

**BUSINESS PLAN  
DEVELOPMENT:  
A USER GUIDE MANUAL**



Prepared By:

Tracy Echeverria

George W. Borden

and

Thomas R. Harris

Nevada Cooperative Extension  
Center For Economic Development  
University of Nevada, Reno

Tracy Echeverria is a business consultant in Las Vegas, Nevada

George W. Borden is a Community Development Specialist, Nevada Cooperative Extension. He is located in Las Vegas, Nevada.

Thomas R. Harris is a Professor in the Department of Applied Economics and Director of the University Center for Economic Development at the University of Nevada, Reno.

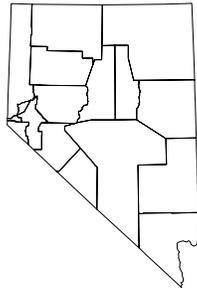
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Thomas R. Harris, Director  
University Center for Economic Development  
University of Nevada, Reno  
Department of Applied Economics and Statistics  
Mail Stop 204  
Reno, Nevada 89557-0105



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University of Nevada, Reno  
Nevada Cooperative Extension

## **Introduction**

A business plan is precisely that: a plan for a business. You should write one if any of the following apply to you:

- You intend to start a business.
- You already own a business.
- You anticipate the need for additional outside investors or lenders.

The process of writing a business plan is just as important as the finished document. This is because writing a business plan makes you define your business, assess your market, develop your marketing strategy, analyze your financial situation, and clarify how your business will be managed. Once completed, you should use your business plan as a guide to starting your business and running your business. Any potential investors or lenders will want to read your business plan as well.

After completing your business plan, you may decide that you do not want to pursue the venture the venture at this time. This is an acceptable conclusion to reach. It is better to reach the conclusion through writing your business plan that your idea is not feasible now than to take an uninformed gamble and find out later that the business is not profitable.

There are nine main sections to a business plan.

- Title Page
- Executive Summary
- Business Definition
- Market Assessment
- Marketing Strategy
- Financial Analysis
- Management
- Liability Issues
- Regulatory Issues

This guide will take you complete these sections step by step. It will tell you the questions you need to ask yourself, the research you need to do and help you compile that information into a plan you can use.

## **Title Page**

The title page for your business plan should clearly and attractively display the following information. This information will tell the reader what they are reading and how they can contact you.

- Your Name
- Business Name
- Company Logo
- The words, “Business Plan”
- Address
- Telephone number
- Fax Number
- E-Mail address

## **Executive Summary**

The Executive Summary is the first section that will appear in your business plan, but you will write it last. Lenders, investors and others will read to Executive Summary first to determine if the Business Plan is worth their time to read. The information you provide in the Executive Summary will let the reader judge how thoroughly you have worked through the process of writing the business plan and how viable your business is.

The Executive summary should be brief but complete. One to three pages are adequate. It should summarize information from the sections of your business plan. Be sure to include information on the following:

- Business idea
- History of the business including notable accomplishments
- Industry and market information
- Owner (s) and key personnel
- Financial situation
- Financial requirements
- Industry and market information

The purpose of the Executive Summary is to give the reader (a potential lender or investor) a quick overview of your business plan. Keep it short and interesting. You will provide the actual details for your business in the plan itself.

The added benefit of writing the Executive Summary when you have finished the rest of the business plan is that if you can summarize and highlight the important ideas, then you really understand the business you are planning to undertake.

## **Defining Your Business**

Every business venture begins with an idea. This section will help you further define your idea.

The critical questions to answer at this point are listed below. Some of these questions will be answered generally at this point. You will deal with them more specifically in the sections that follow. These questions should be answered even if you are writing this business plan for an existing business.

### **What is the status of the industry?**

Contact industry organizations, read trade publications and other professional literature as well as provide your own original research. In addition to providing a general description of the industry, you will want to know how your industry is changing, what challenges it is facing, and any trends that are developing. Provide this information in your business plan.

### **What products and /or services will I sell?**

Be very specific about your plans to sell particular items or services. You should be able to state within one or two sentences precisely what products and/or services you will sell.

Realize that almost all products are sold with some service. For example, you may sell Chinese food, craft supplies, or manufacture electric tools. But you may also sell the services of delivering these products in a timely, friendly manner and taking care of problems that may arise with the products or during the sales.

### **How will I obtain my products and/or services?**

Will you make your own products? Will you buy them from a supplier? Will you provide the services? Will you employ or contract others to provide the services? Be specific.

### **Why will my customers want to buy my products and/or services?**

It is important to remember that you are not just selling products and/or services, but that you are filling a need. This need is why people will buy your products and/or services. Consider these examples.

- You may plan to sell Chinese food, but what you really may be selling is a convenient means of grabbing a quick lunch.
- You may plan to sell craft supplies, but what you really may be selling is a way for people to express their creativity.

