Writing Your Business Plan

info@SuccessBizCoach.com (250) 658-1904 www.PortableBizCoach.com

Suggestions When Using This Book

Bet you never thought you would write a book! Well you are about to do exactly that. Why?

A business plan is a book. In fact it is the **most practical business book ever written**. It will communicate confidential information about your business, vision and document your plans for growth. It will help you get the financing you deserve and force you to think about your business in a practical, yet thoughtful way. It really will become your **road map for success**.

You have made a very important step toward business success. By making a decision to write your own business plan, you not only get the benefits writing a business plan provides, you create **your own** written road map for success.

A business school studied graduates and found that those who had written goals made substantially more income than those who didn't. So write your goals (business plan) then follow it. Plan your work and work your plan.

When you purchased this book I am sure you were looking for a way to make the writing of your business plan quicker, simpler and easier. Writing a full business plan is work, I cannot change that because the business planning process requires that you read, think and put your intentions on paper.

I cannot upload your thoughts nor do the thinking for you. I would not want to hijack that from you. Because you would be losing out on the personal growth, knowledge and satisfaction of writing your very own business plan. The purpose of this book is to give you the structure; process and knowledge you need to run your business and educate the reader of your business plan about your business.

Certainly, I have worked hard to transfer my experience in writing business plans and working with entrepreneurs, but only you have the practical business experience and knowledge of **the** business - no consultant can provide that for you. So, read on and throw yourself with reckless abandon into the world of your business.

Recommendations & Suggestions:

1. **Print a copy of this book.** This book has been formatted so you can print it on your own printer and write on it.

2. **Light reading.** Relax, get a good cup of java or a soda, sit back and read at your leisure. There is a lot of information to absorb and apply and anything you can do to improve your retention will only help you achieve your goals.

3. **Read this book before you write your business plan.** I highly recommend that you read this book before you write one word. Already started? That's fine. Just begin reading now and educate yourself on the process of writing a business plan.

4. **Write on the book!** Make notes, highlight and scribble down ideas the moment you get them. Then when you are ready to begin writing your formal business plan you can transcribe your thoughts.

5. **Writing a business plan is a dynamic process.** One day you will feel like you have taken two steps forward then the next you take a step back and change your mind about something. That's good! It means you are thinking.

6. **You have to *own* your business plan.** Your banker, investor will ask you questions about the business plan. Make sure you write what you know and do not try to finesse or fake it.

7. **Tell the whole story.** Be honest with yourself and your investors and you will make a deposit of trust that you can draw on time and again.

8. Did I say, tell the **whole** story? One sure fire way to make sure you do not get financing is to leave out important details. That being said, you cannot write what you do not know and that is why the next point is so important.

9. **Get at least two people to read your business plan.** One to proof read for errors and another experienced business person that can read it and give you feedback.

10. **Use spell check and eliminate typos.** Believe me when you have been working long hours on a document there is nothing more I want than to finish it. Take time to use a spell checker and have a friend or trusted associate read it for typos and inconsistencies.

11. **Finish well.** Print your business plan on quality paper. I recommend at least a 24lb. bright white stock. It is just a little heavier and has a nice finish. Get a professional copy shop to make copies for you and bind it as a booklet using a coil or Cerlox binding. Avoid stapling if at all possible.

12. **Logo**. If you have a logo use it. A logo makes you look older and more established even if you are a brand new venture.

13. **Ask questions.** Give feedback. I really value feedback and appreciate any typos we may have missed. I personally answer every email and promise a 24 hour turn around for customers. If you need help just ask.

14. **Financial projections**. Do not skip this or try to short shrift this step. The financial projections are to prove you can repay the loan or investment and are very, very important.

Common Myths about Business Planning

- **You cannot show a loss in your projections.** Experienced investors realize that it takes time for a business to get into a profitable position. What is important to them is how you plan on doing it.
- **If I get a free business plan template I can just change the names and print it.** While a template can speed the development of your plan. Nothing can replace your valuable experience and knowledge.
- **Short Business Plans are best.** Generally, a business plan should be 20-30 pages when finished. Don't short shrift your business plan. Tell the whole story.
- **I am busy and I can hire someone to write my business plan.** You can certainly do that and I get asked to write business plans for others. However, the process of writing the business plan is vitally important. It will make you think and as a result formulate your ideas and make mistakes on *paper* - before it starts to cost you hard earned cash.
- **Writing a business plan is a waste of time - I just need to get started.** Well, the only way a written business plan can be a waste of time is if you never read it or follow it after it is finished. The whole idea is to make the mistakes on paper and examine your assumptions about what it will really take to make your business successful. But, if you really feel that way. Stop what you are doing and call me and ask for your money back. I am serious. I do not want anyone paying for this book that does not intend on using it.

Once again, thank you for your business and if there is anything I can do to be of assistance or you have suggestions to improve this book I would really appreciate and value hearing from you.

- ➢ **Action:** whenever you spot the arrow, stop and make notes for your plan.

It Is The Process and You - Not The Software That Writes A Business Plan
Read, Think, Journal, Do

There is nothing magic in the computer or software -- it is the planning process plus your knowledge that makes a business plan come alive.

Do not let the computer or software write your business plan. Think for yourself. I strongly recommend that you use templates as a guide - **after** you have read this book. As you read each chapter make notes, highlight the parts that you want to pay special attention to.

I remember the first time I wrote a business plan for my own business. It was an intimidating task. But the process taught me so much - I decided to start writing business plans for clients. I wrote the Business Plan Coach™ as a guide to help me keep on track while writing the business plan.

I realized I had something because when I used it and just followed the process step by step it was a cinch.

So my system for writing a business plan is Read, Think, Journal, Do. Sure you can buy software or use templates to speed the writing process but it is your knowledge, passion and expertise that will sell the plan to your banker and investor.

Bottom line, you do not need someone to write your plan for you - you just need a system to draw out your passion and a process to put it down on paper. That is what the Business Plan Coach™ does. That is exactly what makes the Business Plan Coach™ so valuable -- what you learn about your business in the process.

RTJN RTJN RTJN RTJN RTJN
RTJN RTJN RTJN RTJN RTJN

Read, Think, Journal, Next
Read, Think, Journal, Next
Read, Think, Journal, Next
Read, Think, Journal, Next
Read, Think, Journal, Next

Read, Think, Journal, Next ... I have heard so many people say that they cannot write. If you can think and speak, you can write. All you need to do is break the process down into small, manageable parts.

I highly recommend that *before* you write one word about your business plan you first take the time to ***read*** this book, ***think*** about each section, make notes and ***journal*** your thoughts than and only then - move on to the ***next*** step. Only after you have notes in every section should you sit down at the computer and write your business plan.

At the end of each chapter I have left a page where you can record your thoughts and make notes. Stop at the end of each chapter and think. Ask yourself questions then make notes in the Journal at the end of each chapter.

Then when you have finished the entire book and made all your notes, sit down in front of your computer and begin to transfer your notes.

Now the one area where you will likely need help is with your financial projections. If you have some familiarity with Financial Statements I highly recommend using Business Plan Pro (https://secure.paloalto.com/store/checkout_line.cfm?affiliate=sbisheresm&item=bpp5st) for this. It includes 400 templates plus a wizard to help you create your financial projections.

Financial Projections

If you do not know a Financial Statement from a Bank Statement you will need to get some help creating your financial projections. Your options are:

1. **Use a spread sheet program.** If you are an Excel wizard and understand financial statements and accounting then certainly a spread sheet application like Excel or Lotus is all you will need. However, I do not recommend this for anyone except accountants or bookkeepers.
2. **Your accountant can create Pro Forma financial statements for you.** Most Accountants typically charge by the hour and my consulting clients have told me that they have spent a few thousand to as much as $10,000 for their Accountant to prepare Pro Forma financial statements.
3. **Purchase Business Plan Pro software** ($99.95 at time of writing, available at: https://secure.paloalto.com/store/checkout_line.cfm?affiliate=sbisheresm&item=bpp5st) from Palo Alto Software. It is a great tool to transfer your thoughts from this book and has great financial tools as well.

Sharpen Your Pencil...
Getting Ready To Write Your Business Plan

Physically putting a plan together requires you to translate your thoughts about how you are going to run it (and how it will perform) into a format that is dictated, in large part, by the industry you are in and the expectations of your audience. While most plans share a similar structure and contain similar information, the content of your plan will be distinguished by those characteristics that are unique to your operation.

Just as each person's resume differs because it reflects the particular life experiences of that individual, each plan will differ. But the format makes it instantly recognizable.

Introduction/Overview

A business plan has a number of major elements or sections. Each of these serves a particular purpose in the overall direction of your firm and plan. The list below identifies and briefly describes each of the documents or document categories that will make up your plan. They are presented in the order in which they typically appear. Don't feel constrained to follow this exact format if another way makes more sense due to the nature of your firm. For example, the financial portion of a plan for an organization with a 20-year track record is much more important (and comprehensive) than the financial portion of a startup's plan.

The relative mix of product and services to be offered can also affect the content of a plan. Issues relating to inventory, production, storage, etc., become less significant as the product/service mix moves toward a purely service model. For example, an organization that relies on the services of professional employees would provide substantial details about attracting, acquiring and retaining these key employees.

In any event, it pays to at least mention all the major issues listed below, even the ones that are relatively less significant to your particular idea. Someone who is reading your plan will be more confident about your assessment of the situation if you identify such issues and resolve them, however brief a section might be.
For example, if you plan to work alone and perform all services personally, you might note that you anticipate no need to hire employees or engage independent contractors if you succeed at the levels projected in the plan. However, if you plan to show growth beyond your personal capacity, then take the time to explain how you plan to cope with the growth and recruiting the talent you will need. Remember; be careful not to raise any questions in the minds of your audience that are not resolved somewhere within the plan document.

Sections of a Typical Plan

There is no requirement that these items need to be created or worked on in the order shown. In fact, you will likely find yourself having to switch focus to consider the impact that one part of the plan has on another. Conventional wisdom has it that the executive summary, which is preceded only by the cover sheet and table of contents, should be prepared after the rest of the plan is complete. A general outline for a plan is:

- **Executive Summary**: usually written last and summarizes and provides the reader with an overview.

- **The Business**: describe the company, trade name, vision, mission, ethics, goals and legal structure.
- **Products & Services**: outputs, sales mix, costs and profits, expansion of services and product lines and product/service life cycle.
- **Industry Analysis**: trends, demand outlook, barriers to entry and growth, impact of innovation and technology, impact of economy, government and financial health of the industry.
- **Market Analysis**: trends, size, competition analysis, projected market share and decisions on products and services.
- **Marketing Strategy**: location, distribution channels, sales, pricing, tools: networking, circles of influence, internet, brochures, sales systems and database.
- **Management, Operations & Organization**: organizational structure, responsibilities and support (professional services).
- **Implementation Plan**: staff, staffing issues, systems, communication, bookkeeping, equipment, software, office, furniture, fixtures, land and buildings, research & development.
- **Potential Risks and Downfalls (Contingency Plan)**: identify risks (liability, contract termination etc.) and plan to reduce or eliminate identified risks or threats.
- **Financial**: start up costs, cash flow sensitivity analysis, cash flow and expenses, etc.

  - **Action:** use this page to track your progress.

The Most Important Part of the Business Plan

All sections of the business plan are important. Picking one which is most important is difficult. However, I think that there are three areas where most business plans either fail or pass:

1) Market Analysis: how big is the market? The answer to this question tells the reader of your business plan how much market share you need to achieve in order to meet your income objectives. This is the first area I look at in a business plan. For example, if your business plan shows you needing to get a 10% market share to break even -- how achievable is that? Whereas, if the actual number is 0.002% that is very realistic and attainable.

2) Financial projections: your financial projections need to reflect everything else you explain in the business plan. Investors, bankers and experienced business people will look at your financial projections to see if you really do have a good handle on what it will take to run the business.

3) Sensitivity Analysis: if your sales go down 10% and expenses increase 10% is your business still viable? If sales increase 10% and expenses remain the same -- how much profit does it produce?

These three areas will show how well thought out and viable your business plan is -- you should make sure that you do a good job in these three areas. It will make you be realistic and readers of the business plan will know you know how to make this business profitable?

Do not misunderstand me -- the rest of the business plan is important -- but these three areas are the first ones that a seasoned investor and banker will look at closely.

Six Phases of Business Planning

It seems everywhere you go these days everyone is talking about planning. New Years resolutions, writing down your goals, etc. The list goes on and on.

What Is A Plan?

Well that depends. Planning is the process of making or carrying out plans; specifically the establishment of goals, policies, and procedures for business plans. The word plan carries different meanings, depending on what stage you are at in the planning process. Increase your planning IQ by simply being aware of what stage of the planning process you are in.

Six Stages of the Planning Process

1. **Research Concept or Intent Phase**: you are still trying to figure things out. You have a concept but there is still no formal plan. You are playing with the idea of creating a plan and are beginning to accept that you need to create a plan by setting goals.

2. **Design Stage**: you begin to conceive and construct an outline of the plan. Then as ideas begin to solidify, put more form and structure into your plan.

3. **Commitment**: there is a point when a commitment must be made to proceed or discard the plan.

4. **Resource Phase**: this is where many good plans go sour. You realize you do not have the resources, time or experience to execute your plan. Wait! Do not quit! Sometimes all a good plan needs is adequate resources and time to successfully complete it. Look for and ask others to help you. A wise businessman knows when help is needed and has the courage to ask for it.

5. **Action Phase**: once all the resources are in place it is time to get into action! Take your plan and transfer it to your day planner or calendar and timeline each task.

6. **Accountability**: a plan of action without accountability is doomed to fail. Find someone to monitor your progress and coach you through the action phase. Be

prepared if things don't work out, but don't give up. Take a closer look at what happened, learn what you need to change and revise your plan.

What Do You Want To Achieve?

A good plan will help you improve and master any project. If you follow this outline, you will save time and be accountable for the outcomes and consequences of your actions. By identifying clear goals, tracking the progress and evaluating your results, you will enjoy continual improvement and success. All you have to do is plan your work and work your plan!

Choose Your Business Plan Timeline

The very nature of a plan requires you to project how events will turn out in the future.

If the assumptions on which you base your planning are sound, the results of your operations may be very close to what you predicted. However, as more time passes expect small deviations, changing assumptions and evolutions of the idea to add up.

The plan that accurately predicted how your first few months would turn out will become increasingly inaccurate over time.

Examine Assumptions Carefully

For example, when you hear a five day weather report, you know the predictions for today and tonight are most likely to be more accurate than the five-day forecast. In the same way there are many variables that can affect performance that are not easily predicted. Value of the Canadian dollar compared to foreign currencies, interest rates, economic cycles, competitive factors and many others can affect profitability significantly. Be careful of assumptions that you feel personally strong about. Research, verify and confirm all your assumptions. It is the assumptions that you do not verify that have the potential to negatively impact your plan and on going viability.

So how far out should you plan?

It depends. For example, there were, no doubt, hundreds of aspiring entrepreneurs in Atlanta who figured out a way to profit from the Olympic Games. Some of these businesses came into being, operated, and shut down in less than a year, as one-time opportunities. On the other hand, some companies may spend months or years in a product development stage before any sales activities begin. A software firm may expend tremendous amounts of money and time developing a product, expecting the product will be sold, and upgraded for a number of years to come. Obviously, the planning horizon for the software firm would be far longer than one designed around the Olympics. Consider shortening the time frame of your plan if your firm copes with any of the following:

- Long sales cycle
- Cyclical Industry
- Economic downturn
- Upcoming industry changes

Generally, an "average" company will find that a five-year plan is a reasonable place to start. However, that does not mean mapping out, month-by-month, or week-by-week in excruciating detail what you think might happen over the next five years. The level of detail will drop as your plan covers periods further out into the future.

