



# St. Bernard

ECONOMIC DEVELOPMENT FOUNDATION

## ***BUSINESS START-UP KIT***

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St. Bernard Economic Development Foundation

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## Section 1: Thinking of Starting a Business

Owning your own business can be a very rewarding way to earn a living, but entrepreneurship simply isn't for everyone. The process of starting a business from the ground up is full of challenges, and to be successful, any aspiring entrepreneur must possess certain skills and traits.

Ask yourself if you have what it takes. According to the U.S. Small Business Administration, entrepreneurs should be:

- **Comfortable with risk taking.** Entrepreneurship will involve uncertainty. Do you enjoy the thrill of a calculated risk?
- **Persuasive.** Even the best business ideas require some persuasion to get customers and investors on board.
- **Able to negotiate.** As a small business owner, you will need to negotiate everything from leases to contract terms.
- **Creative.** Entrepreneurs must be able to think creatively to get an edge on their competition.
- **Supported by others.** You will be forced to make many important decisions, especially in the first few months. If you do not have a support network of people, you should consider finding a business mentor.

### Questions to Ask Yourself

1. Why am I starting a business?
2. What kind of business do I want?
3. Who is my ideal customer?
4. What products or services will my business provide?
5. Am I prepared to spend the time and money needed to get my business started?
6. What differentiates my business idea and the products or services I will provide from others in the market?
7. Where will my business be located?
8. How many employees will I need?
9. What types of suppliers do I need?
10. How much money do I need to get started?
11. Will I need to get a loan?
12. How long will it take before my products or services are available?
13. How long do I have until I start making a profit?
14. Who is my competition?
15. How will I price my product compared to the competition?
16. How will I set up the legal structure of my business?
17. What taxes do I need to pay?
18. What kind of insurance do I need?
19. How will I manage my business?
20. How will I advertise my business?

## Visit SBA.gov

The information on the previous page comes from the US Small Business Administration. At [www.sba.gov](http://www.sba.gov), you'll find more articles that can help you answer these questions, gain information on loans and grants that might be available to you, obtain guidelines for writing your business plan, and much more. The SBA is an excellent place to start your small business research.

## Contact Your Regional LSBDC

After familiarizing yourself with the information available to you through the US Small Business Administration, you should contact the Louisiana Small Business Development Center (LSBDC). The LSBDC network is comprised of 10 regional Offices, all of which provide free consulting, training, and information resources to Louisiana entrepreneurs and small business owners.

First time entrepreneurs should attend a Starting and Financing a Small Business Workshop. This workshop will help you with everything from how to determine the feasibility and legal structure of your business to the types of licenses you will need. Visit [www.lsbdc.org](http://www.lsbdc.org) or the workshop schedule.

After attending the workshop, you can submit an electronic Request for Consulting form. The LSBDC Office that services your area will contact you to set up a consultation. In the meantime, use what you've learned from the workshop to prepare for your consultation by further developing your business concept.



### SBA Louisiana District Office

365 Canal St, Ste 2820  
Division of Business,  
New Orleans, LA 70130  
(504) 589-6685  
[answerdesk@sba.gov](mailto:answerdesk@sba.gov)  
[www.sba.gov](http://www.sba.gov)

### LSBDC Greater New Orleans Region

Xavier University of Louisiana,  
Xavier South—Room 203 909 S Jefferson Davis Hwy  
New Orleans, LA 70125  
(504) 831-3730 Or visit them online at: [www.lsbdc.org](http://www.lsbdc.org)

## Selecting a Business Structure

Before starting your business, you will need to decide on how you want to legally structure it. Your options for business structure will most likely include Sole Proprietorship, Partnership, Corporation, and Limited Liability Company (see definitions below). Each structure has its own advantages and disadvantages, and you should base your decision on the specific needs, resources, and objectives of your business:

- **Sole Proprietorship:** An unincorporated business owned by an individual. Legally, a sole proprietorship does not exist apart from the owner. This means that if you choose this structure, your business assets and liabilities will also be your personal assets and liabilities, and vice versa.
- **Partnership:** An unincorporated business is structures much like a sole proprietorship, except with two or more owners. Each owner contributes resources to the business, assumes its liabilities, and in return, has a share of its profits or losses.
- **Limited Liability Company (LLC):** An unincorporated association of one or more owners, called members. Unlike a sole proprietorship or partnership, members are not personally liable for the debts of an LLC. All LLCs must register with the State.
- **Corporation:** A business that is treated as its own legal entity. It is separate and distinct from its owners, or shareholders. Incorporating a business allows shareholders to pool resources and also protect themselves from liability.