- You may plan on manufacturing and selling wholesale an electric tool, but you may really be selling the means for the retailer to sell his customer a reliable piece of equipment and so that his customers will return for future business.
- You may plan on selling housekeeping services to local residents, but you may really be selling is free time to families who won't have to clean their own homes.
- You may plan on running a motel, but you may really be selling is a comfortable night's sleep in a safe environment.

Once you understand the need that you are filling by selling your products and/or services, then you can better plan the rest of the details of your business.

### **Who will want to buy my product(s) and/or services?**

Now that you understand the need that you are filling, you can better understand specifically who will want to buy your products and/or services. Consider these examples.

- If you are selling Chinese food and a means of grabbing a quick lunch, then your customers may be professionals on their lunch break.
- If you are selling craft supplies and a way to express creativity, then your customers may be students of craft teachers.
- If you are selling electric tools and reliability and safety, then your customers may be nationwide retailers with a reputation for quality products.
- If you are selling housekeeping services and free time, then your customers may be two-income households who spend most of their time at work or other activities outside the home.
- If you are selling motel rooms and comfort and safety, then your customers may be travelers along a busy interstate.

### **Where will I locate my business?**

You know what products and/or services you are selling, why people will buy them, who your customers are, now you need to figure out where to locate your business so you can effectively reach your customers.

Your customers may need to come to your business. If so, your location needs to be easily identifiable and reachable for them. For example, if your customers are professionals on their lunch break, then you may want to locate your business near their offices. If your customers are travelers, then you may want to locate on the interstate with easy on and off access.

If customers do not come to your business, but instead you ship your products and/or services to them, then you be sure to locate your business so that you can reach them. If you ship your product to a nationwide retailer, make sure you are located with access to shipping. This would also apply to a business whose storefront is an Internet web page or a catalog. While it is important that your web page or catalog is easily accessible, the physical location of your business may not matter so much to your customers as your ability to deliver your products and services once they have contacted you.

### **How will I price the products and/or services?**

Will you price your products and/or services below the standard market prices? The same as your competitors? Higher than your competition? Justify your decision. Realize that the prices you charge can tell your customers quite a bit of information about your product. For example, if you price your products and/or services below market you may be telling your customers that they are getting a good deal. If you price higher than your competition you may be indicating that your products and/or services are superior in quality. The prices you charge should be consistent with the overall image of your business and the quality of the products and/or services you offer.

### **What advantages will my business have?**

Describe the opportunities that your business will have in the market. Explain how you plan to make the most of these chances to grow a profitable business.

### **What difficulties will my business face?**

Every business faces difficult challenges. Some of these challenges can be overcome with research and preparation. Explain the challenges you expect to face in your business and how you plan to deal with them.

## **Market Assessment**

Information about your market is critical to your success. From your assessment of your market, you should be able to present the following information. Contacting trade organizations, reading trade publications and other professional literature, and doing your own original research will help you answer these questions. Include as many statistical details as possible. Be sure to cite the sources of your statistical data.

### **Who are your customers?**

Are your customers consumers or commercial business? What is their buying power? What demographic information describes them most accurately, e.g., age, status, income, or length of time in business. Customers may come from different segments of the market. Describe each market segment.

### **What products and/or services do they need from your business?**

Be specific about the products and/or services you expect to sell to each segment of the market.

### **Why do they purchase these products and/or services?**

Describe the need you are filling by selling your customers these products and/or services

### **When do they purchase these products and/or services?**

Understand how often your customers make these types of purchases. Do they buy these products daily? Weekly? Monthly? Seasonally? Annually? Include this information in your business plan.

### **Where do they purchase these products and or services?**

Do your customers go to a place of business to purchase these products and/or services? Do they order them from Internet web pages? Do they order them over the phone from catalogs? Be thorough and specific.

### **Who is the competition?**

Chances are, your customers are filling their need for your product and/or service in some other way. Perhaps they are buying it from another business. Realize also that several businesses are always competing to fill people's needs.

While your business may not have a competitor that is supplying the same product and/or service that you provide, your potential customers may choose to purchase other goods and services instead. For example, you may be the only store that sells designer clothing in your area. That

does not mean you'll have a corner on the market. Instead, people may decide not to purchase designer clothing and instead purchase golf games or furniture for their homes.

Makes sure your business plan describes the competition you face including those businesses that are different from yours but are also competing for your customers' dollars.

## **Marketing Strategy**

Now that you understand who your customers are, what products and/or services they need, why they purchase these products and/or services, when they purchase and where they purchase, you are ready to design a marketing strategy. While marketing includes advertising, advertising is not the only part of marketing. Your marketing strategy begins with your decision of where to locate your business.

## **Marketing Decisions**

If your business requires a storefront, you need to make sure that your store is easily visible and accessible to your customers. The appearance of your storefront should be consistent with the type of products and/or services your customers expect to purchase. The same is true if your customers access your business through an Internet web page or a catalog. It should be easy for your customers to locate the web page or catalog. The appearance of these should also be consistent with the type of products and/or services your customers expect to purchase. Discuss your plans to accomplish this in your business plan.