The cash flows that are tracked weekly or monthly during the first year of operation may be projected in the plan by quarter in the second year, and annually in the third through fifth years. Just how this transition from detail to the big picture is managed will depend on your model.

Predicting what your sales, costs of goods, or prevailing wage rates will be one, two or five years down the road is not easy. Obviously, the assumptions relating to the very near future are more likely to be accurate than those relating to periods further out. For example, if interest rates have held reasonably steady for the past six months, assuming they will not double or halve in the next month is a fairly safe bet. But you would be much less certain where the rates might be in one to two years.

Sources Of Information For The Plan

Usually by the time you decide to draft a plan, the planning process has probably been going on for quite some time, at least in your head. Many portions of the plan will be derived from the analysis you performed as you thought about your idea. Nevertheless, assembling the written plan is more than an exercise in translating your thoughts to a printed page. You will also want to gather together and organize specific information relating to your firm and the market you hope to reach.

Provide The Reader Of Your Business Plan With A Snap Shot Of Your Business Plan - But Do The Executive Summary Last
Purpose Of The Executive Summary

The Executive Summary provides the reader with an overview of your business plan and should provide a snapshot of your entire business plan. It should include:

- Brief description of your business, products and/or services.
- Amount of financing required.
- How the money will be used.
- How the money will be repaid.
- Summary of sales, profits and cash flow needs.

Remember this is a snapshot; it is designed to provide the reader with an overview of the business plan. If they want additional information they will refer to the details elsewhere of the document and/or ask you.

Ask your loans officer if this loan is within their scope and decision making. Do not be surprised if they tell you it will have to go to the branch manager and/or loan committee. In this case your loan officer checks your credit history/report, the business plan and financial projections to make sure your request falls within their profile.

Every lending institution has their own guidelines and policy concerning risk and markets. For example, some banks will not finance restaurants. Others do not touch transportation, trucking and/or courier companies. Check with your local branch manager to find out more about your particular situation.

If you have a good relationship with your personal loans officer, you can start with him/her but be prepared to have them pass you onto someone else in the bank more familiar with "business financing". NOTE: think of your business plan like your silent salesman and consultant. It should provide enough detail to educate the reader(s) about your industry, business and opportunities.

Who is going to be reading your business plan?

Generally, a business plan communicates the viability of a business idea in order to obtain financing. It is important to develop and write the business plan for a specific reader. Keep in mind who will read it and what they expect to learn from it. A banker will look for different items than an investor or a supplier. There are basically two groups:

> **Internal audience**: people such as yourself and key employees who will be a part of your business. Since you will be using the plan on an ongoing basis, make sure the structure is something you are comfortable working with.
>
> **External audience**: people outside the business who will want to see documents in your business plan before they decide if they want to invest in, contract with, or otherwise have a relationship with your business. This includes such people as your banker, venture capitalists, credit rating firms and vendors

Confidentiality

Remember, you do not always have to provide a full copy of your business plan. Sometimes, an excerpt or financial statements and projections will suffice.

I have seen experienced investors and active Venture Capitalists refuse to sign a Confidentiality Agreement or Non-Disclosure Agreement. They are professionals and would not be in business long if they disclosed confidential information.

In case you provide someone with a full copy of your business plan and they have seen your 'excerpt' and are serious - ask them to sign confidentiality, nondisclosure agreement. In the case you are giving a copy to a prospective business partner or senior employee, I would insist on a non-disclosure agreement.

If you are providing them with proprietary information, a secrecy agreement and non-competition agreement may also be appropriate.

Just remember, when giving out a copy of your business plan, use good judgment and exercise caution.

- **Action:** record important points for Executive Summary.

Brief description of your business, products and/or services.

Amount of financing required.

How the money will be used.

How the money will be repaid.

Summary of sales, profits and cash flow needs.

Paint A Picture For Those Reading Your Business Plan
Business Description

The people reading your business plan may know nothing about your business or industry. This portion of the plan provides information specific to the big picture of your business and describes why a specific type of customer buys your product or service:

- How is your business unique, and why will your goods or services appeal to customers? This requires consideration of competitors who are appealing to the same customers.

  What are the primary differences between your company and your competitors? What are the driving factors to choose your business over another?

- Can you, in one or two paragraphs, describe how your business is unique, and why your goods or services appeal to customers?

  What is your positioning statement (a list of satisfied needs)? Does it define the scope of your business and identify the specific type of customer and the driving need that is satisfied when they do business with you?

  In other words, what is the underlying reason a customer would do business with your company?

The Vision

A clear, compelling and exciting vision can make a substantial difference in achieving your objectives. It becomes the driving force behind the business. Express what is important to you.

____
____
____
____

➢ **Action:** answer the following questions.

Here are some questions that will help you assemble your vision:

- As the owner of this business, what do you want to achieve?

- How large or small do you want this business to be?
- Do you want to include family in your business?
- Staff: do you desire to provide employment, or perhaps, you have a strong opinion on not wanting to manage people.
- Is there some cause that you want the business to address?
- Describe the quality, quantity and/or service and customer satisfaction levels.
- How would you describe your primary competitive advantage?
- How do you see the business making a difference in the lives of your customers?

Take as much space as you need to describe your vision. Then edit it down to one or two paragraphs.

The Mission

The mission statement explains how you are going to fulfill the vision. You will share your mission statement with customers and employees (while the vision statement is private). It should answer the following questions;

- Who is the customer?
- What business are you in?
- What do you sell (product/service)?
- What is your plan for growth?
- What is your primary competitive advantage?

To be of practical value, a mission statement must be brief enough that it can be remembered and instill confidence. Therefore, it should be 25 words or less. Eventually, we will shorten it to 3-5 words for a promotional tag line.

➢ **Action:** draft a short mission statement.

____
____
____
____
____
____

Ethics Statement

This statement expresses the basic values that the owner has identified as essential to building the business. These values can become the operational framework for making decisions, dealing with growth and serving customers. This statement should attempt to capture something of importance for everyone connected with the business. Examine your paradigms from previous work experience. Answer these questions on values to get you started:

- Are they ethical and fair? Is this how you would want to be treated?
- Are these values you believe in?
- Have you adopted any that you should discard?

Compile a list of values and then create a short paragraph or two that adequately expresses your business ethics.

➢**Action:** list your values.

____
____
____
____
____

The Business Goals

Identify the goals and objectives of the business by explaining, as specifically as possible, what you want to achieve. Most goals can be expressed as numbers, i.e. sales, percentage income or expected return on investments. However, other legitimate goals can be:

- Provide better quality service
- Fast delivery
- Reduce costs, etc.

Your goals can be general, but they should be measurable. Start with your personal goals. Then list your business goals. Examine both to assure that they are in alignment. Compare them to your vision and mission statement. Are they in alignment and complimentary? If not, rework and remove the conflicts.

Create two sets of goals: short term and long term. Short-term goals can range from 6-12 months while long-range goals can be 2-5 years. Create a list of goals with a brief description of action items. If your business is a start-up, you will want to put more effort into your short-term goals. Often a new business concept must go through a period of field testing or research & development before it can accurately predict the outcome for longer time frames.

See the chart below for a brief overview and example:

	Income Goals	Expenses
First 30 Days: Finish Business Plan, Test Marketing	--	$10,000
60-90 Days: Revise business plan, review marketing results, hire management or staff	--	$10,000
90-120 Days: hire & train staff, major marketing launch, promotional campaign	$50,000	$25,000

This is not the time to do a detailed cash flow projection. Simply keep track of the anticipated expenses and income to be used later. Some other goals worthy of including in your business plan are:

- Explain the current status of operations.
- What will be the management structure?
- How will the business be organized?
- Identify key personnel (include yourself).
- If you plan to hire additional staff at certain points, identify the time frame, rationalization and expected costs.

➢ **Action:** record business goals.

Operational Information

Provide a schedule of the hours the business is open. Identify key employees, including a description of their abilities that make them vital to the success of the business. You may decide to devote a separate section to employees, if you think they are key to your success. Identify the number and type of employees, the organizational structure (attach a table showing who is responsible for what).

- **Action:** rough notes on how you will operate the business.

____
____
____
____
____
____
____

Type of facilities

Name the facilities (e.g., retail establishment, manufacturing plant, etc.). You may need to devote a separate section to this subject if your facilities are important to your business.

Do not forget yourself when you think about key employees, particularly if you are starting a new business. You need to present your educational background and prior business experience in a way that establishes your ability to succeed.

While you probably will not include a copy of your resume, much of the information that appears on your resume will appear in the plan. Do not be afraid to present yourself in the most favorable light that you can honestly and objectively portray.

- **Action:** rough notes on how you will operate the business.

____
____
____
____

Legal Structure

This is the place to document the date and the business structure (proprietorship, partnership or corporation). Also, identify any anticipated changes, i.e. initiating a partnership, taking on new shareholders?

- **Action:** will you incorporate, run as a proprietorship or partnership?

Describe Your Goods and Services - Pictures Are Worth A 1000 Words
Products & Services Description

Introduction/Overview

The next step is to write a description of what your business does. The tendency is to gloss over this section. This is usually due to the degree of familiarity and knowledge you have. Remember, the purpose of the business is plan is to demonstrate the ability of the business to deliver goods/services and to gain the confidence of the reader. You will have to avoid skipping this section of your business plan.

Consider the reader. They do not have your experience, knowledge or desire. Focus on providing enough information to accomplish two objectives for the reader of your business plan:

- Gain their confidence and trust. Demonstrate that you know how to run your business and achieve your goals and objectives.

- Anticipate what they might be looking for, e.g. a banker will be interested in financial projections. A seasoned businessman might be more concerned about your commitment, skills and the business concept/viability. Modify and edit the plan for each specific group. Provide them with enough information to answer any questions they have, as they read your plan. Avoid writing needless detail. Provide just enough information to answer their questions and gain their confidence. The purpose is to set the stage for a meeting and educate the reader about the important elements and key success factors for your business.

- **Action:** write a brief description of what you sell.

____
____
____
____

Background Info

Start with a clear and simple statement of what your product (s) is or what service (s) your business will provide. Avoid the temptation to compare your offering to similar services or products. Reserve that for the competitive and marketing analysis. Focus on what makes your offering unique and preferable to customers. Explain what it does, how it works, how long it lasts, what options are available and any proprietary rights, etc.

Of particular importance is whether you are selling a stand alone product/service or a product that must be used with other products (e.g., computer software or peripheral devices). Be sure to describe the requirements for any associated products/services (especially vital for software, e.g. computer).

Another issue to consider is whether you hope to sell items on a one-time or infrequent basis, or whether repeat sales are your goal. If you are opening a retail store, bakery or restaurant, you are going to count on the same customers returning on a regular basis.

But, a consultant helping to implement a new order processing system probably is not going to do that for the same client again, any time soon (we hope!). A similar issue is how long the product or service will last and whether you intend to upgrade or supersede the product or service at some point in the future. We will go into greater detail about the life cycle of your products or services later in this section.

- Define the line of services: What are the services, uses and characteristics?
- Services Mix: what is the collection of the various services offered by your business? Identify the depth and breadth of individual services
- Breadth: the number and type of services offered within a single service.
- Depth: Describe the assortment of services offered. How many possible variations within a particular service? Remember, 80% of your revenues will come from 20% of your services. The more you are able to identify the 20% with the best margins, best possible acceptance by your customers, the greater your chance of success.

- **Action:** list services and products, mix depth and breadth.

Service, Product Positioning

Consider this question: are the services offered in alignment with the mission statement and tag line? If not, either the mission statement/tag line must change or the mix of products/services need to be reviewed.

Be cautious; try not to be everything to everyone. There is a fine line between diversity and distraction. How much profit will this mix of products or services add to your bottom line? For example, sales of a particular item might make up 25% of your projected revenue. However, it only contributes 5% share to your total net profit and adds 35% to the cost of delivering your product or service. Focus on the 20% of your services/products that create 80% of your revenue.

- **Action:** how much profit/sales will be from which products?

Start Up & Expansion Costs

In a services business the start up costs can be minimal. However, as the business grows, requirements change. New staff are hired; new facilities, equipment and tools are required. Identify the items, costs and time lines and note them below.

- **Action:** what are your start up costs? What do you need to purchase?

Costs and Profits on Services

Describe each of the individual services, revenue and cost components and profit margins. Can you identify the time required to prepare, manage and create the service yourself? Multiply your time by what you would have to pay to have the service performed by someone with your level of experience, education and reputation. Remember; add the cost of materials used directly in the project.

- **Action:** record costs and profits on services.

Expansion/Redesign of Services

Describe the evolution/staging of your services over the next three years. In service businesses, the time available and reputation of the service provider can limit the initial scope of the business.

Identify services that can be expanded to grow the company. Timing is an issue. Be realistic about the time it will take to develop the business, systems and evolve services. Timing issues are also reflected in financial projections and affect the marketing strategy. Remember, record any associated costs on a separate worksheet.

- **Action:** record any associated costs with expansion of services and/or products.

Change in costs and profits

What changes in your costs and profits will occur over the next three years? What are the factors that will influence costs and profits? Will you be able to achieve any economies of scale, increase in market share? Following the start up phase what are the ways you will reduce costs, improve productivity or handle simultaneous projects. What about business momentum? As the company's reputation grows with an aggressive marketing, sales and promotional campaign, the business should be able to attract more customers. If the business has little or no competition, the business may attract competition and reduce market share in the second and third years.

> ➢ **Action:** how will inflation or price increases in staff or raw materials affect your prices?

____
____
____
____

Service Life Cycle

Every product or service has a life cycle. Is your service a fad, trend or choice? Are these new and emerging trends or are they relatively mature? Some trends have been around for years and may become obsolete or simply lose market share over time. Write a brief overview of the history of your service and changes you anticipate over the next few years. Approx. time lines:

- Fad: lasts less than two years.
- Trend: 2-10 years.
- Lifestyle/choice: 10 years plus. These get absorbed into the culture or community. Every product or service goes through a series of phases: introduction, growth, maturity, and decline. The length of time to go through each phase varies. Fads go through all phases in less than two years. Other services and products may be pushed ahead by technology and innovation.

> ➢ **Action:** how will time affect the life cycle of your product or service?

____
____
____

Customer Profile

Here you will identify each target market group and identify the distinguishing characteristics, i.e. demographic, psychographics and behavior variables. You might have many ‘customers’ that have input into the decision process. Each of them needs to be identified, categorized and understood. Determining your customer profile will require undertaking a complete market segment analysis to identify each group. Then choose the most desirable groups or those with the greatest potential. Are you selling to the end user or is there a middle man? If there is a middle man, then you will need to do two profiles: one for the end user and one for the middle man.

NOTE: Later on in the market analysis, we will document information relating to customer profiles.

- **Action:** for now simply record your broad target market.

____

____

____

____

Customer Preferences

Remember, the definition of marketing. The process by which information about a product or service designed to meet a need - real or otherwise - is communicated to those who have the need. The process can take place on the spur of the moment or be planned. However, the goal is always the same. To get people to ‘consider’ the merits of whatever is being sold. When done well, they will want to investigate further or acquire the item or service. Try to look at yourself as being employed by your customers. If they are your ‘boss’, you will let them tell you what they want to buy, how they want it, how much they are willing to pay, as well as where and when they want it provided. They will also tell you what else they expect for their money.