Each of these structures has its own tax requirements and legal implications. Therefore, it is a very good idea to consult with a tax professional and an attorney before making a decision. They can help you file the appropriate tax documents for each structure and make sure you are properly protected legally.

For more information, visit the Internal Revenue Service's webpage on Business Structures. Here you will also find information on the necessary tax forms you will need to submit once you have decided on a structure for your business.

**Internal Revenue Service**

1555 Poydras St  
New Orleans, LA 70112  
(504) 558-3344  
[www.irs.gov](http://www.irs.gov)

## The Role of SBEDF

The St. Bernard Economic Development Foundation (SBEDF) is another great resource for entrepreneurs in St. Bernard Parish. SBEDF is an independent, yet complementary arm of the St. Bernard Parish government with the main objective of attracting, growing, and creating new business in the parish.

### BUSINESS FINANCING

Resident businesses and companies in St. Bernard Parish are eligible for loan programs that are designed to meet many financing requirements, including real estate, working capital and equipment. Many of these loan programs are tailored for new businesses and SBEDF can help you understand what financing options might be available for your start-up.

### ECONOMIC DEVELOPMENT SERVICES

SBEDF has access to several databases and subscription services that can help inform new business owners. SBEDF can provide you with detailed, up-to-date, computerized lists of St. Bernard Parish businesses, demographic data, and traffic counts, as well as commercial and industrial real estate listings. This information is helpful for any start-up businesses researching the market, writing a business plan, or looking for a location.

### INCENTIVE INFORMATION

In order to attract and retain businesses, the State of Louisiana offers many programs including tax credits for job creation, tax exemption for manufacturers, rebates of new payroll for qualifying companies, or inventory tax credits for wholesalers and distributors. These incentive programs can provide significant savings for qualifying companies in St. Bernard Parish and SBEDF can help you understand which might be applicable to your new business.



**St. Bernard Economic Development Foundation (SBEDF)**

100 Port Blvd, Ste 210  
Chalmette, LA 70043  
(504) 277-4009  
[contact@sbedf.org](mailto:contact@sbedf.org)  
[www.sbedf.org](http://www.sbedf.org)

## Section 2: Writing Your Business Plan

If you're a first-time entrepreneur, chances are you might not have enough capital to start a business on your own. This might mean you'll need financial help from lenders or investors to help get things off the ground. A business plan is the best way to convince potential backers that you've thought things through. This will help increase your chances of securing the necessary funding.

Even if you have enough capital to get started on your own, it is still a very good idea to write a business plan. This living document projects three to five years ahead and is an essential roadmap for success. The process of writing down your plans in detail will help you find hidden business flaws and outline the route your company intends to take to grow revenues.

### What Goes in My Business Plan?

Most business plans can be broken up into sections like the ones listed below, provided by the US Small Business Administration. The order of the sections and their titles might vary slightly, but this list will give you an idea of the general format.



#### **Executive Summary**

One to two pages briefly explaining your business and what is included in the rest of the business plan. Highlight the most important parts of you plan because it is your first opportunity to grab a potential investor's attention.



#### **Business Description**

A high-level review of your business. Describe the nature of your business, your products or services and your customers. Explain how your product meets the needs of your customers and any competitive advantages you may have



#### **Market Analysis**

Your chance to show investors that you have researched the market. Illustrate your knowledge of your competition (if any) and potential customer base.



#### **Organization and Management**

An outline of your business' organization structure. Include an organizational chart, details about ownership of the company, and profiles of your management team.

**Service or Product Line**

A description of the products or services you will offer your customers. Emphasize the benefits of your product and the customer need it meets.

**Marketing and Sales**

A strategy for selling your products and services. Explain how you will advertise your products, as well as your distribution and sales strategy.

**Funding Request**

Your chance to ask for capital to start your business. Include your funding requirement, how you intend to use the funds, and your plans for the future, i.e., do you plan to sell your business in 10 years?

**Financial Projection**

Include all necessary financial documents in this section, i.e., your balance sheet, income statement, cash flow statement, etc.