Your marketing strategy should also include your plans to make it simple and enjoyable for your customers to find the products and/or services they need and purchase them. If you have a storefront, this will include everything from the layout of the products and/or services in your store to the number and skills of the salespeople you have to the location of the cash register to your policy regarding problems that may arise with products and/or services. The same is true if you reach your customers through an Internet web page or catalog. The web page or catalog should be designed to easily find the products or services your customers' need with contact information available so they can get quick answers to any questions or problems they may have. It should be almost effortless for them to pay for their products. Outline the details of how you will achieve this. Discuss the following items as they apply to you and why you are making these choices.

- Store Location
- Store Appearance
- Layout of Products and/or Services
- Number, Skills, and Responsibilities of Salespeople
- Acceptable Methods of Payments
- Web Site Location
- Web Site Appearance
- Layout of Products and/or Services on Web Site
- Customer Service Support Staff Responsibilities and Skills

- Catalog Appearance
- Catalog Layout of Products and/or Services
- Catalog Mailing Lists

## **Advertising**

Advertising is an important component of the marketing strategy. It is your means of communicating with your customers. In addition to catching the attention of your customer, advertising also conveys important information including

- The name of your store
- Where you are located
- How you can be contacted
- When you are available
- Why your customers need to contact your business. For example, specific products and/or services you are offering, sales promotions, etc.

As you may already know, advertising is expensive. It can be easy to spend a good deal of money in the wrong type of advertising if you make decisions without careful research and thought. In your business plan, discuss the advertising options you will use and why you believe they will work. Include the research you have done to reach these decisions.

Your advertising options include the following.

## **Newspapers**

Newspapers offer two types of advertising: classified and display. Classified advertisements have their own section in the newspaper. The price of your ad is determined by either the number of words or lines in the ad. The newspaper may offer the option of running your ad in a particular classified advertising section.

Display advertisements can be placed anywhere in the newspaper, including the classified section. A display ad is boxed and may contain artwork in addition to words. The price of your ad is determined by the number of newspaper columns wide the ad measures and the number of inches long the ad is. For example, you may have an ad that is 2x6. This would mean that your ad is two columns across and six inches long. You can either design the ad yourself, have a professional design it, or the newspaper may design it for you. The newspaper may or may not charge you an additional fee to design the ad. You should have the option of placing the ad in a section where you think it will be noticed.

The information you put in the ad and where you place it will depend on the customer you are trying to reach. This can be difficult to determine. The research you have already completed may help you decide if these types of advertising are a good way of communicating with your customer. Before committing yourself to spending money, put a good deal of thought into this. You may wish to contact a professional advertising agency for advice.

## **Magazines**

Magazines also offer classified and display advertising. They tend to charge more than newspapers. They also probably do not offer to design display ads. Magazines target readers with specific interests. When you contact a magazine they should be able to give you demographic information on their readers. There are magazines whose readerships are diverse and are read by several different segments of the population and there are magazines whose readerships are quite specific. It takes work to find the magazines that would expose your advertisement to the people most likely to be your customers. You may wish to contact a professional advertising agency for advice.

## **Television**

You can advertise on the networks in the advertising spots they have available for local programming and advertising. You can also advertise on the cable television channels. Cable television caters to several specific market segments. There are channels for people who enjoy watching everything from sports to cooking to old movies to nature shows to military documentaries. Even though television advertising is more affordable than it used to be, it can still be expensive. You will have to pay someone to make your commercial. You will have to contract for your commercial to run for a certain amount of time each day for so many weeks. It can be also difficult to determine which channel would most likely reach your customers. Through your research, you may already know who your customers are likely to be. You may need to do additional research determine if television is appropriate for your market and, if it is, which channels to use. You may wish to contact a professional advertising agency for assistance.

## **Radio**

Radio advertising is similar to television advertising. You will need to pay to have your commercial made. If the ad is simple, some radio stations will do this for you. You must also contract to run your ad to run a certain amount of time each day for so many weeks. In addition to running an ad, you can also sponsor a particular segment of the day. For example, you may sponsor the traffic update or the news. Radios also cater to specific market segments. Before contracting for any radio advertising, be sure to understand their market demographics and be certain that your customers are included in those demographics. You may wish to contact a professional advertising agency for advice.

## **Direct Mailings**

You can purchase mailing lists to send material to very particular market segments. The more specific the list, the more expensive it will be. Additionally, you will need to design your mailing piece so that it will be noticed, read, and kept for future reference. You will also have the cost of the mailing. You can either use first class postage or, if it is a large mailing, a bulk

rate. The business where you purchase your list can help you to use the bulk rate or you can contact the U.S. Postal Service directly to learn how to use it yourself.

## **Internet**

The Internet offers many different opportunities to advertise your business. For example, you may establish a web page that your customers can visit to either learn more about your business or to purchase products and/or services directly. You can buy advertising space at other web sites. If you have never used the Internet before, you can go to your local library. Many libraries have computers with Internet access. You can also take a class in Internet usage through private companies and local universities and colleges. Internet advertising can be less expensive and more effective than other types of advertising, but you will still need to research the best way to set up your site, buy advertising or be listed at other sites.