Your strategy is to position your business at the same level as the majority of the buyers you are targeting. It is critical to figure out where you are positioned in the marketplace. You can go just as broke positioning your product or service above, as below the marketplace! Remember, look for the biggest bulge of buyers for your specific product or service and then package your product or service to meet their needs head on!

To accomplish this you need to understand your customer and be able to put yourself in your customers’ shoes. Today, customers have good crap detectors, and they are looking to do business with companies that understand their needs, wants, emotions and perceptions

(NWEP). Understanding your customers' NWEP is essential in any business or marketing activity.

The concept then is to direct all your company resources toward your best prospects. To communicate in such a way that all your communications vehicles (brochures, web site, logo, ads, etc) clearly mirror your targeted audiences' most wanted needs and desires in your product or service.

With a 'NWEP Profile' of your ideal customer, you will be able to create brochures, web site and a business model that is in 'alignment' with the customers' point of view. This valuable information can then be used to:

- Speed and simplify site design and development.
- Eliminate the need to reengineer your business model because your marketing and sales plan did not achieve its goals and objectives.
- Reduce lost opportunities.
- Build marketing momentum.

Another tactic is to create an image of your product, service or company that transcends the facts. The purpose is to associate your product or service with positive or desired values, which have little or nothing to do with the product itself but are sought after by your target market. (reframing)

Needs (The most urgent or essential feeling)

The customer or prospect identifies a need. Something has happened or prompted a new awareness of a specific need. It is usually something the customer does not have or a need that is not currently being met. Identify those unmet needs.

- ➢ **Action:** describe why customers need your product/service.

____
____
____
____

Wants (Desire, wish or deficiency)

Now the prospect is seeking information to meet a specific need. Remember. People buy things to solve a problem. What problem (s) does your product or service solve? No problem = No need = No sale. Continue to work on this until you uncover a specific problem (solution) that your product or service provides.

- **Action:** what desire does your service provide clients?

Emotions

Any major purchase is made based on emotions and justified with logic. What emotions do you observe in the decision making process? Identify them and evaluate how emotions help or hinder the customer to evaluate the alternatives. Remember, the larger the purchase, the greater the consideration.

- **Action:** what are the emotional factors in customers purchasing your product/service?

Perceptions

What are the negative and positive perceptions that customers have about you, your company and its services? How do they affect the purchasing and decision making process?

- **Action:** does your customer have any perceptions about your business or industry?

Review

Describe the different attributes of each service that adds value for each target market. To some degree the demographics, psychographics and geographic of your primary, secondary and tertiary segments will dictate their preferences for a specific product or service.

In the markets you have chosen, what do they want?

- Less stress.
- Save money.
- Experience a smooth transition on move-in day.
- More safety.
- Simplicity.

Some information on preferences will come from the industry analysis. Some of it must come from speaking directly with your potential customers.

Proprietary Rights

Describe any legal means you might have to protect your services from use by your competitors. Describe any special skills or abilities you have that give you a competitive advantage, even though that is not protected by law or contractual agreement. Do you have special skills or knowledge that is not easily obtainable by the competition?

- **Action:** record any proprietary rights or knowledge that makes you more competitive**.**

____
____
____
____

Educate Readers About Your Industry - Show Your Knowledge
Industry Analysis - Overview

In this section we look at the external factors in the industry your business is in. It is the big picture, not local market conditions (this will be completed in the Market Analysis). The goal is to better understand how the industry is performing on a provincial, national and international level. We are looking for/ to:

- identify trends
- a demand for services
- an industry outlook
- identify and understand barriers to entry and growth
- recognize the impact of innovation and technology
- analyze the impact of economic factors
- government's role
- review the financial health of the industry

Research can be conducted and information obtained from libraries, the Internet and trade organizations and associations.

Industry Analysis - Step 1

Describe the primary competitive factors in obtaining new customers:

- Price
- Delivery
- Change or evolution in products or services
- Reputation and image of the industry

Is this a mature industry? Is it in decline or experiencing a fundamental restructuring? What is the size of the industry? Who holds the lion share in the market? What percentage of market share do you need to acquire in order to achieve your business goals? What is the short term and long term outlook?

For example:

Emerging industry, while ripe with opportunity, may also present a significant risk. Factors indicating success and growth may be difficult to identify. Identifying your skill sets and plan for quickly shifting and evolving your business will be the ‘critical success factor’ to identify.

Mature industry poses a different risk. It is much easier to identify factors that contribute to success. However, major players tend to dominate the industry. Identifying the size of the market and the amount of market share required is the first check point to determine the viability of your business idea/plan and key to determining your ‘critical success factor’.
Industry in decline or period of economic down turn presents a different set of issues. Opportunities may develop that would not normally be available. However, determining and confirming realistic assumptions for economic growth will help support the assumptions made in your business plan. For example, what will it mean to your business plan assumptions if the economic indicators show an extended slump? On the other hand, if there is an emerging indicator of coming out of the slump and new economic growth, the timing of your venture start up or expansion would be a ‘critical success factor’.

Industry in restructuring or a process of reorganization generally shrinks in market size. A good example is the recent changes in the Canadian oil & gas industry. Since the early 1990s the oil and gas industry in Canada has experienced substantial reorganization and restructuring. Beginning in 1992, the oil & gas industry in Canada has seen marginal recovery in product demand and significantly improved profitability as a result of severe cost cutting (shrunk by 18 percent or $800 million since 1991, according to industry sources), rationalization of facilities and downsizing. While your expertise, financial resources and anticipation of opportunities may indicate great potential, investors and bankers may not agree. You must prove that your assumptions and indicators are both accurate and attainable.

➢ **Action:** what are the factors driven by industry that contribute to growth or decline?

Industry Analysis - Step 2

Industry Financial Health

Revenue Canada produces an Industry balance sheet. So does the IRS. This is an aggregated balance sheet that is compiled from corporate tax returns. It is an excellent tool to assess the financial health of the industry as well as to compare your financial projections and analyze your business assumptions.

For example, I conducted a comparison for one of my clients. We took his balance sheet and compared it to the Industry Balance Sheet. We discovered that his staff costs were almost 50% higher than industry averages. We also discovered that his profit margins were double that of industry averages. This tool can be a valuable and unbiased tool to test your business plan assumptions.

Do your best to answer these questions:

- What is the status of the industry?
- How many new companies are opening?
- What is the split in size? I.e. number of small vs. large companies and sales volumes?
- Which markets are being served well, and which are under served? Which show the most potential for growth?
- How aggressive is the advertising and promotions strategies?
- What are the value-added factors being used successfully?
- How many substitute products or services are available?
- Who holds the bargaining power? Customers, suppliers?

➢ **Action:** how is the industry doing financially? Where is the opportunity?

Industry Analysis - Step 3

What is the status and reputation of the industry?

Customer loyalties and differentiation: what is the loyalty factor in your industry? If the industry and competition is strong, how realistic is it that you can get customers to change buying patterns? Is being a first mover in an industry a help or hindrance?

Scale of economy: how important is it to achieve certain levels of decline in unit costs of a product or service. In other words the more you produce the more money you make per unit.

- **Action:** what do you hear people saying about your industry?

Industry Analysis - Step 4

Cash flow demands

A growing business can be in just as much of a crisis as a shrinking business. The effect is cash shortfalls to pay suppliers and staff. The need to purchase large amounts of inventory delays the return on investment. If your industry demands carrying large amounts of accounts receivable, this may negatively impact your ability to pay suppliers and staff.

Staff and delegation

If your service business relies heavily on skilled workers, how will your business attract the right people? Are there adequate systems and information controls developed to allow an effective balance between delegation and control? As an entrepreneur are you reluctant to delegate and trust staff?

- **Action:** what role do skilled workers play in your business?

____
____
____
____

Idea and Business Development

How will you develop new ideas? How will you balance your schedule to allow time to work on business developmental issues? After all, business moves at an accelerated pace today and no business idea lasts forever. I heard that back in the 60s Proctor and Gamble could count on a product life cycle of 5-9 years. Today, they only assume a 9 month advantage! The access to offshore competitors has improved. The new reality is that copies proliferate quickly. A patent simply provides some protection and documentation of who did it first.

- **Action:** how will you experiment and test new business ideas?

____
____
____
____

Diversification and Expansion

Changes in your marketplace and customer profiles may require the owner to let go of long held cherished beliefs. There is always going to be a certain amount of imbalance between the marketplace and the strategy in the business. The key is being able to identify the changes and make an objective decision.

- **Action:** How will you adapt to changing market circumstances?

____
____
____
____

Personal Values

Do you have a strong set of values or beliefs that will conflict with corporate or market values?

- **Action:** list any personal conflicts that may arise.

Industry Analysis - Step 5

Management and Emotional factors

During times of economic change or crisis it may be difficult for the entrepreneur or manger to make a decision to shut down a part of the business or the whole business. This can include an emotional attachment to employees or the business that could be unhealthy.

- **Action:** what systems can you create to make sure that you make the right decision for the business and avoid attachment to employees and suppliers?

Relationships

Shut down of the business may affect relationships with friends, suppliers or other business units. Concern over maintaining image and identity may encroach on making a decision to close the business.

- **Action:** are your investors family, friends? If so, how will you deal with those relationships in case of a conflict?

Specific Assets

The more specialized your equipment and facilities the more difficult it may be to liquidate quickly. Fixed costs and contractual agreements: lease financial commitments for equipment and facilities often survive the closure of the business. In a manufacturing organization the need to maintain a parts supply is often a legal if not moral requirement. Other issues include agreements with labor unions, customers and suppliers.

- **Action:** what restrictions or impediments could there be to closing the business?

____
____
____
____

Government Regulations

Are there any existing, upcoming or anticipated government regulations that could impact your ability to exit the business?

- **Action:** list government regulations. If you are not aware of any call your local Chamber of Commerce for access to government agencies.

____
____
____
____

What Are Your Market Segments?
Market Analysis

You need to show answers to the following questions:

- How does your local market compare to the Industry as a whole?
- What are the current trends impacting your market?
- What new factors/trends will come into play over the term of the business plan?
- Are any of the trends identified in the Industry Analysis having an impact on your local market? If so, how specifically? Do you or how will you address these concerns in your business plan?

- What do you want to know about your customers and the marketplace?

> ➢ **Action:** now is the time to show your knowledge of the local market.

Competition Analysis

The goal of marketing is to clearly communicate your primary competitive advantage to your target audience. The concept is to find something that gives you a clear advantage over your competitors. To do that you need to compare your business to that of your direct competitors.

Competitors come in all shapes and sizes depending upon who you are targeting as your primary customer. For example, let's look at a Professional Sports Team.

In today's marketplace the competition for entertainment dollars is fierce.

Direct competitors might include:

- Other Professional Sports Teams.
- Concerts and Special Events that take place on the same day as your events.
- Rodeo Events etc.

> ➢ **Action:** list direct competitors.

Indirect competitors or substitute products/services could be:

- Block Buster Video.
- Movie Theaters

- Dining Out.
- Exhibitions and Fairs.
- Dinner Theater.
- The local Symphony Orchestra.
- The Opera.
- What else can you think of?

> ➢ **Action:** who else in your market is competing for the same dollar?

Remember, people have only a certain amount of disposable income for entertainment. The goal here is to come to a better understanding of your competitors and what motivates people to do business with them. This will allow you to strategize and position your products/services to ensure that your company, its products and services have a fighting chance to win market share. What you learn here will be very valuable and helpful in forming your Marketing Strategy.

Describe each of your direct competitors. Create comparison charts that include an overview and analysis of the following:

- Describe your direct, indirect, substitute or potential competitors. Who are they? Identify them buy name and then gather the following information:
- Strengths: what do they do well? What do they say is (in their advertising) their primary competitive advantage? Identify their market share size, volume and profitability. Are they bigger or smaller than you?
- Weaknesses: where are they weak? What could they improve upon?
- Describe their characteristics, strategies and operational methods -- what price do they sell for? How would you describe the quality? Credit Terms? Servicing? Sales and Distribution methods? Reputation? Management background and expertise?

> ➢ **Action:** describe the differences, advantages and weaknesses of your competitors.

Suggestions for acquiring information on your competitors

1. Suppliers.
2. Annual Reports.
3. Phone the competition.
4. Talk to their customers. Most of them will be willing to speak with you. They like to share their expertise and knowledge. Remember, the business is their baby and they are proud of it.
5. Check periodicals and trade journals to see if any articles have been written about them.
6. Check out the company web site;
7. Talk to some of their employees;
8. Trade Shows: visit the competition at a local industry trade show. It will give you a good idea how they present themselves to the public and you might be surprised how much information you will get before they ask you many questions.
9. Local trade associations: larger groups often have reports and profiles of the local industry. If not, take the executive director out for lunch/coffee. He/she will see you as a potential member and will be quite open to your questions and probing.
10. Look at the advertising they do. Check the local telephone directory, newspapers, magazines and trade publications.

- **Action:** how will you research your competitors?

Identify your sales and profits by market segment

Here is where you will identify and describe how many products/services you will sell to who and when. In order to complete your cash flow projections you will need to make some assumptions. Every business plan warrants some research, some more than others. The outcome and value of conducting market research can be summarized as:

1. It will confirm your assumptions. Having confirmed important assumptions provides security and confidence knowing that you are on the right track.
2. Your assumptions are wrong. It is always better to find out that your assumptions are incorrect sooner than later. It will save you money and time.
3. Learn something new. Everyone brings skills and expertise to a business. However, things change quickly. The key to business survival is being able to learn from experience and shift gears quickly when needed.

Any one of the above results would make the effort worthwhile. In my experience, most research and survey efforts provide insights on all three levels.

Your market research will be made up of information from two sources:

1. New Data: this is information gathered by you. It provides specific data that you wanted review.
2. Secondary Information: much of this information will have been compiled by local governments, institutions or associations.

   - Much of this data will have already been completed if you finished:

   - Industry analysis: Take some time to compare your research results to the information you obtained in the Industry Analysis. What are the differences? Are they major? If so, what is the impact on the business plan and how can you compensate and/or justify your findings?
   - Competition analysis: Should this change or alter your assumptions for market share?
   - Customer profile and preferences: How does this information compare to the customer profile? Are your assumptions still valid? If not, what will you need to do to make the business plan work?

➢ **Action:** breakdown by percentage of sales each market segment will represent to overall revenue.

____
____
____
____

People often find this difficult to do. Some research suggestions that may assist you are:

1. **Focus Groups**: this is where a group of potential customers come together to provide feedback and suggestions on your products, services or marketing strategy. The information gathered using this method is very valuable. It will help you qualify your

ideas. It will confirm customer preferences, emotions and attitudes. The information always provides a new and fresh perspective, the customers.
2. **Test Marketing**: I always say, test, test, and test. In some ways we never stop testing and learning in business. This will involve going out to a small part of the market place. It will always produce significant learning. It provides an opportunity to test marketing ideas, verify customer attitudes and preferences. You can then use this information to revise and evolve your product and service offerings. It is like a real life focus group
3. **Survey**: you can create a survey and then go and ask the questions and record the responses. Usually these will be done face to face but can also be successful over the telephone.
4. **Observation**: watching people in real life situations in a store or on video will provide insights into shopping patterns and perceptions.
5. **Experiment**: you can interview people in a real life situation, observe them or some combination of the above strategies.