**Appendix**

An optional section where you can include any additional information you think is necessary or supplemental.

## Making an Impression

To help your business stand out from the crowd and give you an advantage over your competitors, you'll need a business plan that is presentable and memorable. The US Small Business Administration provides the following ways to do just that:

- **Be specific when describing the products or services your business will offer and why they are unique.** For example, if you're starting a casual restaurant, describe your specific ambience, convenience, and selection/variety for customers.
- **Identify and explain your niche.** Small businesses often find it's more cost effective to specialize products or services into manageable market niches. Describe how your business will do one thing and do it well, not how you will be all things to all customers.
- **Elaborate on that niche.** Identify the needs of the market that your competitors are already serving, the needs of the market that aren't being met, and then explain how you will fill that gap.
- **Make sure there are no misspellings, typos, or errors in your presentation.** Have someone else read your business plan to be sure.



- **Make sure your business plan is neat and organized.** Write it using a word processing program and use a spreadsheet program for any graphs, tables, or charts.
- **Make many copies of your business plan.** Potential lenders and investors typically like to keep their own copy even if they decide not to contribute to your business.
- **Organize your plan for presentation.** Put each copy of your plan in a three-ring binder with tabs and indexes.

## Business Plan Resources

A simple google search can produce thousands of articles on how to write business plans. There's also no shortage of business plan templates and samples online. Some are free and others aren't, and while many of these resources can be helpful, not all are from the most reliable sources. You should absolutely do your own additional research on business plans, but before you pay for any services, utilize the free, government resources that are available to you.

So far, most of the information in this start-up kit came from the US Small Business Administration and the Louisiana Small Business Development Center. If you'd like more in-depth information and step by step guidance, check out their resources below:

### SECTION-BY-SECTION BREAKDOWN OF THE BUSINESS PLAN FORMAT

Here you'll find the process broken down into helpful articles, one for each section of your business plan. While you're there, to some exploring on the site. You'll find great information on loans, grants, and other federal government resources: [www.sba.gov/writing-business-plan](http://www.sba.gov/writing-business-plan)

### STEP-BY-STEP BUSINESS PLAN WORKBOOK

The Louisiana Small Business Development Center has created a step-by-step business plan workbook that walks you through the entire business planning process by providing instructions and templates. For your convenience, a copy of this workbook is included in the Appendix of this kit. It's also free to download at this link: [www.lsbdc.org/b\\_business\\_plans.php](http://www.lsbdc.org/b_business_plans.php)

### MARKET DATA FOR ST. BERNARD PARISH

SBEDF can help you write the Market Analysis section of your business plan by providing data on St. Bernard Parish. SBEDF has access to business listings, traffic counts, and demographic data for St. Bernard Parish that can help you impress your potential partners by showing them you've done your homework. The best part, these services are completely free: [www.sbedf.org](http://www.sbedf.org)

## Minority and Women Owned Business Certifications and Resources



### **Go. Be.**

Hermione Malone – Executive Director  
2028 Oretha Castle Haley Blvd. New Orleans, LA 70113  
[hermione@gobe.org](mailto:hermione@gobe.org)  
(504) 309-2973, (504) 309-2090  
[www.gobe.org](http://www.gobe.org)



### **El Centro NOLA**

Lindsey Navarro – Executive Director  
4334 Earhart Blvd Ste 700 New Orleans, LA 70125  
[info@elcentrola.org](mailto:info@elcentrola.org)  
(504) 503-1040  
[www.elcentrola.org](http://www.elcentrola.org)



### **U.S Small Business Administration**

Jo Ann Lawrence – Deputy District Director  
365 Canal St., Ste 2820 New Orleans, LA 70130  
[Jo.Lawrence3@sba.gov](mailto:Jo.Lawrence3@sba.gov)  
(504) 589-2879, (504) 256-5293  
[www.sba.gov/la](http://www.sba.gov/la)



### **Southern Region Minority Supplier Development Council**

Alvin O'Williams – President  
400 Poydras St., Ste 1960 New Orleans, LA 70130  
[awilliams@srmsdc.org](mailto:awilliams@srmsdc.org)  
(504) 293-0400, (504) 293-0407  
[www.srmsdc.org](http://www.srmsdc.org)