## **Advertising Agency**

With all of the advertising options available and the considerable expense, it can be difficult to determine which will be the most effective use of your advertising budget. Advertising agencies can help with these decisions. They can design ads for you and research the best advertising options for your budget and goals. While they will charge you for this service, the money can be well spent. Talk to several agencies. Ask them about the work they do and their fee structure. Tell them what your goals are. Choose an agency that can put together an affordable campaign that makes sense to you. The agency you choose should also be one with whom you can easily communicate.

## **Return Customers and Word-of-Mouth Advertising.**

Customers who have had a successful experience with your business can be one of the best forms of advertising available. If they had a good experience doing business with you and with the product and/or services, chances are they will return. At the very least, they may recommend you to others who are interested in similar products and/or services. There are problems with this type of advertising. First, you have to actually get customers before they can be return customers. To do this, you will have to engage in the other forms of advertising first. Second, while they may have enjoyed doing business with your and the products and/or services you sell, they may simply not need to do business with you again. Through no fault of yours, they may not become a return customer. Third, people tend to talk more about their negative experiences than their positive experiences. For example, if they have a horrible time doing business with your company, you can be certain they will tell several people about it. If they have a great time, they may only mention it to a few people. Despite these problems, it should always be your goal to entice people to return in the future and to say good things about your ranch.

It may be a good idea to maintain professional, polite contact with your customers after they have done business with you. For example, you might send them a card thanking them for their

business, a note inviting them to return, or a brochure describing special products and/or services you are offering. You may want to politely ask your customers for their mailing addresses, Internet addresses, or phone numbers. To make them more comfortable, be sure to tell them how this information will be used. Additionally, make an effort to find out how your customers viewed their experience with your business. It may be as simple as asking them while they are paying for their products and/or services. You may want to send them a card asking them for a confidential evaluation.

### **Community-Based Advertising**

You may also find it beneficial to contact local business groups or member organizations. Many times they will offer their members the chance to promote their businesses through the organization's advertising, mailings, and activities.

You have many options to consider when designing your marketing strategy. In your business plan, be sure to include your plans for communicating, selling, and maintaining relationships with your customers.

### **Management**

As an entrepreneur, your management skills and the team that you assemble to run your business will largely determine the success or failure of your business. Take stock of your life experiences and present situation. Write a statement about yourself that emphasizes the following qualities as they apply to you and your ability to run this business. If you will have a partner(s) in the business, they should do the same.

- Decision-Making Ability
- Leadership Ability
- Desire to shape your own financial future
- Organization skills
- Ability to work independently
- Ability to spend long hours at work
- Business background
- Ability to handle people in good and bad situations
- Education
- Team-building skills

If you will be hiring employees, explain the following:

- When they will be hired.
- What skills and experiences they must have.
- What their job responsibilities will be.
- Who they will answer to.
- Any training you will provide.
- Hours they will work.
- Expected Salary.

Explain your management philosophy for your business. Be sure to discuss your plans for managing the marketing, finances, personnel, and any other relevant issues so that you can create a successful business. If you need further education in any of these areas, outline your plans to get this education. For example, you may take a class, work with a consultant, or perform research.

## **Financial Planning**

A business exists to make money. When it ceases to make money, it ceases to exist. If you are just starting a business or own one already, it is important to know as much as possible about your business's financial situation and your own personal financial situation. For most small businesses, a lender or investor will need to know just as much about your personal financial situation as your business financial situation.

## **Personal Financial Situation**

### **Assets**

Make a list of the assets you own, their value, how easily you can access that money. For example, you may have an IRA account, but you may not be able to use the money in it without paying penalties. You may have equity in your home, but you would either have to sell your house or borrow against it to use that money. The following is a list of assets you might include:

- Checking Accounts
- Savings Accounts
- Mutual Funds
- Stock Accounts
- Home Equity
- Automobiles
- Other Items of Significant Value

## **Debts**

Make a list of your outstanding debts, the balance of what you owe, and any payments that are due regularly on them.

- Mortgage
- Credit Cards
- Auto Loans
- Student Loans
- Other Loans

## **Net Worth**

Net worth is the difference between your assets and your debts.

## **Monthly Financial Needs**

Make a list of your monthly financial needs. Be honest with yourself. Do not underestimate these expenses. Be sure to include money for unexpected expenses. Your monthly expenses might include the following:

- Mortgage
- Utilities
- Groceries
- Household Supplies
- Automobile Maintenance
- Automobile Fuel
- House, Auto, Medical, and Other Insurance
- Retirement Savings
- Loan Payments
- Clothing
- Child Care
- Education
- Other

<b>Personal Financial Situation</b>		
Date: ___/___/___		
<b>Assets</b>	<b>Value</b>	<b>Ease of Access</b>
Checking		
Savings		
Mutual Funds		
Stock Accounts		
Home Equity		
Automobiles		
Other Items of Significant Value		
<b>Total Assets</b>		
<b>Debt</b>	<b>Balance Due</b>	<b>Monthly Payment</b>
Mortgage		
Credit cards		
Student Loans		
Other Loans		
<b>Total Debt</b>		
<b>Net Worth</b>		

