PRE-BUSINESS PLANNING

HOW TO IMPROVE YOUR POTENTIAL FOR SUCCESS IN A BUSINESS STARTUP
YOUR INSTRUCTOR

LANNY OAKES

- With Nationwide Insurance Company for 33 years
  - property / casualty claims adjuster, insurance agent, Sales Manager
  - Home Office Agent and Sales Management training and development
  - Regional Sales Manager
  - Marketing Director
- SCORE counselor, Collierville Board of Zoning Appeals Commissioner
HELP IS AVAILABLE!
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COUNSELORS TO AMERICA’S SMALL BUSINESS

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For TOPIC, LOCATION, DATE AND TIME

HELD AT A VARIETY OF PLACES IN MID-SOUTH AREA

TOPICS INCLUDE

- Marketing, Advertising, & Promotion
  - Business Insurance
- Legal Structure of Your Business
- Start-Up Costs & Accounting,
  - Business Plan Basics
- Funding Opportunities - What Banks Look for in Making Loans
SUCCESS!

Many people are successful – working for someone else!
A comparatively few people are successful working for themselves!!

SUCCESSFUL ENTREPRENEURS
share several characteristics

- A very strong work ethic – a "fire in the belly"
- Are accustomed to working 12 to 16 hours per day.
- They engaged in a DETAILED PLANNING PROCESS before starting their business
WHY DO YOU WANT TO START YOUR OWN BUSINESS?

1. Want to be “OWN BOSS” (most people say this)
2. Want to Choose Own Hours to Work
3. Want to Work at Home
4. Don’t want to Work as Hard – for someone else
5. Want to be More Creative
6. Have Created a New Idea for a Service or Product that can make me a lot of money!
7. Don’t Like Working at Current Company

WHAT IS THE BEST REASON TO GO INTO BUSINESS FOR YOURSELF?
QUESTIONS AND CONSIDERATIONS

WHAT IS YOUR BUSINESS IDEA?

- Be able to explain your business idea in 30 seconds or less.
  - Write it out, using proper English
  - No more than 2 paragraphs
    - Keep it SIMPLE and to the point!
  - Memorize it – a 30 second elevator spiel
- This becomes the basis for your “Executive Summary” the first page of your BUSINESS PLAN
QUESTIONS AND CONSIDERATIONS

What is Your Experience in the Business you propose to start?

- The more directly related business experience you have, the greater your chance for success.
- To gain experience, work for someone else, and study every aspect of the business while you are at it!
- Network with people who are in or have been in the business you plan to start.
- Learn the successes and mistakes others have made.
- Work, research, study!
QUESTIONS AND CONSIDERATIONS

THE MOST IMPORTANT FIRST STEP

- **RESEARCH THE MARKET** TO DETERMINE THE POTENTIAL OF SUCCESS OF YOUR BUSINESS IDEA!

  - Is your business idea unique – one of a kind – or is it already out there?
  - Regardless, what makes your business idea unique? What makes it stand out so customers will do business with you rather than someone else?

- **ANSWER:** DETAILED MARKET RESEARCH
MARKET RESEARCH WILL ANSWER:

- Who is my competition?
- What are their strengths and weaknesses?
  - How can I avoid their weaknesses and capitalize on their strengths in my business?
- What can I do to drive customers away from the competition and toward my business?
  - Uniqueness, Service, Price

THE MORE YOU KNOW ABOUT YOUR COMPETITION, THE BETTER YOUR CHANCES OF SUCCESS!!!
MARKET RESEARCH BASICS

- Who is my competition?
- Where are they located?
- What makes them unique?
- What do they charge?
- What are their operating costs?
- What is their profit margin?
- How is their service?
- How do they get and maintain customers?
- WHAT ELSE DO I NEED TO KNOW?

Find out EVERYTHING you can NOW!

DO NOT short cut MARKET RESEARCH!
QUESTIONS AND CONSIDERATIONS?

WILL YOU BE A SOLE OWNER OR HAVE ONE OR MORE PARTNERS?