Market Size and Market Share

This is probably the most difficult part of this section to write, also the most important. Let me explain. Let's say that your financial projections show that in order to be profitable you need a 20% market share. If your business is in a mature industry, gaining 20% market share would require stealing it from your competitors. This would likely be unrealistic, unattainable and just not make economic sense. On the other hand, if you only require 0.5% market share the business plan would work. So how can you establish the size of your market? Try these sources:

1. Government Data: many local, regional and federal governments offer public access to this information. In Canada you can try Industry Canada (http://sme.ic.gc.ca/) in conjunction with Revenue Canada they compile an "Industry Balance" sheet. This will show you income and expense averages, gross profit, assets and accounting ratios. Many civic governments and economic development departments have a lot of data available that may assist you.
2. Discuss trends: either sales volumes are going up, down or are static/level. Use articles and trade magazines and articles from newspapers etc, to justify your assumptions.
3. Associations/Industry Studies.
4. Comparison: you might be able to compare your business/industry to another whose financial performance data is easier to obtain.

- **Action:** market share is a very important acid test of your business concept.

____

____

____

It could be as simple as counting the total number of competitors in your area and estimating sales for each to come up with a total market size. You could also contact your local economic development association/corporation.

Market Area

You must choose your battles carefully. No business can sell to the whole world. Even an online business is going to sell their products and services to people within a specific and definable market area. Customers in the closest proximity are going to be the most cost effective to service. You will also be able to better penetrate the markets that are closest to you.

- **Action:** what geographic area will you serve?

External factors

Identify specific factors, trends or issues that are going to impact sales performance. IMPORTANT: the primary purpose and value of writing a business plan is to verify and confirm assumptions. Look into these factors:

- **Sales Cycle**: every business endures sales fluctuations. What are the times of year that things tend to get quiet? Create a chart that shows the estimated peaks and valleys in your sales cycle.
- **Sales Projections**: you can use data gathered from your research, compare you projections to a similar business, ask an expert, draw on your own experience or use information from franchise operations.
- **Booking orders or pre-selling**: if your test marketing was somewhat successful, there are certain assumptions you will be able to make and justify.
- **Interviews**: seeking help from other business owners who are no longer operating, former employees etc.
- **Survey and research results**: you should have gained some insight from the work you did in these two areas. If your survey was well designed and asked about buying patterns, preferences and volumes you should have some sort of an indicator of sales potential.

- **Action:** what external factors could affect your local market?

Not So Fast!
You will get your business plan finished soon enough. Marketing strategy is an essential piece of your business plan.
Marketing Strategy

Before beginning to write this section we need to come to an understanding of Marketing. My definition of Marketing is the process by which:

> Information about a product or service designed to meet a need - real or otherwise – is communicated to those who have the need.
>
> The process can take place in the spur of the moment or be planned. However, the goal is always the same. To get people to seriously consider the merits of whatever is being marketed.

Marketing Tools
When done well the prospect will be motivated to investigate further and/or acquire the item

or service. Accomplishing this objective will involve the use of numerous tools and strategies. Some of them include:

- ☐ Brochure
- ☐ Post Card
- ☐ Business Card
- ☐ Newsletter
- ☐ Web Site
- ☐ Telemarketing Campaign
- ☐ Direct Mail
- ☐ Advertising
- ☐ Networking
- ☐ Press Release
- ☐ Book
- ☐ E-Zine

- ➢ **Action:** mark which items you plan to implement.

Marketing Strategies

- ☐ Location.
- ☐ Customer's proximity to your business.
- ☐ Proximity of your primary competitors.
- ☐ Distribution methods: i.e. wholesale, retail, manufacturer's agents, strategic alliances.
- ☐ Credit policies
- ☐ Product & service guarantee/warranty.
- ☐ Sales model.
- ☐ Pricing strategies.
- ☐ Special events.

This, by no means, is an exhaustive list. The important principle is: Get your message to WHERE the CUSTOMER is! If you are in business and interested customers do not know your product or service even exists - you might as well close the doors! Marketing is the process of finding and getting access to your primary market.

For example, I recently saw an advertisement for a company promoting specially prepared foods and snacks for diabetics. The commercial ended with the line: 'available at your local drug store'. I have to admit that initially I thought 'huh?' Then I got it! Where do diabetics go to get insulin? The answer, a drug Store! Absolutely brilliant!

Another example, a customer once told me about one of his suppliers who used a unique approach to promoting their products. This company sold wood waterproofing sealers. You use this product on any wood surface to protect it and seal it from water damage. The strategy - they have a full-time meteorologist on staff!? Why? As they studied the market they discovered that people are more predisposed to purchasing the product after big rainstorms. So they hired the meteorologist to provide them with weather forecasts to help them schedule advertising campaigns. This reinforces the secret? Get creative! The role of Marketing is to get your message to as many motivated prospects as possible.

- **Action:** list or mark your marketing strategies.

____
____
____
____
____
____
____
____
____

The Marketing Strategy Process

There are five steps to creating a marketing strategy for your business plan.

- Identify All Target Markets
- Qualify the Best Target Markets
- Identify Tools, Strategies and Methods
- Test Marketing Strategy and Tools
- Execute Marketing Strategy

Marketing Strategy - Step 1

Define WHO is your ideal customer or target market. Most companies experience 80% of their business from 20% of their customers. It makes sense then to direct your time and energy toward those customers who are most important to you, and really get to know them and to understand their buying patterns, interests, tastes, attitudes and hot buttons!

Your strategy is to position your business at the same level as the majority of buyers (majority of revenue) you are targeting. It is critical to figure out where you are positioned and where you would like to be positioned in the marketplace. You can go just as broke positioning your product or service above, as below, the marketplace! Remember; look for the biggest profitable bulge of buyers for your product or service. Then package your product or service to meet their needs head on!

Define Key Characteristics of Your Prospects

To accomplish this you need to understand and identify the key characteristics of your potential prospects. What are the key characteristics that will help you identify your prospects? Make a list of the following data, traits and characteristics:

- Demographics: location, age, sex, occupation.
- Lifestyle: interests, attitudes.
- Buying cycles: identify any cyclical trends.
- Psychographics: what is the intrinsic motivation that is driving your customer?

> ➢ **Action:** what customer characteristics can you identify?

____
____
____
____

Your target market is made up of:

Primary target market: these are your best and most profitable customers. They have a strong interest in your product/service and are highly motivated.

Secondary target market: what other markets show good potential?

Tertiary markets: what other potential markets exist for your products or services? They could be new or emerging users, people that are using a totally different product/service.

Identify as many unique characteristics as you can think of. Work hard at it. Ask your friends and relatives for ideas. Document and group the buyers by primary, secondary and tertiary.

> ➢ **Action:** list your primary, secondary and tertiary markets.

____
____
____
____
____
____
____
____
____
____

Marketing Strategy - Step 2

Remember, the definition of marketing. The process by which information about a product or service designed to meet a need - real or otherwise - is communicated to those who have the need.

Another way to look at this issue is to consider yourself as being employed -- by the customer. Consider these points:

- If they are the 'boss', you will let them tell you what they want to buy.
- How do they want it?
- How much are they are willing to pay?
- Where and when do they want it provided?
- What else do they expect from your company, in exchange for buying your products/services?

In the first step, you defined your ideal customer or target market.

The purpose of this step is to further qualify and determine which customer profile most meets the best odds of success. The strategy is to position your business at the same level as the majority of the buyers you are targeting. It is critical to figure out who your best customers are and how to best position your company in the marketplace. You can go just as broke, positioning your product or service above, as below the marketplace!

Remember, look for the biggest bulge of buyers for your product or service and then package your product or service to meet their needs head on! To be able to market successfully to them, you need to understand your customer and be able to put yourself in your customers' shoes. This will enable you to better market and sell your products/services to them.

➢ **Action:** describe your ideal customer.

If you have completed the earlier section to this process called: "Describe Products and Services" you should be well on your way to understanding your customers.

To have any chance at targeting your best customers, you must know them well! You must understand their needs, wants, emotions and perceptions.

You want to make sure that your products/services and business systems are in alignment with the customers' point of view. To do that you need to research and create a profile of the customers NWEP. The points below describe the NWEP concept:

- **Needs (The most urgent or essential feeling)**: The customer identifies a need. Something has happened or prompted a new awareness of a specific need. It is usually something that the customer does not have or a need that is not currently being met. Identify those unmet needs.
- **Wants (Desire, wish or deficiency)**: now the prospect is seeking information to meet a specific need. Remember, people buy things to solve a problem. What problems do your products or service solve? No problem = No need = No sale.
- **Emotions**: Any major purchase is made based on specific emotions justified with logic. What emotions do you observe in the decision making process? Identify them and evaluate how emotions help or hinder the customer to evaluate the alternatives. Remember, the larger the purchase, the greater the consideration.
- **Perceptions**: what are the negative and positive perceptions that customers have about you, your company and its services? How do they affect the purchase making process?

➢ **Action:** describe needs, wants, emotions and perceptions of your target market.

info@SuccessBizCoach.com (250) 658-1904 www.PortableBizCoach.com

Product Attributes

Describe the different attributes of each service/product and how it adds value for each segment of your target market. To some degree the demographics, psychographics and geographics of your primary, secondary and tertiary segments will dictate their preferences for a specific product or service. In the markets you have chosen, what do they want?

- Less stress.
- Save money.
- Experience a smooth transition.
- More safety.
- Simplicity.

> ➢ **Action:** what do your customers want from the products and services you provide?

____
____
____
____

Customer Preferences & Motivation

Some information on preferences will come from the industry analysis. Some of it must come from speaking directly with your potential customers. Another way to think of this is:

1. What is the intrinsic motivation that is driving your customer to buy your product/service? What do they want to learn?
2. When a customer thinks of buying your product/service, what thoughts come to mind?
3. What goal do they want to achieve? What do they want to experience more of or less of as a result of doing business with you?

> ➢ **Action:** what are the primary drivers causing your customers to investigate purchasing your goods and services?

____
____
____
____

Take Your Time

No business can meet the needs of everyone. Neither is it realistic to expect you can meet the needs of everyone who visits your web site. Choose your target audience carefully. Overlook this area and I guarantee you will be disappointed with the performance of your business. Get this right and you will be overwhelmed with the response.

Here are some more questions to ponder:

- What do you know about your target market
- What competitors do you have?
- How are competitors approaching the market?
- What are the competitors' weaknesses and strengths?
- How can you improve upon the competition's approach?
- What are the lifestyles, demographics and psychographics of your ideal customer? (Check out http://future.sri.com/vals;it is a great site for internet psychographics). It is based upon the self-orientation and resource dimensions that make up decision making patterns. On this web site you can take a survey and find out what psychographics segment you fit into and then look at the other segments. This will help you to better understand the primary motivation.

Marketing Strategy - Step 3

Remember the definition of Marketing?

The process by which information about a product or service designed to meet a need - real or otherwise - is presented or communicated to those who have the need.

This process can take place on the spur of the moment or be planned. However, the goal is always the same. To get people to seriously consider the merits of whatever is being marketed.

Now that you have completed steps one and two, it is time to focus on which strategies to use to reach your target market. I suggest that you build and use as many tools or strategies as you can afford. No one has an unlimited budget. However, choose the tools that best fit your style and business model. For example, if you intend to use sales people to sell a broad line of products, a printed catalogue or a real time eon-line web site/catalogue would be essential tools. In fact, if your competitors do not have a real-time database where customers can check inventory and place orders, this might be a significant advantage in certain markets.

Considering the needs, wants, emotions and perceptions you uncovered in step two, which of the tools below would best facilitate effective marketing and sales communication? Remember, a market you cannot access is a market you cannot serve. Which tools will get your advertising message directly to the CUSTOMER? Marketing is the process of finding, communicating and educating your primary market about your products and services. Choose a combination of tools and strategies, that when combined, increase your odds of success.

Consider everything. Your location, colors of the interior design, attitude of staff and products and services all contribute to creating an 'experience' for the customer. Take the time to identify how your marketing and sales process works, then choose the right tools for the job:

Strategies

- ☐ Location: if your business appeals to a certain demographic, then locating your business in an area that has a high density of those potential customers will increase your odds of success.
- ☐ Proximity of your primary competitors: depending on the strength and image of your competitors, it may be beneficial to locate nearby. You would be able to tap into the traffic they generate with their advertising and promotions. Your presence might encourage comparison shopping.
- ☐ Distribution methods: i.e. wholesale, retail, manufacturers agents, strategic alliances;
- ☐ Credit policies: easy payment terms such as no payment, no interest will work in certain retail sectors that sell large ticket items.
- ☐ Product & service guarantee/warranty: extended warranty or guarantees of performance may help to reduce buyer resistance to trying a new company or product;
- ☐ Sales model: direct sales staff will need tools to do the job. A brochure, catalogue or product sample, for example.
- ☐ Pricing strategies: using a low price penetration strategy might allow you to win some market share. However, are you able to maintain the low price strategy, long term? Another strategy is to gradually raise prices as you become more established and have had an opportunity to build relationships with your customers. If you have established that your customers appreciate quality and have an above average income, a high price strategy could be effective. Try combining this strategy with a great ambiance!
- ☐ Special events: using this strategy to reward customers and build a sense of community.

> ➢ **Action:** what marketing strategies will you employ?

Marketing Tools

- ☐ Brochure: supports sales people in the field. Left behind they can become a silent salesman.
- ☐ Post Card: great for follow up or to introduce your company and its products or services to new prospects.
- ☐ Business Card: standard equipment. Adding information on the back or using a fold over card can set you apart from your competitors.
- ☐ Newsletter: excellent tool to educate prospects and add value before the sale.
- ☐ Logo: a well-designed logo and corporate image can make a new company look like it has been around a long time
- ☐ Web Site: there are many different web-site design models and uses. They can be ecommerce to sell products on-line. Disseminate information and educate prospects about products, services. Build an on-line community and build relationships. Boost your image by creating a high image web site. Display photos of past projects: for service or construction businesses this can provide a great opportunity to show past work and testimonials.
- ☐ Telemarketing Campaign: when combined with other marketing tools, such as direct mail, they can substantially increase your conversion ratio. Direct Mail can be just a letter or a complete package with brochure, letter, response card, sample or even a coupon.
- ☐ Advertising: certain types of advertising can be very effective, if used as a part of an overall marketing campaign. Do not make the error of thinking that an advertising campaign is your marketing campaign. It is simply a tool and part of your overall approach to communicate your marketing message.
- ☐ Networking: many service businesses rely heavily on this strategy. In certain industries, networking is marketing.
- ☐ Press Release: if you have a newsworthy story that will help a medium's readership, a press release can be a powerful way of getting some publicity and market exposure
- ☐ Book: writing a book can provide prestige in a way that no other marketing tool can do. It allows you to share your knowledge and educate potential customers on important issues
- ☐ E-Zine: similar to a printed newsletter delivered through e-mail directly to the customer's inbox. This strategy allows you to capture the e-mail address of a potential and interested prospect.

- **Action:** mark the tools you plan to use to market your business or add your own.

Marketing Strategy - Step 4

Prepare before you venture out into the world!

Test, test, test, test. Test marketing.

Test your assumptions, Test your ideas. Test your pricing. Test your sales pitch. Test your advertising. In a word, TEST!

The assumptions that we do not test or verify are typically the ones that have the potential to create business problems. Unfortunately I see this often. I think Billy Graham the evangelist once said "No smaller package have I ever seen than a man totally wrapped up in himself." Wow! To a certain degree that can also be true in business.