<b>Monthly Financial Needs</b>	
Mortgage	
Utilities	
Groceries	
Household Supplies	
Automobile Fuel and Maintenance	
House, Auto, Medical and Other Insurance	
Retirement Savings	
Loan Payments Clothing	
Child Care	
Education	
Charity	
Other	
<b>Total Monthly Expenses</b>	

## **Business Financial Situation**

### **Start-Up Budget**

You will want to determine a start-up budget. The start-up budget will help you decide which items need to be purchased or renovated in order to open your business. A sample budget is provided below.

The items included in this sample start-up budget are not intended to be all-inclusive. Nor should you feel that you have to have all of these items in your budget. Ultimately, your start-up budget will be determined by the products and/or services you plan to offer your customers and the way you want to present those products and/or services. A business that plans to manufacture products will have a much different budget than a company that plans to sell items through a web page or a storefront.

You should provide an explanation for each of the items in your budget justifying that expense. For example, if you have received a bid from a contractor or supplier, give that information along with the actual budget.

As you determine your start-up budget, you will be able to begin to see how much money, if any, you will need to seek from lenders or investors. Since you have taken a thorough account of your own personal finances, you know how much you can contribute to the business. If the venture requires more than that, you need to think about possible sources for the remaining funds.

The cash you have remaining after you make your necessary start-up expenditures, will become the cash available to your business for operating. An analysis of your cash flow projections will help you determine your cash needs.

<b>Start-Up Budget</b>		
<b>Expenses</b>	<b>Amount</b>	<b>Number of Months Covered</b>
Renovation		
Inventory		
Advertising		
Equipment		
Legal and Professional Advice		
Fees and Permits		
Office Supplies		
Rent or Mortgage		
Utilities		
Insurance		
Taxes		
Salaries		
Other _____		
<b>Total Start-Up Expenses</b>		
<b>Cash Available from Owners</b>		
<b>Cash Available from Loans</b>		
<b>Cash Available from Investors</b>		
<b>Total Available Cash</b>		
<b>Total Cash Available After Start-Up Expenses Paid and Before Business Opens</b>		

## Cash Flow Analysis

Cash flow analysis is a very much like a kitchen sink. You put a certain amount of water into the sink. Water is added through the faucet. Water is removed when the sink drain opens. Cash flow is much the same. You put a certain amount of cash into the business. Cash is added via the revenue from your customers. Cash is removed when business expenses are paid.

The cash you have remaining after your necessary start-up expenditures are made is written in the Beginning Cash Balance for Month 1. To that add the sales revenue you expect to earn that month and any miscellaneous income that you may earn via your business.

How do you determine your expected sales revenue? Predicting the future is difficult, but Break-Even analysis and research can help.

There are two things you need to know to determine your Break-Even point: Total Fixed Costs and Gross Margin Percentage.

Your total fixed costs are those expenses you will have whether or not you make any sales. They usually include items such as rent, telephone, travel, advertising, employees, loan repayment, and

other miscellaneous fixed costs. Add up all of your fixed costs. For example, your fixed costs may be \$4500 per month.

The Gross Margin is the percentage you plan to add to the cost of the items you are selling. For example, you might mark everything up by 30%.

Your Break-Even point is determined by dividing your fixed costs by your Gross Margin.

$$\begin{aligned}\text{Break-Even} &= \text{Total Fixed Costs} / \text{Gross Margin} \\ \$15,000 &= \$4500 / 30\%\end{aligned}$$

Given these fixed costs and this Gross Margin Percentage, you will need to generate \$15,000 in Sales Revenue each month just to cover your fixed costs. Given the market research, is this a reasonable goal to achieve? How many items per month will you have to sell to reach this? Per week? Per day? Does this sound reasonable? Be very cautious when answering these questions. In your business plan, justify your projected sales revenue with break-even analysis and research.

Add your Beginning Cash Balance to your Sales Revenue. This will give you the Total Available Funds for the month.

Next begin dealing with your expenses, or the uses of the Total Available Funds. You have already determined your Total Fixed Costs. Now it is time to determine all other business expenses that you will have. Be careful not to overlook any costs. Include a category for unexpected expenses. Do not forget to include a salary for yourself that will reasonably cover your own monthly financial needs. Only you through an analysis of your business will know where you will be spending money. It is up to you to research what those expenses will be.

Add all of your expenses together. This will be your Total Use of Funds. Subtract it from the Total Available Funds. This will give you the Remaining Funds. Ideally, this will be a positive number. Move onto Month 2. Put this figure in the Beginning Cash Balance column and begin all over again.