If sole owner:

- what happens to the business assets and liabilities if you become disabled or die?
- A disability plan (insurance?)
- A death plan: Will, estate, trust – get it written!
QUESTIONS AND CONSIDERATIONS?

If you have one or more partners?

Who does what, who makes final decisions, what are the business expectations of each partner, what is the financial contribution of each partner, who is responsible for business losses or collapse, what happens if one of the partners dies or is unable to work? - - - - ?

Write a draft document – put down every question and answer you and your partners can think of.

Take the draft to an attorney to have a legal document created that all partners (and spouses) execute (Sign).
QUESTIONS AND CONSIDERATIONS?

What about an LLC or a Corporation?

- What are the advantages of a corporation or an LLC?
QUESTIONS AND CONSIDERATIONS?

Develop a BUSINESS PLAN.

- Executive Summary
- Financial Plan
- Marketing Plan
- Operating Plan
BUSINESS PLAN BASICS

The EXECUTIVE SUMMARY

- THE BUSINESS IDEA - SHORT AND SPECIFIC
- THE MARKET RESEARCH - SUMMARIZE YOUR MARKET RESEARCH AND HOW THE RESEARCH SUPPORTS YOUR IDEA
- THE FINANCIALS - SUMMARIZE STARTUP AND ONGOING EXPENSES OF RUNNING THE BUSINESS, SOURCES OF FUNDING, WHEN AND HOW MUCH THE EXPECTED RETURN WILL BE
- MARKETING - SUMMARIZE HOW YOU WILL GENERATE THE SALES NECESSARY TO MAKE YOUR BUSINESS A SUCCESS
- OPERATIONS - SUMMARIZE HOW THE BUSINESS WILL BE RUN DAY TO DAY - WHO WILL DO WHAT
Business Plan – the Financial Plan Component

- The Financial Plan is best done on a spreadsheet such as MS EXCEL.
  - Key technical skills to start and run a business:
    - Computer skills, including EXCEL and Quickbooks
    - Book keeping skills: Reading and understanding basic accounting reports including a Balance Sheet, an Income Statement, Accounts Receivable, Accounts Payable.
THE FINANCIAL PLAN

The Financial plan is how The BUSINESS PLAN And The Business Model is VALIDATED.
Business Plan – the Financial Plan Component

- The Financial Plan is how you VALIDATE your business idea.

- Develop a detailed, realistic projection of the business expenses for at least 12 months:
  - How much will it cost to start my business? (Startup costs)
  - How much will it cost to operate my business for at least one year? (Identify ALL operating costs on a weekly/monthly basis for 12 months.)
Business Plan – the Financial Plan Component

- Develop a detailed, realistic projection of the Business Income for 12 months.
  - Sources of Business Income:
    - How much are you investing?
    - Income from other investors?
    - Income from commercial lenders?
    - Income from sales or services rendered?
BUSINESS PLAN BASICS

The Financial Plan - EXPENSES

- How much cash is needed for start-up?
- How much cash is needed to operate?
  - Assets and Inventory
  - Rent, utilities, office expenses
  - Insurance, bonds, licenses, taxes
  - Payroll
  - Marketing (advertising) expenses

Develop a weekly, monthly, quarterly, and annual EXPENSE PROJECTION
BUSINESS PLAN BASICS

The Financial Plan – INCOME

- Where will the cash come from to pay the expenses?
  - Your money
  - Your assets – what can be mortgaged?
  - Bank loans – what is your credit rating?
  - Investors?
  - Income from your business – At what point will your business income exceed your business expenses?
  - Consider having money available equal to one year of EXPENSES
BUSINESS FINANCIAL PLANS

The key to a successful business startup is the availability of funding.
BUSINESS PLAN BASICS

- The biggest reason businesses fail is?

- How much money do you have access to?
  - What is your credit score?

- Small Business Loans?

- Commercial Bank Loans?

- Loans from friends and family?

- Other sources?
THE FINANCIAL PLAN

THE FINANCIAL PLAN IS DEVELOPED **BEFORE** THE BUSINESS IS STARTED.