It is very easy to get so wrapped up and committed to getting a certain goal or result that we miss seeing the errors in our assumptions. Business planning is:

- 50% explaining what you know and what you will do.
- The other 50% is confirming key assumptions and success indicators.

I know from my own experience. At one time I was resistant to creating a business plan. It seemed like a lot of work and I would rather be working IN the business than ON it, through a business plan. I finally relented and discovered many benefits:

1. I got new ideas.
2. It confirmed some of my assumptions were correct.
3. I found out some of my assumptions were quite frankly, wrong.

Any one of these three results would make the whole business planning process worthwhile. I have found that most entrepreneurs will learn something new, confirm an important assumption and discover that a specific strategy would have failed. This makes completing a business plan very worthwhile.

Practical Testing Suggestions

Before spending all your budget creating the tools and strategies, conduct some preliminary market testing. How?

Try selling your products/services to a friend that has a similar profile of your ideal customer. If no friends meet the profile, go out into the marketplace and find them! Ask them to help you. Explain you are in startup mode and ask for their cooperation. One of the best places to find potential customers is in the parking lots, sidewalks and neighborhood where you would like to set up shop.

Prepare a questionnaire and ask them a series of questions. Tell them you would like to get their answers to a series of questions about their needs and would like to get their feedback on your goods, services and pricing:

> Interview them. Tell them you want them to be honest and tell you their first reaction or response. Try your sales pitch. Show them sample advertisements or anything else that you plan to use in your promotions/marketing mix.
>
> Ask lots of questions! Listen for subtle differences or suggestions. These are 'gold nuggets' that you can study and use to modify your approach to the marketplace.
>
> Thank them! If they expressed an interest in your products/services ask for permission to contact them when you are operational.

Do a test marketing run. For example, let's say that you were going to rely heavily on direct mail campaigns. Mail a small number of direct mail packages to prospects. Try to sell them! Just like you normally would, then:

See if/how much response you get from the mailing.

Follow up: do a telephone follow up to survey and try to quantify the reader's attitude, beliefs and behavior as it relates to your mailing.

Take the feedback, study it and modify your approach, test again. You will find that as you test and modify your approach your response rates should climb substantially. For example: perhaps you mailed 300 and got 0.05% response on your first mailing. Second mailing of 600 the response was 1.5% and the final test (mailed 1000) brought in 3.5%. This represents a significant increase in revenue and profits. It takes time but it pays off in the long run.

By testing like this you do not burn up your entire database with a direct mail campaign that failed or brought in low response rates. It allows you to keep your losses low and increases revenue.

After some testing and trial runs and you are feeling confident in your approach, try doing a Press Release and some inexpensive advertising. The important points to remember are:

Media: The media isn't interested in giving you free promotion. They are interested in telling people about information that will help the subscriber, viewer, reader. You must have a unique angle that helps them help the subscriber, viewer, reader.

Local papers: do some test advertising in the classified advertising section of your local newspaper or community newsletter. These ads are text only and low cost. You can afford to run lots of them and test different attention getting headlines.

Networking: find some networking groups, leads/breakfast clubs and mixers to attend. Usually, they allow new members to do an infomercial. This will provide you an opportunity to test your approach. The infomercial should be full of benefits and clearly explain what business you are in or what products/services you provide.

After you have done some initial testing and modified your approach and have confirmed you are on the right track create a 12 Month Marketing Action Plan. It should include:

- Description of promotions, marketing strategy and advertising tools.
- Exact costs and budgets.
- Timelines: set specific dates to prepare, train staff if necessary and campaign launch dates.

➢ **Action:** explain how you will test and evolve your marketing strategies.

____
____
____
____
____

Pricing Decisions and Strategy

First, we need to review the Definition of Marketing. A process by which:

> Information about a product or service designed to meet a need - real or otherwise - is presented or communicated to those who have the need. The process can take place in the spur of the moment or be planned. However, the goal is always the same. To get people to consider the merits of whatever is being marketed.

If there is one issue that will kill a marketing or advertising campaign it is not having a well defined 'Market Pricing Strategy'. This strategy is central to the overall development to a successful marketing strategy. Price objections can kill your business. Generally, the less personal interaction you will have with a customer the more accurate you need to be about your pricing strategy.

Remember, marketing is communicating the benefits of a product or service. If your price is too high or low, your prospects/customers may not take you seriously or dismiss your proposition outright. The entire purpose of marketing is to communicate and create a perception of value! Choosing the correct price is essential to creating the right perception of value.

A Market Price Strategy

It’s the art of balancing the role of price as a means to attracting customers and keeping customers.

Every price creates a 'perception of value' in the mind of your prospect or customer. The goal is to find the fine line between a price that is low and unsustainable vs. too high which handicaps the marketing and sales process. A price that's too high or low can still create a perception problem. Over priced products or services do not have enough 'value' in the mind of the customer. A price that is too low could create the perception that the product or service is of poor quality. The point is this - both scenarios create a 'perception' problem. An effective market price strategy strikes a balance between real perceived value and the maximum sustainable price for goods and services for a particular market segment.

A Market Price Strategy that works well in one market segment may fail in another. You cannot assume, you must research your competitors pricing strategy, test your own with real live customers and then adjust to fit the market.

Pricing your product or service to achieve maximum profits and market share is a delicate balance. The problem is that most companies do not have a Market Price Strategy or policy. If you choose to ignore this important marketing principle you do so at your own peril.

For example, if your price is too high, you may not be able to achieve enough market share and lose important sales and profits. If your price is too low you may be leaving money on the table and you would not have enough profit to sustain your operations.

The solution: Find a balance between these three factors:

To make a decision on your Market Price Strategy you will need to consider the following points:

1. Determine an acceptable range of prices: based upon your corporate values and objectives do you want to establish a discount image, or a quality image? The key is to make sure that your decision is in keeping with your corporate values.

2. Set a target price for a specific target market: based upon your understanding of this market and the estimated demand you next set a price that will maximize sales and profits.
3. Estimate the demand: compared to your competitors will your price bring you enough market share? If the share is too small either adjust the value in the proposition or select a new price.

4. Try to determine competitor’s reaction: if your price and expected share generate enough volume you will want to anticipate your competitor’s reaction. If your price is too low a price war could break out. If your price is too high it might stimulate a new competitor with a lower price.
   Compare and test the price against your financial goals: can you meet an acceptable level of return on your investment or will the pay back period be too long? It is best to test your price against your financial needs and goals as early as possible.

5. Is your price congruent? The price must be evaluated based upon a number of factors. Such as: comparable products or services, distribution channel, advertising expenses, any personal selling strategies that will be used.

6. Develop a Profit Plan: create a spreadsheet that looks at the cost of production plus the cost of marketing and distribution at the anticipated sales levels. A lack of profit will require establishing a new price or finding ways to reduce costs or add value.

Finally, set your final price. Take into account the price of competing products or services and adjust your price to fit. For example a price of $91.56 may have been established but the final price may be $89.95 for psychological reasons. If you plan to use a high price skimming strategy you may want to be ready to anticipate lowering prices so that market share does not dip significantly. Generally speaking, the more mature your industry the more aggressive you may need to be in your pricing strategy.

➢ **Action:** explain your market price strategy.

Operations & Management

Organization Structure & Management

Obviously, if you are a one person company you can ignore this section. However, if you plan to add staff as you grow and during the time period the business plan covers, provide a brief overview.

Define how communication takes place. Who reports to whom? Provide an overview of job descriptions, titles, duties. If you have a number of staff a flow chart can easily communicate the structure and reporting lines.

Key Management & Staff

The smaller the organization the more important this section becomes. A service company has no physical inventory to sell.

Other than the financial section of your business plan this section is the next most important to an investor or banker. They need to be able to answer the question: Can this person run this business? Do they have a reasonable chance of achieving their goals? If you are a small one person business you want to show that you have access to a group of advisors or professionals to help you grow your business and make decisions.

Provide a brief overview of any key staff and management. List their qualifications, experience and brief job description. Put a detailed version of the job description in the appendix. Do not forget yourself! Include a personal resume for each key management and staff member.

- **Action:** list key staff & management.

____
____
____

Advisory Board, Board of Directors - Decision Making & Business Development

Your business plan is based on certain assumptions. Some of these assumptions will prove to be correct and others will not. The key in any successful enterprise is the ability to learn and then quickly apply that new knowledge.

This will require making certain strategic and tactical decisions to ensure your success. You want to provide an overview of your decision making process. Getting outside, independent feedback will help offset the risk of making decisions, omissions and expensive errors. You might get feedback from staff, customers or suppliers. You might have outside consultants ready to review important decisions and make suggestions. Anything that helps you objectively assess your current position and future direction of the business will greatly increase your odds of success.

If you plan to incorporate then list the names, addresses and phone numbers of your directors. List their terms of office and expertise. How often will the board of directors meet?

- **Action:** who are your mentors and advisors?

____
____
____
____

Professional Services

Who are the consultants that will support your business and add overall strength to the management team? Identify them and note costs in your financial statements. Some of the professionals would include:

- Marketing Research: if you plan to use a market research firm, identify the company, services to be performed and all costs.

- Advertising Agency: if you plan on using an agency list the services and the associated costs.
- Lawyer: if you plan to incorporate and are anticipating any type of partnership, additional directors or shareholders a lawyer can make sure that you get things set up properly.
- Accountant: either a Chartered Accountant or Certified General Accountant will be used to set up your books and prepare year end financial statements and tax returns.
- Any other professionals: detail any other consultants or business professionals you plan on using and explain what they will do and any associated costs.

> **Action:** list names and contact information of your professional advisors.

Implementation Plan

A well thought out implementation plan will make you nothing but money. Without it, you might as well not do any business planning. The trick is to think ahead to the implementation phase while you are writing the business plan. Decide how you will actually 'implement' and use the ideas, concepts and strategies. After all, if it was important enough to write into the plan it is important enough to track, manage and implement.

Perhaps this seems obvious. Yet, I have personally witnessed well intentioned entrepreneurs short-circuit themselves by not implementing, testing or executing a well thought out strategy. That being said it is so easy to get distracted and forget about the commitments you made in your business plan. There are two ways to prevent this from happening:

- Reread your business plan and compare how you are doing.
- Create an implementation plan. I like to use a calendar format. I like to assign deadlines, priorities and people to the business plan implementation plan.

Essentially, you want to integrate your business plan into the way you work. If you put a timeline to the tasks and then decide to delay or postpone doing the task, at least, you made a conscious decision. Whereas, if you do not hold yourself accountable by assigning who, what, when priorities, it is easily forgotten.

Three Parts of an Implementation Plan

Create a three part action plan:

1. First 30 days following start up.
2. 60-90 days after start up.
3. The first Year.

Identify tools required: brochure, web site, press release, direct mail or e-mail etc.

Identify Systems & Strategies: staff training, human resource systems and customer service, to name just a few. The important thing is to identify, develop and then implement them.

- **Action:** implementation plan for first 30 days is...

- **Action:** my implementation plan for 60-90days following start is...

- **Action:** throughout the remaining part of the first year we will implement...

Financial Plan

By the time you decide to draft a plan, the planning process has probably been going on for quite some time, even if it is just in your head. Many portions of the plan will be derived from the analysis you performed as you thought about your idea. Nevertheless, assembling the written plan is more than an exercise in translating your thoughts to a printed page. You will also want to gather together and organize specific information relating to your firm and the market you hope to reach.

There are many potential sources for that information.

When preparing a plan for an existing firm, the financial and operating information developed over the company's life will be absolutely essential. This is the historical information that will provide most of what you need for a written plan:

- Bookkeeping records.
- Customer and supplier information.
- Government documents.
- Tax returns.
- Employee, payroll records and personnel files.
- Cash flow projections.
- Previous plans.
- Spreadsheets and other documents.

Most owners have developed a feel for how the company is doing. Remember, this is your subjective perception and should only play a part in planning ongoing operations. For example, you may feel that you are not being compensated at a level that is appropriate to the amount of time you put in. A plan that calls for you to continue working long hours must establish in your mind that the benefits derived from implementing the plan is worth the effort.

If you are not currently operating, you do not have a history to examine. However, you likely have a general working knowledge regarding the type of operation that you are considering. If you are simply striking out on your own in the same line of products/services as your former employer, what you learned as an employee may be right on the mark for your new company. You may also find what you need by researching your industry using the vast amount of information available on the Internet, government institutions or at your local library.

Financial Projections

Document all costs associated with your business plan.

Your financial projections are created towards the end of the process. You will want to make notes of costs and planned expenditures as you are writing your business plan.

Do not short shift this part of the process. The best way to sabotage yourself is to try and bluff your way through your financial projections. Do not be tempted. Take the time to thoroughly prepare yourself and the people who will be reading your plan by documenting your revenues and costs.

Two step process:

1. Income & Expense Projections: this is where you detail item by item and month by month the costs and revenues associated with starting and running your business.
2. Cash Flow Projections: get an accountant or CPA to assist you with the development of your cash-flow projections. (see page 7 for more information)

Financial Planning Tools

Probably the greatest challenge my clients and I have had completing a business plan was the financial section. Business Plan Pro (https://secure.paloalto.com/store/checkout_line.cfm?affiliate=sbisheresm&item=bpp5st) has amazing financial tools. It is worth buying just for the integrated financial tools.

I used to send my business planning clients to their accountant to get the financial projections and cash flows completed. The new Business Plan Pro 2002 does a great job with this and is probably what I loved the most about this software.

All you do is input your income and expense projections month by month and Business Plan Pro 2002 assembles the financial statements including:

- sales forecast
- personnel plan
- break even analysis
- profit and loss (income statement) projections
- pro forma cash flow projections
- balance sheet

The other powerful part of the tool is the Ratios Analysis. It analyzes your financial data and creates a table that illustrates the various financial ratios. Ratio analysis is what the banks and investors will use to judge the viability of your business plan.

Using this tool you can modify certain financial projections and then used the Ratios Analysis tool to examine the impact of the changes on the viability of the plan. This will allow you to make the necessary changes which will improve your chances of getting a business loan.

If your knowledge of financial statements is non-existent you might feel intimidated by this task. Do not worry. If you are patient and willing to read the Help files included with Business Plan Pro -- you will eventually get the financial section completed.

You can then print your financial statements and take them to your accountant to review and check your work. This will save you at least a thousand dollars, perhaps more off the bill from your accountant. Because the statements from Business Plan Pro provide them with all the information he/she would need to provide you with feedback, advice and suggestions. (See page 7 for more information on Business Plan Pro)

- **Action:** how will you build your income & expense projections, cash flow and Pro Forma financial statements?

____
____
____
____

Final Check Point

One of the best ways to get a reality check is to get your CPA or Accountant to prepare a cash-flow sensitivity analysis. The sensitivity analysis will reveal how sensitive and vulnerable your business is to:

- increases in costs
- sales slump
- increases in revenue

Taking the time to have your accountant run a few scenarios should not cost much more if they have prepared your cash flow projections.

Most important -- it will show you exactly how much money you will loose if sales drop by 10% and your costs increase by 10%. After all, would you rather not want to know this information sooner than later?

Cash Flow Projections

If you are going to a bank or investor for financing I highly recommend you get your accountant or CPA to prepare the Projected Financial Statements.

These projections take into account the collection period for your accounts receivables (outstanding customer accounts) as well as the payment terms from your suppliers. For example, you may buy your inventory and have to pay your bills in 30 days. But you might have to wait 45-60 days to get paid from your customers.