### **Women's Business Enterprise Council South**

Phala K. Mire – President  
401 St. Joseph St., Ste 2A New Orleans, LA 70130  
[pkmire@wbecsouth.org](mailto:pkmire@wbecsouth.org)  
(504) 830-0149, (504) 615-4901  
[www.wbecsouth.org](http://www.wbecsouth.org)

## Section 3: Starting a Business in St. Bernard Parish

### Step 1: Register Your Business with the Secretary of State

If you plan to structure your new business as a partnership, LLC or corporation (see [Selecting a Business Structure](#)), you'll begin the registration process with the Louisiana Secretary of State. You can contact the Secretary's Office by phone or mail, but the easiest way to register your business is through their convenient online GeauxBIZ portal at [geauxbiz.com](http://geauxbiz.com) (see below).

Note: If you plan to structure your new business as a sole proprietorship, you are not required to register it with the Secretary of State (but it is still a good idea to do so any way!). You will, however, be required to register your business' Trade Name with St. Bernard Parish (see [Step 3: Register the Trade Name of Your Business Locally](#)).

If you choose not to register your sole proprietorship with the Secretary of State, you can skip ahead to [Step 2: Obtain a Zoning Compliance Letter](#).

#### GEAUXBIZ.COM

GeauxBIZ was designed to be the starting point for all new Louisiana businesses. From your computer, you will be able to:

- **Download a Custom Business License Checklist:** Just enter specific information about the type of business you are starting and its location, and GeauxBIZ will create a custom list of the business licenses and permits you will need to operate legally.
- **Reserve a Name for Your New Business:** You can also register the official name of your business with the state through GeauxBIZ. Keep in mind this is where you register your business name on the state level. You will need to register with the St. Bernard Parish Clerk of Court as well (see [Step 3: Register the Trade Name of Your Business Locally](#)).
- **Register Your Business with Other Required State Agencies:** GeauxBIZ also allows you to register your business with the Louisiana Workforce Commission and the Louisiana Department of Revenue. This will be helpful when it is time for you to hire employees and pay state taxes (see [Section 4: Tax Obligations](#)).



#### Louisiana Secretary of State

8585 Archives Ave  
Baton Rouge, LA 70809  
(225) 925-4704  
[www.sos.la.gov](http://www.sos.la.gov)

## Step 2: Obtain a Zoning Compliance Letter

Next, you must verify with the St. Bernard Parish Government Department of Community Development that the physical location of your new business is properly zoned for your particular business type. Although you can obtain a Zoning Compliance Letter through mail correspondence, the quicker and easier way to do this is to physically visit one of their offices and fill out the paperwork in person. There is no fee to obtain the compliance letter.



### **St. Bernard Parish Community Development**

8201 W Judge Perez Dr  
Chalmette, LA 70043  
(504) 278-4310

<https://www.sbpq.net/151/Community-Development>

Note: If you have registered your business name with the Secretary of State's Office (see Step 1: Register Your Business with the Secretary of State), you are not required to complete Step 3—but it is still a good idea to do so anyway! If you choose not to register your Trade Name with the parish, you can proceed directly to Step 4. Step 3 is only required for sole proprietorships who have elected not to register with the Secretary of State.

## Step 3: Register the Trade Name of Your Business Locally

To register your business locally, you must sign an affidavit verifying the trade name of your new business and get it notarized. Then, submit the affidavit to the St. Bernard Parish Clerk of Court. For your convenience, a **Trade Name Affidavit** is included in the Appendix of this kit. Be advised that there may be a processing fee for Trade Name Affidavits.



### **St. Bernard Parish Clerk of Court**

1101 W. St. Bernard Hwy  
Chalmette, LA 70043  
(504) 271-3434

[www.stbclerk.com](http://www.stbclerk.com)

Mailing Address  
PO Box 1746  
Chalmette, LA 70044

## Step 4: Submit an Application to the St. Bernard Parish Sheriff's Office

Lastly, you must complete and submit a **General Registration Application** to the St. Bernard Parish Sheriff's Office. For your convenience a copy of this application is included in the Appendix of this kit. Be advised that there is a processing fee for Occupational Licenses. Be sure to bring your Zoning Compliance Letter (see Step 2: Obtain a Zoning Compliance Letter) when you apply for you license.