Cash flow tends to fluctuate. Some months you will have more cash to work with than others; however, you will have problems if a trend develops where you are using more funds than you have available. To use our analogy above, your kitchen sink will soon be empty. In business, however, it can be worse than that. It may seem easy to use credit to keep the business operating. If that happens, then not only have you depleted your cash resources, but you are now also in debt. To avoid this, be thorough in your cash flow analysis. While you want to be accurate, try to estimate revenues conservatively and overestimate expenses if you are unsure exactly what the costs will be. You should complete a projected Cash Flow analysis for at least the first year of your business. Ideally, you should do a projected Cash Flow Analysis for three years if your research and information can be used to build a reasonable analysis.

Now that you have completed your start-up budget and Projected Cash Flow Analysis, you should have an even better idea of how much money you will need to successfully start and run this business. Look at your Projected Cash Flow Analysis. Does it show positive cash flow

consistently? Does it show negative cash flow consistently? Does it show some positive months with some negative months? Explain in your business plan the trend you see in your Projected Cash Flow Analysis. If it appears to you that your business can eventually produce more cash than it uses, then you may have a viable business. Make sure you have access to enough money to get you through the critical start-up stage and for contingencies should they arise. Do not underestimate the amount of cash you need to start this business. It is better to have too much than not enough. Cash shortfalls can kill an otherwise viable business.





### ***Projected Income Statement***

You will also need to do a projected Income Statement. An income statement is very similar to a cash flow analysis. A sample Income Statement is provided below.

Start off with your projected Sales Revenue. You've already determined this when you were working on your cash flow analysis.

The next step is to subtract the Cost of Goods Sold. This figure represents how much it cost you to provide the products and/or services you sold. For example, if you had \$15,000 in Sales Revenue and your Gross Margin Percentage was 30%, this means that the products you sold cost you \$11,538.46 ( $\$1158.46 \times 1.3 = \$15000$ ). You have \$3461.54 left over to cover the remainder of your expenses. This is your Gross Profit.

From your Gross Profit, subtract your remaining expenses. You have already determined most of these expenses with two main exceptions. Include only your interest payments on any loans you may be repaying instead of the entire loan payment. Also deduct any depreciation that may apply to any equipment that your business uses.

Total these expenses. Subtract them from your Gross Profit. This leaves you with your Net Operating Income. Add any other non-sales income that you may have and subtract any other expenses. This will leave you with your Net Profit or Loss Before Taxes.



## **Operating Budget**

A budget can help you manage the funds of your operation on a regular basis. A sample budget is included.

The budget includes a column for each category of expenses. Each category works much like a checkbook register. You allocate a certain amount of money to the category for the month. When you make expenditure, you note it in the appropriate category and subtract it from the budgeted amount. This gives you the remaining balance you have for that category.

Despite your best efforts, you will not be able to predict your business needs perfectly. Sometimes you will have more expenses in a particular category than you budgeted. If that happens, move money from a category where you have a surplus of funds. If you do not have any categories with surplus funds, you may have to consider using your personal funds. Avoid using credit when possible.

The time frame of your budgets depends on what works best for you. You may want to have a monthly or weekly budget. Another option is creating a seasonal budget or even a yearly budget. You may decide to have a yearly budget that is further broken down into months or weeks. The important criterion is that you stay aware of the revenues and expenses. You must have an accurate idea of how much revenue you will generate and when you will receive it in the form of cash. You must also understand how and when the money from the business is being spent.



## **Projected Balance Sheet**

You will need to include a Projected Balance Sheet in your business plan. A balance sheet is a snapshot of your business's financial health at a given moment. A balance sheet includes your business's assets, liabilities, and Owner Equity. A sample balance sheet is provided below.

### **Assets**

Your business may have a variety of assets including items such as land, building, computers, furniture, cash, and accounts receivable. Before you open your business, take stock of everything your business will own.

### **Liabilities**

Liabilities are the debts of your business. Examples of liabilities include loans that you have taken out and payments that are due. Make a list of all of the debt that your business will have.

### **Owner Equity**

Essentially, Owner Equity is the difference between what you own in your business and what you owe in your business. It consists of Paid-In Capital and Retained earnings. Paid-In Capital is the money that you have put into your business. Retained earnings are the profits that you have not taken out of the business. Together, your Owner Equity and your Liabilities will equal your Assets.

<b>Projected Balance Sheet</b>			
Date: ____ / ____ / ____			
<b>Assets</b>		<b>Liabilities</b>	
<b>Current Assets</b>		<b>Current Liabilities</b>	
Cash		Notes Payable	
Accounts Receivable		Accounts Payable	
Inventory		Accrued Expenses	
Supplies		Company Credit Cards	
Prepaid Expenses		<b>Total Current Liabilities</b>	
Other Current Assets			
<b>Total Current Assets</b>		<b>Long-Term Liabilities</b>	
		Long-Term Debt	
<b>Property and Equipment</b>		Other Long-Term Debt	
Land		<b>Total Long-Term Liabilities</b>	
Buildings		<b>Total Liabilities</b>	
Equipment			
Computers and Software			
Motor Vehicles		<b>Owner's Equity</b>	
Other Property and Equipment		Paid-In Capital	
<b>Total Property and Equipment</b>		Retained Earnings	
Total Assets		<b>Total Owner's Equity</b>	
<b>Total Assets</b>		<b>Total Liabilities and Net Worth</b>	

## Accounting

You must also put together your plan for keeping your books and maintaining your accounting system. Include the following explanations.