THE FINANCIAL PLAN CONSISTS OF TWO COMPONENTS:

- **EXPENSES**: THE COSTS OF STARTING AND RUNNING THE BUSINESS
- **INCOME**: THE MONEY GENERATED BY THE BUSINESS FROM THE DELIVERY OF GOODS AND/OR SERVICES

THE FINANCIAL PLAN IS A **PROJECT ON** OF THE TWO COMPONENTS.
START UP AND ONGOING EXPENSES

IDENTIFY AND QUANTIFY THE EXPENSES NECESSARY TO START UP AND OPERATE YOUR BUSINESS.

- Start with a sheet of paper and list every possible expense item necessary to start up your business.

- On a separate sheet of paper list every possible expense item necessary to run your business on a day to day basis.
EXPENSES

FALL INTO TWO CATEGORIES:

STARTUP

ONGOING

STARTUP: Identify and estimate all the expenses necessary to “open the doors”. These include:

- Finding a suitable location
- Buildout – the costs associated with modifying the location to suit your needs, even if it is only converting space in your home to an office!
- Signage – Can you have a sign and what will it cost
- Connection fees: Costs for connecting utilities (phone, electricity, water, gas, computer etc.)
EXPENSES

• Startup Expenses
  • Information Technology – website development
  • “Open for Business” marketing and advertising costs
  • Initial staffing costs: Hiring and training expenses
  • Purchase/Lease of office equipment and supplies: copier, postage meter, printer/fax/scanner, paper, forms, business and financial record keeping software and supplies
  • Initial purchase of goods (Inventory) or equipment and supplies to necessary to support the services being offered
EXPENSES

STARTUP EXPENSES

• LEGAL EXPENSES:
  • SOLE PROPRIETOR, PARTNERSHIP, LLC, CORPORATION
    • ALL BUSINESS ENTITIES SHOULD BE PROPERLY DOCUMENTED. SOME ENTITIES REQUIRE STATE FILINGS (LLC AND CORPORATIONS)
  • TRADEMARKS AND COPYRIGHTS
  • PATENTS
  • LEASES, CONTRACTS WITH SUPPLIERS/VENDORS
EXPENSES

ACCOUNTING/BOOKKEEPING COSTS

- Set up your accounting records correctly **before** you open the doors.
- Develop **written procedures** for handling customer funds.
  - Always have at least two people involved in financial transactions – a check and balance
- **ALWAYS** check behind your employees, especially where money is involved.
EXPENSES

ACCOUNTING/BOOKKEEPING COSTS

YOU = free

vs

A PAID SERVICE = $200+/month

Do you have the time to spare?  Do you have the expertise?  What is your time worth?  Do you know how to use “Quickbook”?  

An Accountant (CPA) vs A Bookkeeper?

What services will you perform vs contract out?  Accounts Receivable, Accounts Payable, Payroll, quarterly and annual taxes, monthly financial reports – balance sheet, income statement, P & L for example,
EXPENSES

- Accounting/bookkeeping/payroll and tax services
  - Typical charges for a small business = $200 to $250 per month and include year end tax preparation
  - Recommendation: Employ a CPA!

NOTE: Just because you are outsourcing your accounting services does not relieve you of the responsibility of overseeing your financial reports. Understanding financial reports – P&L, Income, Balance sheets, to name just a few, is a critical skill of the small business owner.
STARTUP AND ONGOING EXPENSES

NOTE THAT STARTUP EXPENSES AND ONGOING EXPENSES MAY BE SUBJECT TO DIFFERENT ACCOUNTING AND TAX TREATMENT.

For example: Computers, software, and peripherals, while a startup cost, may be subject to amortization deductions over the life of the equipment and become ongoing expenses.
ONGOING EXPENSES
EXAMPLES INCLUDE

- Rent and utilities
- Payroll including SS
- Office supplies
- Inventory
- Vehicle expenses
- Advertising/Marketing costs
- Information Technology expenses (website maintenance)
- Business licenses
- Insurance –
  - Commercial General and Product Liability
  - Workers Compensation
  - Commercial Auto
  - Bonds, Employee theft, Burglary/Robbery
  - Property (inventory)
  - Employee Health Insurance
ONGOING BUSINESS EXPENSES

Take each expense item and project it out on a monthly basis for a minimum of ONE YEAR, with two years preferred, and years three through five on a semi or annual basis.