A cash flow projection will show you how much working capital you will need during those "gaps" in your cash position.

If you are really knowledgeable at using Microsoft excel or another spread sheet program, you can build your own cash flow projections. Resist the urge to do this unless you are very analytical and very good with spreadsheets.

All it takes is one number of a calculation to be off, and you will not have an accurate projection of the financial position and risk.

I have personally found that it is well worth the money to get professional help with this task from a CPA or accountant. In one case, my client's accountant accompanied him to the bank to explain the financial projections and answer any questions. The client got his loan. I am convinced the accountant's involvement was instrumental in winning the bank over.

Make the bank and accountant your friend. They are your allies and can benefit you greatly.

The Difference between Cash Flow and Profitability

Do not confuse profitability with a negative cash flow. There is a significant difference between cash flow and profit.

Profits vs. Cash Flow

You can be profitable and yet have a negative cash position. It is very common for a new business to be in a negative cash flow position for a limited period of time.

Remember, cash flow is the change in your cash balance over a specific period of time. This happens due to the difference between the amount of bills you have to pay and how much cash you have on hand.

Anything you buy on credit in your first month is usually payable, net 30 days. Which means even though you are profitable (income - expenses = profit) your bills still have to be paid.

For example, when starting a business you will most likely spend more money setting up the business than you would in a typical month. Because you have to purchase inventory, raw materials, annual insurance premiums and other expenditures that require you either purchase in bulk or prepay.

A Couple Of Suggestions To Deal With Negative Cash Flow Projections

The negative cash flow cash flow projections simply indicate in advance how much money you will need to pay your bills on time. From a practical perspective your options are:

1. Arrange in advance with your bank to grant you a line of credit to cover the shortfall.

2. Negotiate deferred or longer payment terms with your suppliers for your start up expenses.

If you expect a lot of employee turnover, a common strategy is to withhold your employee's first one or two week's pay. In other words, they are always one or two weeks in arrears. NOTE: I advise that you place this amount in a payroll reserve account which would be paid to the employee when they quit or are laid off. Also, check with your local labor regulations to make sure you can do it.

Other Tips

I suggest you look at the rest of the year. Is your cash flow position improving? Is there a point when your cash flow is positive? If your cash flow keeps getting larger, you either have some expenses duplicated or errors in your entries. Take the time to review your entries item by item.

Contingency Plan

In light of the 2001 crisis in New York and the collapse of the World Trade Center -- I thought this would be an ideal time to review the concept of contingency planning.

Every business plan is based upon specific assumptions -- such as certain facts, projections and market trends -- that you believe are true. Your contingency plan simply outlines, in advance, what you will do in the case a significant negative event happens.

When writing your business plan, it is VERY important to examine all your major assumptions, and seek to get them confirmed through some trusted third party for accuracy.

Writing a contingency plan would involve reviewing the assumptions you have made in your business plan. Then select those which have NOT been verified for accuracy and write a plan for what you will do to compensate for the changes to minimize the impact on business viability.

Contingency Examples

1. What would you do if you do not reach your sales and revenue targets?
2. If you are borrowing heavily and interest rates suddenly increase, what would you do to compensate for the increased costs?
3. What is your contingency plan in case of a major accident, event or disaster that interrupts your cash flow?
4. What will you do if a key staff member suddenly becomes ill, quits or dies?
5. What is your plan if the health board closes your hair salon?
6. What is your plan if utility, fuel or raw materials suddenly increase in cost?
7. What will your contingency plan be if a customer gets cut by a hair stylist or burned by improperly applied perm chemicals?

Business Planning Evolves

No matter what you do and how diligent you are -- you will likely miss something in your plan. The field of business planning continues to evolve. Crisis and contingency planning are the survival tools of the new millennium. For example, in the early 1970’s few people thought to create a contingency plan to deal with the impact of skyrocketing gas and diesel prices.

In the 1980’s few would have thought that interest rates would climb above 20 per cent. Due to changes in the energy, business and political climate, it is now standard practice to include a contingency to compensate for fluctuations in fuel, energy and interest rates.

No one could have predicted the disaster inflicted by terrorists on the World Trade Center? You can bet that business plans for office buildings and towers are now going to be forced to have a contingency plan for the crisis, damage and business interruption due to terrorist attacks, acts of war and other major incidents.

Examine and Verify All Assumptions

There are numerous assumptions in every business plan. I would suggest that you sit down and make a list of all the key assumptions in your business plan.

First, prioritize each one in order. Examine the negative impact -- what are the events, trends or problems that could arise.

Second, describe what characteristic would cause a significant change in your assumption that, if left untreated, would cause your business to fail.

Third, list what you plan to deal with a negative event or major change to keep your business viable and profitable.

Expect the Best -- Be (Well) Prepared For the Worst

My former partner and web master, Dusan Belic has a saying "Expect the Best -- Be (well) prepared for the Worst." I now have a new appreciation and understanding of his point of view. You see, Dusan lives in Yugoslavia. He was starting a small business magazine when NATO started bombing. He works hard and has shown an amazing resilience and determination in rebuilding after the war.

We all have learned lessons in coping with the fallout, adversity and economic realities that followed the attack on the Americans in the World Trade Center. Imagine the worst -- what could possibly happen to your business? Make your list, check it twice. Then write a plan on how you will deal with any of the situations should they arise.

- **Action:** what other contingencies do you need to plan for?

____

____

____

____

Loan Officers, Loan Committees & You

Improving Your Odds of Getting a Business Loan: Loan Officers, Loan Committees & You

Improving the odds of getting a business loan at the terms you want starts with understanding how a business loan is processed and approved. Understanding your role and that of your loan officer and loan committee will help you through the approval process. It is a team game, and as they say, there is no I in TEAM.

After your application has been submitted, your loan officer begins building a business case for your loan request. This will contain information about your business and financial condition. It will also contain information about:

- The ownership of your business.
- Banking activity.
- Previous borrowing experience.
- Information from third-party credit reporting agencies.

It may also contain anecdotal information from your customers, competitors or suppliers, if they happen to have a relationship with the same commercial finance organization.

Past Performance

Past financial performance, including loan repayment history is very predictive of future financial performance. Before approving your loan request the loan officer's job is to document this information referred to as the "due diligence" process. The loan officer will then calculate the critical financial performance ratios for the time period your financing or business plan covers. Then they compare your ratios to that of similar companies in your industry.

Unseen Decision Makers

Most loan decisions are made by people who remain unseen by the borrower. Commercial loan officers are provided with authority to approve loans up to a certain level. Some can approve loans of $50,000, $100,000; however, most loans over $250,000 are normally approved by a committee. Some loans over $1 million may require the approval of the board of directors.

The Loan Committee

Loan committees can have a wide range of authority. Most have little or no authority for granting loans; however, the function of those committees is to weed out loan requests before the requests are seen by senior management. Others have loan committees that have authority to grant loans up to the legal limit of the bank.

Most lending institutions have a relatively formal committee and decision making process for processing commercial loans. Depending on the type of financial institution, your loan may be required to be submitted to a loan committee for approval.

Other banks and lending organizations provide a fairly wide scope of authority for loan officers to approve or disapprove most of the loans they handle. However, in those types of institutions the committee's review the loans after they've been made.

Depending on the size of the bank and structure, the annual report may tell which directors serve on which loan committees. You may also ask your loan officer for the names and identities of the committee members that sit on the loan committee that will be processing your loan request.

The Loan Officer's Role

Your loan officer knows you and your business the best. He/she will also have a good feel for:

What type of loan may or may not be approved.
The types of loans.
The terms under which loans can be granted.

Some loan officers are more like advocates who aggressively package, defend and represent your loan request to the committee. Pay attention to any feedback and suggestions your loan officer provides regarding structure, information, collateral and guarantees that will be required. Remember, your loan officer knows the rules and the organization's policies and procedures.

Plan Ahead - Write a Business Plan

Do not make a last-minute request for financing. Waiting until the last minute to prepare a business plan or request for financing can hurt your chances for approval, especially if you don't have all the right information needed to make a decision. You need to allow the bank or lending institution plenty of time to go through its own procedures. There is paper work, analysis of your financial statements, credit checks, etc.

It's important to have good financial management and control of your business. One of the ways you can show this is by taking the time to make a proper presentation. It is most common to present your loan request with a business plan detailing your vision, situation and finance needs.

Work With the System

Many entrepreneurs and business people have the perception that banks and commercial lenders do not like to lend money. Nothing could be further from the truth. They are in business to make loans -- profitable loans.

Don't fight them, think of them as partners. Talk to your loan officer to learn as much as you can about the approval process. Talk to other entrepreneurs and business owners who may have dealt with the organization previously. They may have insights about how the organization works and functions.

Think of your relationship with the loan officer this way:

Commercial lender: the lending institution is really an information gathering system. You have to provide assurance to the bank or lending institution that you have the capacity to repay the loan as planned.

Borrower: think of your role as the information provider. Provide them with quality information. It will help them make a decision about your loan request and help you get the money want, at the terms you want.

Eliminate the tug-of-war and work closely with your loan officer -- you will be pleased with the results.

Qualifying For a Line of Credit

A line of credit is a flexible tool that provides access to money when your company needs it.

Security and Qualifying For a Line Of Credit

A line of credit can be provided either unsecured or secured with assets. The loan can be fixed or variable. If secured, it will most likely be with accounts receivables, inventory, property, equipment or fixtures.
To qualify you will need to have:

- Collateral.
- Established sales/earnings ratios.
- Reliable and predictable cash flow.

Pros

The advantage for having a line of credit is you do not have to surrender equity in your company, and the interest cost is predictable.

A line of credits most powerful feature is its flexibility. You can borrow and repay funds as your need dictates.

Cons

If you do not have collateral, a line of credit may be hard to acquire. It can also impede your ability to borrow additional funds, as most lines of credit include restrictive covenants. The bank may want to limit your ability to borrow or enter into a lease contract and may require that you notify them of any significant changes in your financial position.

Alternative

If you need a more solid commitment, a revolving line of credit may be suitable. This type of instrument requires the bank to extend the credit as long as you are not in default on any of the terms and conditions specified in the agreement.

Who Should Use A Line Of Credit?

It can be a great tool if you enjoy good financial health and know another bank will lend you the money if your bank decides not to.

I have heard stories of business people obtaining lines of credit at several banks, in case the line of credit falls through with their current bank. Be cautious with this strategy. The bank always has the right to unilaterally change the terms or cancel the line of credit at anytime.

This may or may not be misleading (unless the covenant of your agreement restricts it), as most banks do not always agree on how good or bad a company's credit is.

Just remember, if your banker thinks your financial situation has changed significantly, and they check the credit bureaus and see many applications for credit elsewhere, they would be concerned, and it could also hurt your credit rating.

How do lines of credit work?

A line of credit is a flexible lending instrument secured by assets.

As an example, you are approved for a ceiling of say $100,000. It allows you to run up a $100,000 "over draft" in your operating or corporate checking account. Then, when you make your bank deposit the line of credit is repaid.

This provides a great deal of flexibility and can be a valuable "buffer" to pay your accounts payable before your receivables come in.

Most often, a line of credit is granted based upon sales volume and your accounts receivables (AR). Each month you report your sales and AR (there may be other reporting required, as well). Based upon the amount of sales and AR the bank calculates a percentage of your AR to determine the amount of your line of credit.

Typically, you will be lent somewhere between 20-30% of your total AR. The older the aging of your AR the less the bank will lend. For example, amounts over 60 days will not likely be included in the calculation.

A line of credit can be secured with other assets as well, but using your AR is the most common. You will also likely be required to sign a personal note or guarantee. This would allow the bank to liquidate your personal assets if your business failed, and the line of credit is not repaid. A personal guarantee should state a specific amount (the amount of the line of credit), but these days you sign an unlimited personal guarantee. You will likely also be required to sign a letter that restricts you borrowing money elsewhere without approval.

Ask lots of questions when talking to your banker, and make sure that you have a good relationship. It can make a world of difference!

The Art of Financing Your Business

This goal of this article is to help you understand how to work with a commercial loan officer.

I have witnessed too often entrepreneurs treating a lender like an adversary -- like the lender does not want to loan them the money they need. Actually -- it is quite the opposite, the lender wants to provide the loan. I have even heard some business owners refer to their lender as "that nosy loan officer" -- however, all the loan officer is trying to do is understand:

Your ability to manage and run the business.
How you intend to use the funds.
How you plan to repay the loan.

Communication Is Key - Tell Your Story

If you take some time to learn how commercial lending works and try to look at things from their perspective -- it will help you communicate with them more effectively and make the process much more productive.

Every business has a story. Your job is to communicate your business story to your loan officer. That is exactly what a business plan will help you do -- tell your story. It is the loan officer's job to try to understand your business -- you can help yourself tremendously by preparing a business plan.

Writing a business plan takes some work but is definitely worth the effort! Not only will it help you to tell your story to the loan officer -- but you will feel much more organized, focused and knowledgeable. (Check around our site -- we have a number of articles, guides and tools to help you write your business plan.)

Vital Business Relationship

Just like any other important business relationship, you need to cultivate and build a quality relationship with your loan officer. Remember, these are people just like you and me. By recommending your loan they are putting their reputations and judgment on the line for you.

Remember, you are selling the ability of your business to meet its obligations and repay the loan. Be prepared to invest some time understanding how your lending institution works, the decision-making process and how your loan officer does business. Anything you can do to build rapport, trust and give an understanding of your business will only help your loan officer advocate your loan. On more than a few occasions, I have seen the difference that a loan officer can make. If he/she really wants to help you, he/she can swing the decision in your direction.

They Are Eager To Lend Money

Believe it or not lending institutions are eager to make loans. It plays an important role for business financing -- it provides loans at terms often much more acceptable than other funding alternatives such as exchanging equity (shares in your company) for investment capital.

Assessment of Risk

A bank approaches a business loan just like every business owner does -- it wants to make a profit. Unpaid loans are very expensive to a lender -- for every bad loan they need 50 good loans of similar size, just to break even.

The credit risk -- or probability that someone will not repay the loan is an important part of the loan officer's job. From the lender's perspective, the true test of the credit worthiness of a borrower is his or her continued ability to repay the loan. No banker is going to be comfortable with a loan that just sits there and never gets reduced.

If your business is healthy, the probability of you not being able to repay the loan is probably pretty low. However, if your credit is less than perfect, you should expect that this subject will dominate the discussion you have with your loan officer. The lender's primary objective is to increase the odds that they will get back all their money PLUS a profit.

Ultimately, it is your loan officer's opinion as to what they think is going to happen that determine interest rate, the amount of money which you can borrow, other collateral or loan terms.

Where Should You Go For A Loan?

So what is more important -- small bank, large bank or the right loan officer? The answer to this question depends on a few factors:

> Small and friendly: some banks and commercial lending institutions are more open and friendly to business credit. In some small organizations there is only one person who deals with all commercial lending. In this case you want to carefully choose the bank and officer who deals with processing your business loan application. If you are presenting a business plan -- make sure that the loan officer has a business background or has the experience to understand and interpret your business plan.
>
> Larger commercial lending institutions: they typically have a number of different officers to process business credit applications. In this case you will have more options to screen who you want to do business with.
>
> Specialists: there are a variety of commercial lending organizations that specialize in

specific types of business financing. Some are supported and approved to make loans that are backed by a government guarantee. These government programs or guarantees are designed to help businesses that are difficult to finance or have been turned down by for loans.