- Who will keep your books
- Who will handle revenue
- Who will pay bills
- The accounting method you plan to use (cash or accrual)
- How often you plan to analyze the financial situation of your business
- How often audits will be performed and who will perform them
- The assistance you will seek from an accountant

Be aware that once you choose an accounting method, the Internal Revenue Service requires that you use the same method from year to year. If you want to change your accounting method, you must require written permission from the Internal Revenue Service.

Managing and understanding the financial aspect of your business is one of the most important responsibilities you will have. It is the lifeblood of your business. When you run out of money, you will be out of business. If there is anything you do not understand or need assistance, do not hesitate to contact a professional, take a class, or use one of the appropriate resources provided at the end of this guide.

## **Liability Issues**

Liability is an issue because you will want to protect your personal assets and the business assets. Your business structure, insurance, and risk management plan are essential components to this issue. Before entering into a business venture, you are strongly advised to contact an accountant and an attorney to learn the best way to handle these issues in your situation. At the very least, read the literature on these topics very carefully. The following discussion of business structure, disclaimers, and insurance is for informational purposes.

## **Business Structure**

Depending on the type of business you have and who will be involved in it, you have options for organizing it. Each has certain advantages and disadvantages depending on your particular circumstances. Talk to your accountant or attorney about what may be the best choice for you and your business.

### **Sole Proprietorship**

Sole proprietorships are owned and operated by one person. They are easy to establish. However, a sole proprietor has unlimited liability. Therefore, all of your assets are at risk should you be held liable in a situation.

The governmental requirements and taxation for sole proprietorships tend to be rather few. However, there may be limited access to capital. The business relies on the perspective of the sole owner when decisions need to be made.

### **Partnership**

Partnerships are owned by at least two people. They are also relatively easy to establish. However, at least one partner has unlimited liability. Additionally, the business is exposed because the business is bound by the acts of any of the partners. There is considerable exposure to risk with this option as well.

Partnerships may bring greater access to capital. It may also be beneficial to have an additional opinion when making decisions and others to share the workload.

### **Corporations**

In the eyes of the law, the corporation is its own legal entity. You will pay personal income tax on the salary that you draw from the corporation as well as corporate income tax on the corporation's earnings. Corporations must have a charter that is approved by the Secretary of State. It is separate from its owners, the stockholders. As such, as long as the stockholders comply with the laws that maintain the corporation as its own legal entity, the stockholders can

only be held liable for the amount of money they have invested in the corporation. As a small corporation, lenders may still require your personal guarantee on any loans. As such, you would still be liable for those debts. Contact the Secretary of State for Nevada at 702-486-2440 or 775-684-5708.

There is a special type of corporation known as the Subchapter S Corporation. Generally, it has the liability protection of the standard corporation, but it avoids the corporate income tax. The rules governing Subchapter S Corporations allow shareholder income to be taxed as if the corporation were a partnership or sole proprietorship.

### **Limited Liability Companies**

Limited Liability Companies also offer asset protection similar to that of a corporation; however, they have fewer restrictions. Regarding regulations, it can be easier to establish and manage. If you are interested in this option, contact your attorney.

### **Insurance**

Insurance is another means of protecting yourself from liability. Buying insurance transfers the risk of liability to a third party, an insurance company. Contact an insurance agent for specific information on policies. Before committing to any particular policy, ask these and any other questions you may have. Make sure you understand the answers.

- What is covered? What is not covered?
- Who will be covered? Who will not be covered?
- What locations will be covered? What locations will not be covered?
- What levels of coverage are available?
- What are the deductibles?
- Are these coverages essential? Have all essential coverages been obtained?
- Does the insurance company provide information on reducing risk exposure?
- Does the insurance company offer reduced premiums if a risk management plan is formulated and followed?

### **Risk Management Plans**

Talk to your insurer to see if they provide training in risk management or could recommend someone who does. Finally, ask them if they will provide you with a discount for having a risk management plan in place. You may also want to talk to an attorney or accountant to make sure that you have everything covered or if there is anything you may have overlooked for your particular business.

## **Regulatory Issues**

### **Employee Taxes and Regulations**

#### **Employer Identification Number**

Partnerships, corporations, and most sole proprietorships must obtain an Employer Identification Number (EIN). The EIN is used in payroll and income tax reporting. An EIN is obtained through the Internal Revenue Service (IRS) using Form SS-4. Even if you already have an EIN, you may need to get a new one if the organization or ownership of your business changes. Ask your accountant or attorney.

To obtain your first EIN, call the IRS at 801-620-7645. If this is not your first EIN, contact the IRS at 800-829-1040. If you have access to the Internet, you can use the IRS website at [www.irs.ustreas.gov](http://www.irs.ustreas.gov). Forms can be obtained at this site.