MS EXCEL spreadsheet function comes in very handy!
<table>
<thead>
<tr>
<th>Item</th>
<th>Monthly Budget</th>
<th>Annual</th>
<th>Quarterly</th>
<th>Actual</th>
<th>% over/under</th>
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<tbody>
<tr>
<td>Utilities-Gas/Elec</td>
<td>$183.00</td>
<td>$2,196.00</td>
<td>$549.00</td>
<td>0%</td>
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<td>Utilities-Water</td>
<td>$75.00</td>
<td>$900.00</td>
<td>$225.00</td>
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<tr>
<td>Security System</td>
<td>$25.00</td>
<td>$300.00</td>
<td>$75.00</td>
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<td>Rent</td>
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<td>$300.00</td>
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<tr>
<td>Insurance - Bldg</td>
<td>$45.00</td>
<td>$540.00</td>
<td>$135.00</td>
<td>$560.00  415%</td>
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<td>Federal Tax estimated</td>
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<td>$1,669.20</td>
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<td>Telephone-dsl</td>
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<td>$3,249.96</td>
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<td>Telephone-Longdistance</td>
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<td>Insurance Vehicle</td>
<td>$2.50</td>
<td>$30.00</td>
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<tr>
<td>Insurance - inventory</td>
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<td>$397.08</td>
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<td>$404.00  407%</td>
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<td>Legal &amp; Accounting Fees</td>
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<td>$999.00</td>
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<td>Vehicle Maintenance</td>
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<td>Car tag</td>
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<td>Vehicle 1 Gas</td>
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<td>Vehicle 2 Gas</td>
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<td>$900.00</td>
<td>$225.00</td>
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<td>Office Supplies</td>
<td>$75.00</td>
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<td>Owner Salary</td>
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<td>Workers Compensation</td>
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<td>$1,152.00</td>
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<td>Employee Payroll</td>
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<tr>
<td>Employee Health Insurance</td>
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<td>$8,400.00</td>
<td>$2,100.00 0%</td>
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<tr>
<td>Employee Retirement Contribution</td>
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<td>$3,319.20</td>
<td>$829.80  $829.80  100%</td>
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<td>Social Security Contribution</td>
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<td>$662.28</td>
<td>$165.57</td>
<td>$165.57  100%</td>
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</tr>
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<td>Office Cleaning</td>
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<td>$1,258.80</td>
<td>$314.70</td>
<td>$314.70  100%</td>
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<tr>
<td>Website Maintenance</td>
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<td>$200.01</td>
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<tr>
<td>Advertising</td>
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<td>$4,800.00</td>
<td>$1,200.00</td>
<td>$1,840.00 153%</td>
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</tr>
<tr>
<td>Professional dues &amp; subscriptions</td>
<td>$25.00</td>
<td>$300.00</td>
<td>$75.00</td>
<td>0%</td>
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<tr>
<td>Business Entertainment</td>
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<td>$64.50</td>
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<tr>
<td>Debt Reduction</td>
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<td>$7,776.00</td>
<td>$1,944.00</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$10,096.88</strong></td>
<td><strong>$121,162.56</strong></td>
<td><strong>$30,290.64</strong></td>
<td><strong>$4,114.07</strong> 14%</td>
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</tbody>
</table>
INCOME

SOURCES OF INCOME:

- **Owner equity** – to qualify for commercial loans this must be a minimum of 30% of projected first year expenses plus startup expenses.
- Private Investors who will expect a **ROI**.
- Commercial Loans: Banks and other financial institutions will make loans at a rate that reflects the risk they are assuming.
- Grants: Few and far between!
- SBA: does not make loans but does guarantee loans provided standards are met.
INCOME

From Sales of Goods and Services

- The process for projecting expenses applies for projecting Income – from sale of goods and services and from other sources – additional capital for example.
  - Daily, weekly, monthly, quarterly, annually
  - On a spreadsheet, at least a MONTHLY sales projection.
  - For as many years as you have projected expenses.
  - At least quarterly sales projection after the first year.
INCOME

After completing the expense and income projection, conduct a detailed review of both.