Ask Questions, Listen and Learn

If you have never borrowed money for your business before, be prepared to listen and learn. I highly recommend seeking out a referral from a trusted third party who can make a recommendation based on a personal experience. Ask lots of questions about the process, policies and get to know your loan officer. They are a valuable part of your team!

Each loan officer brings his or her own personal experience and risk tolerance to the job. Every loan officer will be happy to help you understand the process. If you can turn your loan officer into an advocate -- you will have much better success in getting the type of loan you want at the most desirable terms.

How to Write a Business Plan for Additional Financing When the Previous Year Had Lower Revenues?

I was recently asked this question by a visitor to our web site. I share it as a good example of a common dilemma you will face when writing a business plan mid-year with decreased revenues.

We have been in business for four years in the technical and computer sales business. The company has grown every year (1998-2000) while focusing on small business consulting and video on demand sales. With the collapse of the PC hardware margins, the business focus changed in 2001 to more consulting and multimedia sales. We have shown a large increase in gross margins but a decline in revenues. We are now creating our business plan for 2002. If we use either November or December 2001 as a start of our plan (our fiscal year is calendar year), the last 3 years look great. If we start at 1-1-2002, our 3rd year, although only partial, looks like the bottom has fallen out, due to one bad quarter. Can we put a 14 month first year plan together? Do we omit 2001 in the plans because it is not completed? Do we show the first six months where we broke even (Q3 was bad)? Any suggestions?

Not seeing your entire plan and financial statements makes this question difficult to answer. This article is provided not as advice, only to provide you with three things to think about. The answer to your question lies in choosing the best strategy to communicate your business situation and plan for your financial institution.

Do Not Fear the Truth

Do not exclude information. Your banker understands that there will be changes in your financial outlook. What is important -- your plan must show how you are going to deal with it. Specifically, I would suggest you:

Document change in business focus: the fact that you have already made adjustments and can demonstrate increased profit margins is positive. You have shown that you are able to run the business and make good management decisions. If you approach this from the right perspective, you could "package" this change in direction as very positive.

Quantify the changes in your gross margins: the drop in revenue will be a concern for anyone reading your business plan. You mentioned your gross margins have increased but sales dropped. What you did not state was how has this affected your net profit, assets and liabilities? I would expect since you mention that your gross margins have increased, your net profit should also show an improvement. I would highlight that and build the plan around that positive trend.

Do not manipulate your cash flow projections: you cannot hide the past, only explain what happened. Having a partial year will only confuse your story and require an explanation anyway. Because you are going for financing part way through your fiscal year -- I would suggest starting with 1-1-2001, and apply your projections based upon the new business focus. Then simply extend your projections through years two and three. Then supply a copy of your most recent financial statements into the business plan.

I just had a similar situation with one of my client's client. We used the last three years financial statements (12-31-2000) and simply provided projections for 2001, and supplied a copy of the interim financial statements. We simply explained in the Executive Summary how we approached the financial projections. This worked well -- the client got the financing he wanted. But only because the business was sound and he had enough assets to satisfy the bank's need for security.

Closing Thoughts

It is important to show your improved, projected profit margins. Hopefully, your profit projections for year two and three show a positive impact on net profit, assets and shareholder equity. If not, you have other problems that you should deal with before going for financing.

Understanding How Banks Make Decisions on Business Loans

I have just finished writing a business plan for a client who received financing from a local credit union, in Canada.

My client is in the trucking industry. Banks in Canada do not typically consider loans for trucking companies. At the time I wrote this tip the reasons cited were rising fuel costs and negative loan experience (truckers were beginning to miss loan payments). The bank head office sent a directive stating that it would not accept loan applications from trucking companies.

Important point: Banks do not take risks!

That may seem like a strange statement because you, as a business owner, may not see the risk, or you are willing to live with it. Your bank manager is going to protect the interests of the bank and his job before giving you any slack.

Critical factors to understand:

Most lending decisions are based largely on mathematics. Are your financial ratios: debt to equity, ROI and quick ratio in line?

If your ratios are in line and you have a good credit history, you have a reasonable chance of getting a loan.

If, however, you are unable to persuade a bank that you know your business, how to run it and are able to solve potential problems, you could be disappointed.

Many lending decisions -- especially larger loan amounts are made by committee. The only thing the committee has to go on is your business plan and the loan officer you are dealing with.

Your business plan must be well thought out, conservative and realistic. It should create confidence and reduce the risk.

Relationship with your banker: in this case, my client's accountant went to the bank with him. The relationship was strong, and the bank was extremely motivated with a high degree of buy-in.

How Do Factoring Services Work?

A factor service discounts invoices or accounts receivables. It pays you before your normal payment terms and before the customer pays. Factoring is an alternative to a line of credit at a bank, and it can be an effective method of raising cash in a hurry.

There are different ways of managing the process, depending on the factoring company. Here are my observations:

1) They will review your business, invoices and may even do an audit.

2) If approved, they will provide you with instructions on how to do the invoicing.

3) You invoice your customers as usual.

4) You will send out a letter to your customers advising them you are using this service and that they should pay your invoice to the factoring company.

5) Depending on your arrangement, you can choose which invoices to factor. If you decide to use this method you will probably want to get a stamp made so you can indicate which invoices to pay to the factoring company.

Why use a factoring company?

If you are growing quickly, starved for cash and the banks will not lend you the cash -- factoring is a way of getting the cash sitting in your accounts receivables into your hands. The cash can be helpful if you need to buy inventory or buy raw materials to build more goods for your growing business.

However, if you are using these funds to pay other bills, you may be in too much financial trouble for it to solve your problems. Also, if you have signed a loan agreement at a bank, it probably states that you need permission to use other forms of financing.

Business Turnaround

A user recently asked this question:

I am in the ____ _______ business. I have started with nothing, and it's been four years. I put all the money back into stock and machines. I was trying to get an investor, but don't know where to look. I have been doing large numbers but have had zero working capital. It has caused a snowball effect on my bank accounts to the sum of $12,000 a year in fees. This is no joke. I can't seem to get ahead, and now I am feeling beat. I have tried so hard and feel I

info@SuccessBizCoach.com (250) 658-1904 www.PortableBizCoach.com

will loose my shop if I can't find working capital. Do you have any ideas? BTW I am not credit capable.

These are difficult times, and I admire your ability to survive four years through difficult circumstances. You have to start thinking differently and be willing to learn and change your approach.

Not knowing anything about your specific situation, I am unable to provide you with any specific suggestions or advice. However, I have seen some similar situations in the past and offer the following observations and suggestions. I urge CAUTION when reading my observations and comments. These ideas may or may not be applicable to your specific situation. Seek professional guidance before making changes or implementing any of these ideas.

Stop Juggling -- Come Up With a Turn around Plan

Uncontrolled growth in a business with little working capital, can easily lead to a self inflicted, slow business failure. When a business is growing quickly, it puts a strain on the financial "oxygen" of the business. Your available cash is like oxygen. Without a good supply of fresh oxygen, your business will not be able to run a good race without running out of air.

Sales drives the business to run harder and harder. However, the harder you push the more your debts (accounts payable) increase the more difficult it is to find the cash to keep everyone happy. Eventually the business could suffocate for a lack of oxygen (cash).

It might be best to do less business. Sometimes you are better off saying NO than trying to make things work when you know you are already hard pressed to make ends meet. The extra time you have (because you have less work to do) can be re-directed to creating a plan and spending time investigating your options.

Survival and Planning Options

This is a tough situation and you have limited options. You must be committed to communicating with all suppliers, staff and lenders/investors in an ethical and moral manner. Be careful not to mislead, understate or overestimate the current situation. The only chance you have when things have gone wrong is to be honest and take your medicine like an adult. If your business is a sound money maker with healthy profits -- you may be able to salvage it.

1. Creative Selling: obviously you need cash. One option would be to try and increase your profit margins by either increasing prices and/or selling additional products/services. For example, there is a restaurant in our area that is selling a 2 for 1 coupon book for $49.95 that contains something like 25, 2 for 1 coupons. They get a cash infusion and the odds are not everyone who buys the book will use every coupon. The most valuable thing you have right now is your customer list. Are there businesses that have related products/services that fit your customer’s needs? You could offer them access to your

customer list in exchange for 50% of the profits. Stop and think, take a long look at your customers' needs and look for businesses that offer a product or service that your customers need and are buying somewhere else.

2. Factoring: if you sell your services/products on credit and you have a large amount of outstanding accounts payables -- factoring companies may advance you cash based upon your outstanding invoices. Basically, they will advance you a percentage based upon the credit worthiness of your customers.

3. Ask Your Accountant: First, get some help. Talk to your accountant, if you do not have one -- get one. You may be able to save the business and it may be too far gone. Either way, it is best to screw up your courage and go see someone who will tell you the truth and give you unbiased advice.

4. Legal Options: you should also seek legal counsel to get advice on your specific situation and understand the legal ramifications of certain plans and actions you may be considering.

5. Speak To Your Bank: if you are spending $12,000 a year on bank fees -- you are either paying interest costs on overdrafts on your checking account or you may be incurring extra service charges to manage your account and cover the checks you write. Ask them again.

6. Investors: there are not a lot of people willing to put money into a company that is in trouble. If you do find one -- they will want control of the company and you should seriously consider the offer.

7. Suppliers & Landlord: talk to your suppliers or landlord about giving you an incentive to keep the business going. Ask them to forgive old debt (120 + days) and as for better payment terms. Basically, you are asking them to help keep you in business. Be VERY careful with this option -- you run the risk of scaring them which could result in them shutting down your current credit arrangements. Also, be careful that you do not twist or mislead them as to your ability to repay them. I also strongly suggest that if you speak directly with the business owner or senior management -- they may be more open to helping out than you think.

8. Restructure Management: this basically comes down to you firing yourself as manager and finding someone to take over the day-today affairs. Perhaps there is someone in your family or circle of friends that might be willing to take over the management of your business and the cash flow. Then you could be freed up to do what you do best -- make sales and customer service.

Shut Down the Business

Of course there is always the option of closing down the business. It is the least appealing --

but it may be the best choice. Making a decision to shut the business down is more mature and business like than waiting for all the cards to come tumbling down.

By choosing to shut the business down you have an opportunity to do an orderly liquidation. You would get more cash for your assets and inventory in an orderly liquidation than a foreclosure. Good luck!

Business Loan vs. Selling Equity

It depends on a number of factors.

Selling equity in your business, as a way to raise funds, is very expensive. You are giving up a percentage (%) of your business forever.

Whereas, getting a loan is cheaper. You keep full equity and pay the interest costs.

I went through this issue. Let me share my personal experience. In 1991 when I was in start-up mode, I took money from a couple of business people and gave them 49% of the company. On the way to the bank, I wondered if I was making a mistake. But I deposited the money anyway. It was a secure feeling having the extra cash in the account.

However, I should have listened to myself. Within the first 30 days I had closed deals worth $60,000 of profit or approx. 4-6 months of operating expenses.

I did not need the capital after all. I would have had more than enough cash. But I gave up 49% for that initial investment! That was very expensive financing.

Borrowing money is always cheaper.

If you are a new entity, new to business or need money to continue product development and research, then venture capital is the way to go. They will take the risk where other lenders will not assume risk.

Do You Need More Money To Run Your Business? Or Do You Need To Learn Your Way Out Of Your Problems?

Any business that lacks adequate financing runs the risk of failure. However, money is not always the answer to certain business problems.

I am suggesting that a business that tries to spend its way out of problems, as opposed to learning its way out, is at greater risk.

This is a very interesting phenomenon. It looks like you need more money! Sometimes you have to climb the tree to see past the forest.

Businesses and leaders who are able to recognize that there may be other problems or issues at the root of the problem are on the right track.

The CFO may be crying for more money -- he or she may be right and wrong.

It may seem like more money to finance further development or inventory is necessary, but borrowing money to finance an idea that may not succeed is extremely costly!

It is one thing to risk your own money on an idea. It is quite another to invest someone else's money on an unproven idea or concept, especially if the idea does not pan out.

Building the wrong system, software or features could eventually come back to haunt you. To prevent this, be prepared to learn your way through problems before you borrow or spend. If financing is still required, it will not be hard to find.

Often, a small business that is under capitalized has no other choice than to be creative.

Whereas a larger businesses, with deeper pockets, sometimes try to spend their way out of a problem and fail.

I am not suggesting that adequate financing or access to capital is not important. I am just suggesting that timing is most important.

For example, let us take an Internet based business that feels it needs additional financing to fund software and web site development. (As a matter of fact, I have a client going through a similar issue right now.)

We have focused on solving something I call scope creep. Simply, this means that the scope of the project continues to grow and expand as the developmental process continues. Suddenly, something that was going to take 40 hours to complete takes 240!

Here is what can happen. As the marketing, software developers and content providers work on the web site; they notice deficiencies, problems and opportunities.

At first glance it seems like they might have missed something and should adjust their project developmental direction and priorities.

However, due to a lack of extra cash -- they are forced to think and learn.

They have to be careful to make sure that any new money they spent is something the users of the web site want and can use.

Remember, your customers do not care about your business, products and services. All they care about is what they want and their own self-interest.

People do not care how much you know until they know how much you care.

Taking the time to research and verify your customers' needs, wants, perceptions and emotions will pay you handsome dividends. You will learn a great deal about the needs of your customer and how your products and services may or may not hit the mark.

No doubt, this is the long road in business development. It is also safe, practical and realistic to take the time to understand customers' needs and verify how well your products and services actually meet their needs.

So when the time comes, and you have completed research and verified your customers' needs, wants, emotions and perceptions -- you will have a much better understanding of how you need to modify your business, products and services.

Then, that is the time to go and find the money you need -- because it is building upon a firm foundation!

How to Increase Your Profits

What is your average gross profit? How accurate are your profit margins?

When I was knee high to a grass hopper, before computers and spread sheets, I worked in a small retail store. One of my jobs was to "cost" each invoice. On our file copy I would write down the exact cost of the goods sold and then calculate the profit on each invoice. I would then compile average daily, weekly and monthly sales and gross margin statistics.

I hated doing this. It was 'boring'. I did it because my boss told me to do it. Now that I own my own business, I have a new appreciation for the value of that "labor".

The great part of that control system was if we suddenly had a drop in profit margins, we would see it immediately. We could then take corrective action. Often, the reason for a change in profit margin was that our supplier was working from a newer price list (with higher prices) and we were working from the old one. Rather than go a whole month with the wrong prices, we would only lose out on profit from one day or, in some cases, one invoice.

Good information provides the opportunity to make quick, accurate decisions.

Try this:

1. Look at your operation. Do you have adequate systems to record, track and measure your profitability?
2. Create a time tracking system: record and monitor time spent providing customers with quotes, job management, customer follow-up, "make good" expenses or direct warranty costs.
3. Do you provide any items with a warranty? Are you tracking the cost of repairing or replacing those items or services? If you were measuring this cost and discovered it was 5% of your sales, what could you do?

Here are a few choices:

- Add 5% to your selling price.
- Look for ways to reduce or eliminate warranty expenses.
- Go back to the production line or manufacturer to absorb warranty costs.

If you can't measure it, you can't track it. If you can't track it, you won't be able to make corrections. The power of this costing exercise, that my boss made me do, was in the recording and daily measurement of our profit position. Yes it was tedious; however, with today's accounting applications and spreadsheets, it's a lot simpler. Get your accountant to build you a spreadsheet in which to enter this data, or buy a good accounting package.