Once you have your EIN, you will be able to withhold payroll taxes. When you contact the IRS for your EIN, be sure to ask them for instructions so that you can pay these taxes including Social Security, Medicare, and Federal Unemployment.

#### **Employers Insurance Company**

The State of Nevada requires any business with employees to provide workmen's compensation insurance. This coverage can be obtained through the Employers Insurance Company of Nevada. Call their office in Carson City at 775-886-1000 for more information. Other companies can offer this type of insurance as well. Shop for the best rates and coverages for your business.

#### **Employment Security**

Employers in Nevada are also required to pay unemployment insurance. Contact Employment Security at 775-687-4540 for an account number and more information. For the year 2000, the rate is 3% of the employee's first \$19,600 in wages.

#### **Licenses and Permits**

##### **Nevada Business License**

A state business license should be obtained from the Nevada Department of Taxation.

Corporations and partnerships are required to pay a quarterly tax based on the number of employees or partners (one partner will be excluded for the purposes of taxation). Contact your local office of the Nevada Department of Taxation or the office in Carson City at 775-687-4820 for more information.

## **Nevada Tax Permit**

If you plan to sell tangible personal property, you will be required to collect and remit sales tax to the Nevada Department of Taxation. You will need to obtain a permit to do this. If you do not plan to sell tangible personal property, you will need to obtain an exemption. Contact your local office of the Nevada Department of Taxation or the office in Carson City at 775-687-4892.

## **Local Business License**

Business licenses are required in most cities and counties in Nevada. Contact your local County or City Clerk for more information.

## **Fictitious Name Certificate**

This certificate is required for all people doing business using a name different than their own. Contact your local County Clerk for more information. The fee for a fictitious name certificate is generally \$15.

## **Additional Regulatory Requirements**

Be aware that you may also need to comply with regulations regarding building and safety, planning, the fire department, and the local health department. Inquire locally about these requirements. Depending on the type of business you will be opening, there may be additional regulatory requirements such as for handling food, transporting people and disposing of waste. You may also need to learn if trademark and copyright laws will apply to the work you do. Research the regulatory requirements specific to your particular business. The offices listed as resources below may be able to help you determine the additional regulatory requirements you may have. Include a summary of the results this research in your business plan.

## **Resources**

Now that you have come this far, you should know if you think you have a viable business. If you still have questions or need further assistance, consider using the following resources.

### ***Resources***

#### University of Nevada Agriculture Extension Office

#### Nevada Small Business Development Center

State Office

University of Nevada Reno

College of Business Administration 032

Reno, NV 89557-0100

775-784-1717

Business Environmental Program

Sierra Pacific Power Company

6100 Neil Road, Suite 400

Reno, NV 89502

775-689-6688

Statewide Offices

Las Vegas Chamber of Commerce

3720 Howard Hughes Parkway, Suite 130

Las Vegas, NV 89109

702-734-7575

University of Nevada Las Vegas

College of Business and Economics

Box 456011

Las Vegas, NV 89154-6011

North Las Vegas Office

19 West Brooks Avenue

North Las Vegas, NV 89030

702-399-6300

Carson City Chamber of Commerce

1900 S Carson Street

Carson City, NV 89702

775-882-1565

Tri-County Development Authority  
PO Box 820  
Winnemucca, NV 89446  
775-623-1064

Great Basin College  
1500 College parkway  
Elko, NV 89801  
775-753-2245

Churchill County Economic Development Authority  
448 West Williams Street  
Fallon, NV 89406  
775-23-8587

Carson Valley Chamber of Commerce and Visitors Authority  
1512 Highway 395, Suite 1  
Gardnerville, NV 89410  
775-782-8144

### ***Recommended Readings***

There are several books and magazines you can read if you are interested in writing a business plan and starting a business. Examples include the following:

Business Plans for Dummies by Peterson and Tiffany  
The Complete Book of Business Plans by Covello and Hazelgren  
Anatomy of a Business Plan by Pinson and Jinnett

### ***Internet Information***

If you have access to the Internet, you may want to visit the following websites and their links for more information.

US Small Business Administration [www.sba.gov](http://www.sba.gov)  
US Census Bureau [www.census.gov](http://www.census.gov)  
US Copyright Office <http://lcweb.loc.gov/copyright>  
US Patent and Trademark Office: [www.uspto.gov](http://www.uspto.gov)  
Social Security Administration: [www.ssa.gov](http://www.ssa.gov)  
Internal Revenue Service: [www.irs.ustreas.gov](http://www.irs.ustreas.gov)  
Nevada Cooperative Extension: [www.nce.unr.edu](http://www.nce.unr.edu)  
Nevada Small Business Development Center: [www.nsbdc.org](http://www.nsbdc.org)  
State of Nevada: [www.state.nv.us](http://www.state.nv.us)  
Entrepreneur Magazine [www.entrepreneurmag.com](http://www.entrepreneurmag.com)  
American Express [www.americanexpress.com](http://www.americanexpress.com)