- Do you have enough income projected to support your expense levels?
- Will your expenses generate the projected income?
- Rule of Thumb: Have enough money (income from all sources) to cover one year of expenses.
THE BOTTOM LINE

AT WHAT POINT IN TIME DOES MONTHLY BUSINESS INCOME (no cash infusion) EQUAL MONTHLY BUSINESS EXPENSE – AKA BREAK EVEN

AT WHAT POINT IN TIME DOES MONTHLY BUSINESS INCOME (no cash infusion) EXCEED MONTHLY BUSINESS EXPENSE – AKA PROFIT
BUSINESS PLAN BASICS

MARKETING PLAN – NEW CUSTOMERS

- Who are your potential customers?
- How will you find potential customers?
  - Advertising costs part of business expenses
- Why will they do business with you?
  - How will what your business offers DIFFER from other similar businesses?
    - Lower price / Better service???
- How will you convert prospects into CUSTOMERS??
BUSINESS PLAN BASICS
MARKETING PLAN – EXISTING CUSTOMERS

The MAIN components of your marketing plan?

1. Explain how you will find potential customers.
   - Advertising: Radio, TV, billboards, word of mouth, referrals, some kind of target marketing?
   - Social Media: webpage, Facebook

2. What is the cost of #1?

3. Explain how you will convert potential customers into actual customers – what will you do to cause them to BUY?
   - What is the cost of creating and working with a database of potential customers?
The MAIN components of your marketing plan?

4. What is your customer conservation plan?
   - What will it cost to develop and maintain a database of new customers?
   - What information on new customers do you need?
     How did they find out about your business?
     Name, phone, email, what they purchased, how much did they spend,
BUSINESS PLAN BASICS
MARKETING PLAN – EXISTING CUSTOMERS

- Keeping a customer is less costly than getting a new customer.
- What will you do to make a new customer into a repeat customer?
- What will you do to develop long term customers?
- How will you handle customer complaints?
  - Bad news is ALWAYS more interesting than good news!!
BUSINESS PLAN BASICS

OPERATING PLAN

- Who will do What in your business?
- What are your hours of operation? Weekends, Nights?
- Who finds new customers, who services existing customer, who handles complaints?
- Who answers the phone, keeps the books, makes bank deposits, maintains the equipment, keeps the office clean?

Develop a WRITTEN Operations manual and a WRITTEN Employee Handbook
BUSINESS BASICS

Some hard truths!

- Most small businesses fail – primarily due to lack of funding.
  - Only 10% of new businesses succeed past ten years!
  - 50% of new businesses “just get by.”
  - 40% of new businesses fail within five years.

- The more time spent PLANNING - BEFORE you start your business, the greater your potential for success. MARKET RESEARCH BEFORE is critical!!!
BUSINESS BASICS

Some hard truths!

- Business records, detailed, specific, and accurate are mandatory!
- Grants are not available.
- Loans are available only to people and businesses that can repay!
- Legitimate business opportunities do not appear on the internet, come in the mail, or show up on power poles!
BUSINESS BASICS

HOW DO I GET STARTED?

1. ASK PEOPLE YOU KNOW AND TRUST.
   - Is my business idea viable?
   - Do I have what it takes to make this business idea a success?

2. Research!
   - Network with people who are successfully running similar businesses. Learn what they are doing.
   - Develop an estimate of the monthly expenses necessary to run your business. Ask business owners if your estimate is realistic.

3. Identify income sources to start and maintain your business for one year - minimum!
BUSINESS BASICS

4. If 1, 2, and 3 on the previous slide can be answered in the affirmative, begin work on all four parts of the business plan. Remember that market research, (the Marketing Plan) and business income and expenses, (the Financial Plan) are most critical to the potential success of your business startup!

5. Help is available! Learn more about the support available at the Renaissance Center and Memphis Score.
BUSINESS BASICS

THANK YOU FOR YOUR ATTENTION
Please complete the survey and evaluation before you leave.
BEST OF LUCK IN YOUR FUTURE ENDEAVORS!