responses

Focus marketing
On THESE – the
strengths

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5. **FINANCIALS** – Simply, start with the number of products you forecasted you will sell each month in 2.c. above and multiply TIMES the sell price of each product. This gets you sales by month.

(You will need to decide upon your market pricing based on a customer's willingness to pay. 2X product cost is a good rule of thumb for a rough price and test. This price or something close to it should make sense to a customer or you may be expecting too much.)

TIP: Take some time to work up your sales price for each product or service. Have the detailed steps used to come up with pricing in your notes—one page per product.

Then, by month:

a. Subtract the COST of the product you sell (materials, assembly labor, other production costs). Work hard on this to get your costs right—missing nothing. (Again, recommend 1 page per product cost exercise in rough form.)

b. Subtract any other costs (good to group in classes like General & Administrative, Marketing/Sales, Research, Product Development, Shipping, Other.) Your Sales minus these two items (a. and b.) is your before tax profit.

Part 4: The Financials

- Income Statement, Balance Sheet, Scenarios – High, PLAN, Low
- **The foundation:**

Product Forecast	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	.....	Month 18	TOTAL
Product 1											
Units	Avg Price										
SELL PRICE Unit	\$1.25	\$1.25	\$1.25	\$1.25	\$1.25	\$1.25	\$1.25	\$1.25	.....	\$1.25	\$11
SALES \$ All	\$12.50	\$12.50	\$12.50	\$12.50	\$12.50	\$12.50	\$12.50	\$12.50	.....	\$12.50	\$113
Product 2											
Units	10	10	10	10	10	10	10	10	.....	10	90
SELL PRICE Unit	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	.....	\$25.00	\$225
SALES \$ All	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	.....	\$250.00	\$2,250
Product xx											
Units	5	5	5	5	5	5	5	5	.....	5	45
SELL PRICE Unit	\$39.95	\$39.95	\$39.95	\$39.95	\$39.95	\$39.95	\$39.95	\$39.95	.....	\$39.95	\$360
SALES \$ All	\$199.75	\$199.75	\$199.75	\$199.75	\$199.75	\$199.75	\$199.75	\$199.75	\$199.75	\$1,798

Fancy word: The Financials
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FINAL THOUGHTS

Critical Scenarios--Looking at your business in three ways:

Business thoroughness requires you do the sales and financial forecasts for three (3) scenarios at a minimum. The three scenarios should always be: Plan (what you expect), High (if things go much better than planned), Low or Wipe-Out (if things go badly.) You may factor your base forecast up and down, if you wish, or do a "bottoms-up" plan considering a set of outside factors quite different from your "base" plan.

Financials are the last thing to do: The financial "wraps," meaning a complete financial package to include things like the Income Statement and Balance Sheet over time, are pretty straightforward for someone who helps with your accounting and/or finances. They won't help if the first three (3) steps above are done wrong. Get those right first--always.

That's it. You've completed your business plan. Now that you've seen it all in four easy steps, it doesn't seem that hard, right?

For deeper detail, and if necessary, [CALL ON THE EXPERTS at SCORE®](#). We can serve as

no-cost instructors, mentors, advisors and a sounding board as we develop your plan. All the mentors in SCORE[®] are proven "winners."