Creating Corporate Culture

Maslows hierarchy of need states that we need food, shelter, love, acceptance personal growth (find and express personal gifts) and ultimately to know that we have made a difference.

Knowing that in some way we are helping others is one of the great joys of life.

Corporate Culture Is Misunderstood

Establishing a positive and empowering corporate culture is likely one of the most misunderstood business developmental principles. Whether or not you have consciously and methodically attempted to create a culture, every company has one.

If you have been in business for a number of years you will need to work hard to create a new culture. It will mean establishing new habits to ensure that you are hearing what the customers need and then providing it in the most efficient and powerful way possible.

The willingness to serve is at the heart of a great corporate culture. Remember, service is the number one value that inspires. This is what is at the heart of your staff's willingness to commit to a given set of values and behaviors.

You will need to work hard at communicating and practicing the values. In a sense you will want to etch these values into the mind and hearts of every employee.

It All Starts With Establishing Standards for Customer Service

Start with defining and establishing a set of values and beliefs about your customer service model. Set a number of strategic priorities relating to the customer service experience.

For example, let's say two of your core values are openness and honesty. Before communicating these values to your staff ask yourself:

- What is my commitment to this process?
- Do I believe in the company's mission?
- Do I believe in the strategy?
- Do I respect my people?

- What effort am I willing to make?
- What values will I you use to measure my own performance?

Get Your Staff Involved

Then take your vision, values and communicate them to your staff. Ask them to think about and answer three questions:

- Do the company's stated values align or fit with their own?
- How will what they do, on a day to day basis, contribute to the strategic priorities?
- How will applying these strategic priorities make a difference in their work and the lives of our customers?

Engage your staff in an open and honest dialogue. Let them ask the tough questions.

> When someone asks a difficult question congratulate them on being willing to ask it. Be willing to answer them honestly and openly.

As they observe the open candor and accessibility it will reinforce and build your culture. You can tell your employees that openness and honesty are important but they will only believe it when you actually demonstrate the importance of openness.

It IS Worth the Effort

If you do this you can expect the following benefits:

- Sense of stability: staff will want to stay and belong;
- A feeling of belonging, affiliation and alignment;
- Create a selection tool to assist in the recruiting and hiring process;
- The Company becomes the product: the customer will 'buy' a sense of belonging, affiliation and pride as they experience the tangible and intangible benefits of new values in your customer service model.

When done effectively, even if everything else changes--the industry dips and falls, products and services or circumstances change, staff come and go-- the corporate culture will protect, serve and keep your dream alive. It will be that one constant in a sea of change and adversity that will keep people motivated and committed, and make a lasting contribution.

Are You Striving For Base Hits, Home Runs or Grand Slams In Your Sales Strategy And Business Development?

I think business success is a lot like playing sports. Anyone who has been successful in sports or business has worked hard for it. They paid a price -- time, energy and money.

Every business person dreams of winning big or cashing out someday! The path to business success is quite simple -- it just takes a lot of hard work. Here are the ingredients I think make up business success:

1) Master the Fundamentals: every game has a set of rules. In business certain traits and characteristics are essential. Learn to play the game. In many ways your customers, suppliers and employees are playing a very different game. One thing does remain constant -- they are more interested in themselves than they are interested in you.

Learn how they play the game. decide if the rules fit into your own value system. If so, learn the fundamentals -- communication, selling yourself and how to create value for them.

2) Learn the Rules: every game or business has rules. Pay attention to the way business is done. Study, read and ask lots of questions. Everybody has rules. Maybe they call them something else -- beliefs, policies and procedures.

Look for an opportunity within these rules where you can help them -- an area where you shine. This is your strategic competitive advantage -- for that specific person. Use it with integrity, passion and commitment. These are very powerful tools to influence and gain trust.

3) Practice: test, try and learn. Practice does not make perfect -- it makes permanent. You have to put in the time -- the more you do something the better you get at it.

I remember my two year old Son doing a button or zipper for the first time. It seemed to take ages! His concentration was so intense and seemed so difficult the first time. He finally got it figured out -- after five minutes. Today he has those skills mastered. As children we had a strong hunger and huge capacity for growth. I still think that same drive is within us -- it is just hidden amongst a lifetime of experience.

The ability to learn and know when I have to change my ways is one of the most important success indicators I have observed -- both in my own life and that of my clients.

It is knowing when -- I am ready to play the game -- when I should get help or training -- or when to call it quits.

4) Prepare: make sure that you have all your tools and game gear ready. When you go out to play baseball -- remember your glove, ball and bat. It surprises me how often people go to a

meeting, presentation or networking function un-prepared.

I suggest that you spend at least an equal amount of time preparing for a meeting or presentation as you do in the actual meeting itself. It cannot hurt -- it only helps! For example, if you are making a sales presentation -- take your contract ready for signature. You will be surprised how much that will improve your sales closing ratio.

5) Playing The Game: in order to get to the last inning, bases loaded in the world series takes a lot of base hits, home runs and a few out of the park grand slams.

You may even loose a few games on the road to winning the pennant. I heard someone comment once that Babe Ruth held the records for the most home runs and strike outs.

Think about it. What is the difference between a batting average of .375 vs. .275 -- only one extra hit out of ten! Such a small margin of error that makes such a huge difference in the pay day! Simply, it means the difference between making a million dollars a year to making several million!

Remember, trying to avoid making mistakes or failure is not the key to succeeding in business -- rather make lots of mistakes -- just make sure you are learning and growing as a result! Do this and you cannot help but improve and eventually you will succeed!

Business Owner – Are You The Obstacle Or Enabler Of Growth?

Obviously, a good business plan, adequate resources as well as the skills and abilities to get the job done are fundamental to business success.

The Business Owners Personal Growth Impacts the Growth & Development of the Business

In the life of every business there will arrive a moment of truth when the entrepreneur either becomes the catalyst or stumbling block to continued business growth.

A business owner can easily become a liability when:

- The business has matured and grown to a point that everyone begins to become complacent, satisfied.
- The business owners are weary due to constant demands or financial pressure.
- The complexity of the business has grown beyond the ability of the entrepreneur to manage the entire operation out of his head.
- a lack of systems forces all employees to come back to the business owner to get answers or approval to perform basic tasks.

Something strange happens when a business begins to really excel. The entrepreneur and staff become satisfied which can easily lead to complacency. It is this complacency that can strike the death blow to the business – especially if it becomes a disease.

Do You Have The Disease?

Watch out for the warning signs.

- A strong need for control.
- All your employees and managers report to you for basic, day-to-day decisions.
- Feeling indecisive.
- You are less and less on the front lines and face to face with customers and suppliers.
- If you feel like you are losing your edge it could be due to a lack of personal growth. Your skills and abilities are either moving the business forward or else you are in the way. You may have become a stumbling block limiting the businesses ability to grow, shift and change to meet customer needs.

The personal growth of the entrepreneur was the reason the business started. Now that the business enjoys some success – the key to continued growth and development lies in the entrepreneur's ability to grow but differently this time.

In the beginning the reason the business began was because the entrepreneur recognized a need in the marketplace and filled it. Now the focus changes – the business owner must recognize the needs within the business itself, and then fill that need.

What Is The Solution? Shift from Survival Thinking To Possibility Thinking

It is my belief that the reason for most business success is that the owner is driven due to the need to survive, to make it. Sometimes making just enough money to make the rent or payroll. It is this hunger, a sense of desperation that keeps the entrepreneur sharp, focused and driving forward and in constant pursuit of improving and developing the business.

Now that the business sis growing and has a measure of success – it is time to shift your focus away from survival and begin to think of the possibilities. Think about what the business needs – to continue to grow and succeed. Depending on your background and skills you may need additional help. People with skills and experience you do not posses.

Work yourself out of the job. I said out of the job, not out of a job.

Part of the solution is systems and training. The other part is you, your attitude and willingness to continue to grow and develop as a business owner.

- Work to put systems, processes in place to give your employees and managers more control. They will be thrilled to have the opportunity to perform and will grow in direct proportion to the amount you delegate.

- Train your employees and managers.
- Create a process to re-evaluate all systems, procedures and tools. Do this with your managers because then they will take ownership of the idea and champion it to all staff.

Then you will be freed up to do what you do best. Be the Entrepreneur! Track and hunt for new opportunities, after all, it is what the entrepreneur does best!

Partnership Breakdown - Control Issues

When a business partnership begins to breakdown one of the issues that are often unresolved is one of 'control'. Control is an important issue for a business. For some personality types they simply cannot function without a significant amount of control.

Often you will hear one of the partners say, "Why are you trying to change me?" or "I am here earlier and stay later than you! Now you are going to tell me that I cam not pulling my weight?"

These are just a few excerpts from conversations between partners that I have overheard. Now you might be thinking, "Wow, what a dysfunctional bunch!" And well you might be right, but what you need to remember about 'partnerships' is that both parties come to the table with the best of intentions. But intentions will not pay your bills or help you solve your business problems.

However, communication or the lack of it and the baggage that each person brings to the table can easily cause fractures in the relationship or at least the quality of communication. That is where the beginning of the end starts.

But stop, I am getting ahead of myself.

In the beginning each partner comes to the table with a 'dream' or 'vision' of what is possible to attain by working together in the business as partners. How can you tell if 'control' will become an issue in your partnership?

Look At Your Business 'Partners' Personal History

People do not typically change personal habits and behaviors, at least not quickly or easily. I have told employers interviewing candidates that "What you see is what you get!" People always put on their Sunday best and best foot forward when going to a job interview. So if you do not like what you see in the interview, do not hire the person. Because thinking that you can change or modify their behavior is not realistic.

Everyone resists change, some more than others. The same is true of a business owner. If there are personality traits, behaviors and quirks that disturb you or there is just something that 'bothers' you. Do not proceed. I have found that most often that internal alarm clock we all have is pretty accurate.

Take a close look at your partner's lifestyle, marriage and work history. Interview them just like you would any other employee. Check references, speak to former managers and really ask probing questions. Do not be timid about asking questions. Ask them specifically about control, conflicts or negative traits they have observed.

You want to know strengths, weaknesses and potential problems upfront. That way you can discuss them with your potential partner and make an informed decision.

If your prospective business partner has issues with your approach (asking for references, work history) that should give you pause about entering into a long term business venture.

Beware the Opportunity Blinders

It is so easy to become so personally invested and committed to an idea that you loose sight of the obvious. Like when a business opportunity (i.e. partnership) seems to line up so well with your own personal goals - beware! To the degree that you really, really want something -- you begin to loose your objectivity.

In a business partnership people tend to trust each others judgment in making decisions. The other thing that happens is when one partner has concerns or fears regarding a business decision or situation and the other partners is so confident, it can seem to neutralize the opposing partners opinions and concerns. The real danger is the weaker partner caves to the sense of 'certainty' the other partner exhibits.

What should really happen in a partnership is the healthy exchange of differing opinions. Both sides taking the time to seriously consider the merits of each other's viewpoint. Then coming together to make a 'business decision' absent of emotion and personal agendas.

A Friend or Advisor

I strongly recommend taking time to share your 'partnership' situation and decision with someone who knows you well and can give you impartial feedback and observations. However, there is one very important thing to remember! Listen to them! Do not ask for advice and feedback if you are not prepared to honestly consider what is being shared.

When you really want something badly, it is so easy to dismiss their opinions and feelings. If you do dismiss the advice from the person that you asked -- you are likely ignoring something very important about your own intuition, personality or character. If you continue to ignore it - you do so at your own peril. This could be a great opportunity for personal growth or it could be a 'red flag' trying to get your attention.

Take your time, slow down. Make your decision to enter into a partnership slowly. Try working together with the partner on a temporary, small project or opportunity. It will give you chance to experience what it is 'actually' like to work with them.

Actions You Can Take To Protect Yourself

I am not saying partnerships are good or bad. Some partnerships work quite well. I just have not personally seen many that were truly effective.

Should you decide to enter into a partnership, make sure you have written processes and methods for sharing 'control' and resolving disputes. Make sure you have a partnership (legal) agreement that documents each partner's contribution and how you will deal with irreconcilable differences. There are a number of articles in our "Legal" section discussing the "Legal issues of business" including the whole partnership, shareholder issue.

No matter how much you think you like and respect the other person I promise you that conflicts will arise. When those conflicts involve money and relationships, emotions can rise to the surface that can be a distraction to the business and in some cases be the catalyst to terminate the relationship or business.

Let me know if there is anything I can do to help you. Good luck!

Partnerships - The Good, Bad & Ugly

Going into business with another person is one of the most important decisions you will ever make as a business person. It can mean the difference between success and failure.

My observation is that is very similar to getting married -- in fact, you could end up spending more time with your business partner than your spouse! So choosing whom you go into business with is very important.

Examine Your Intentions & Agenda

Getting clear about what your intentions are will likely prevent most partnership problems and failures. Remember, people are not perfect and everyone comes with baggage. Think about and answer a few questions:

- Why do you need a business partner? You will end up splitting the profits forever. Are you sure you need a business partner?
- Do you want a business partner to share the risk?
- Are you considering a business partner because you cannot afford to hire an employee?
- Are you really sure that you are the type of person who can share control of the

company?
- Can your partner share control?
- How will you share control?

Investigate Partners Background

- How well do you know your prospective partner?
- Do you know much about his/her business background?
- Do they have experience in this industry?
- Do they have direct experience in the job that he/she will be doing in the new company?

Examine the Personalities

Having a clear understanding of your personality characteristics, traits and style will go a long way to helping you get off to a good start and keeping the relationship healthy. Knowing what drives your business partner is essential.

We have a service we can offer to identify the behavior styles of your partners and staff.

- Individual and Team Strengths;
- Behavioral Differences and Motivation;
- Work Team Tendencies;
- How to Blend Differences
- Abilities and Preferences;
- Communication Styles.

If you are serious about understanding your prospective partner -- these reports will provide insights and understanding on personal work styles, personalities and communication preferences.

Examine Skills & Experience

One of the best reasons to form a partnership is to access the skills, experience and connections of your partner.

- What skills does your partner possess?
- How do those skills compliment or offset your skills?

Test the Working Relationship

Once you form the partnership there is no turning back. The die is cast and you are in it for better or worse.

I highly recommend testing the partnership by working on a few projects together for a reasonably extended time period. This will give you the opportunity to really test your ideas, personality compatibility and ability to work together.

Goals

- Are the goals of your business partner and yourself in alignment? Or do they differ greatly?
- Compare income goals. Talk about income expectations i.e. how much will each of you get paid?
- Discuss each others business philosophy and style. Take time to really delve into this. You might be surprised what you discover.
- Share your lifestyle goals. Are you the type of person who goes all out and willing to put in extra time? Is your partner more of a 9 - 5 type?

Legal Agreement

Any partnership worth having is worth protecting.

- What happens if one of you decides to quit the partnership?
- What will happen if one of the partners becomes disabled? Dies? Has a nervous breakdown?
- How will you go about selling the business?
- Is your prospective partner willing to enter into a legally binding agreement?

Business Operations

- How will you make decisions? One partner making all decisions or will you share all major business decisions?
- What is the job description for each partner? Are jobs, responsibilities and boundaries clearly outlined?
- How will you resolve disputes or disagreements?
- Who will do the banking and manage the finances?
- Who is the boss? Who do suppliers, employees and the tax department going to deal with?

Answering all these questions does not guarantee that your business will succeed. But you will know each other better and be able to enter the partnership on a win-win foundation. Good luck!