### St. Bernard Parish Sheriff's Office

2 Courthouse Square  
Chalmette, LA 70043  
(504) 278-7608  
[www.sbsso.org](http://www.sbsso.org)

## Step 5: Obtain the Proper Permits

Next, you will need to make sure you have all of the necessary permits and licenses for your business. You can download a Business License Checklist from the Louisiana Secretary of State's Office (see Business Plan Resources) to be more certain you've covered all of your bases.

### ALCOHOLIC BEVERAGE PERMITS

Any business planning to dispense alcoholic beverages will need to obtain an alcoholic beverage permit. Contact the St. Bernard Parish Sheriff's Office for more information, application instructions, and schedule of fees.

Be aware that the application for a Louisiana State Alcoholic Beverage Permit should be filed within 24 hours of filing a local permit. For additional information, contact Louisiana Alcohol and Tobacco Control:



### St. Bernard Parish Sheriff's Office

2 Courthouse Square  
Chalmette, LA 70043  
(504) 278-7608  
[www.sbsso.org](http://www.sbsso.org)

### Louisiana Alcohol and Tobacco Control

8585 Archives Ave, Ste 305  
Baton Rouge, LA 70803  
(225) 925-4041

### OTHER LOCAL PERMITS

The St. Bernard Parish Sheriff's Office also issues permits for Peddlers and Solicitors, Sales from Temporary Stands or Vehicles, and Special Events and Festivals. Contact the St. Bernard Parish Sheriff's Office if you think any of these apply to your business. Fees may be required.

## Section 4: Tax Obligations

### Local Taxes

The St. Bernard Parish Sheriff's Office is responsible for collecting these taxes. When registering with the parish, make sure you understand which will apply to your business. Contact the Sheriff's office directly with any questions.

#### OCCUPATIONAL LICENSE TAX

Each person pursuing any trade, profession, vocation, calling, or business (except manufacturers) within St. Bernard Parish is required to file and pay the occupation license tax. The tax, based upon your business classification and gross receipts or commission, has a minimum of \$50 per business location. Occupational License Tax renewals are due January 1 of each year.

#### CHAIN STORE TAX

A chain store tax is imposed on retail businesses having multiple location under the same general management, supervision, ownership, or control and who are commonly recognized as a member of a chain or as a branch store. This tax, based on the number of stores nationwide, is imposed on each store within this jurisdiction.

#### INSURANCE PREMIUM TAX

An annual license tax is imposed on those engages in the business of issuing life, accident or health insurance policies or other forms of contracts or obligations covering such risk. This license tax is based on the gross amount of annual premium on all such risks located in St. Bernard Parish. Insurance Premium Tax renewals are due January 1 of each year.

#### HOTEL OCCUPANCY TAX

In addition to the sales tax levied on the furnishing of rooms by hotels, motels, and tourist camps, an occupancy tax is imposed on the paid occupancy of hotel/motel rooms located in St. Bernard Parish. A separate tax return is used to report these sales.

#### SALES/USE TAX

The Parish of St. Bernard, the St. Bernard Parish School Board, and other political taxing subdivisions of St. Bernard Parish levy local sales/use taxes. Sales/use tax rates are uniform throughout the Parish and are in addition to the sales/use tax imposed by the State of Louisiana. Sales/use taxes must be remitted by businesses on or before the 20<sup>th</sup> day following the close of each reporting period.

Transactions subject to sales/use tax include:

- The retail sale, use consumption, distribution or storage for use or consumption of any tangible personal property.
- The lease or rental of any item or article of tangible personal property.
- The furnishing of rooms by hotels, motels, and tourist camps.
- The sale of certain services, including, but not limited to, sales or admission to places of amusement, athletic or recreational facilities, the furnishing or printing or overprinting, storage or parking privileges, cold storage space, laundry cleaning, pressing and dyeing services, and repairs to tangible personal property.

## LOCAL TAX RATES

The schedule below summarizes the rates for the local taxes listed above. If you have any further questions, be sure to contact the St. Bernard Parish Sheriff's Office directly.

4.75%	General
3.75%	Hotel/Motel Room Rentals
3.50%	Food/Drug Items
3.00%	Occupancy Tax



### St. Bernard Parish Sheriff's Office

2 Courthouse Square  
 Chalmette, LA 70043  
 (504) 278-7608  
[www.sbsso.org](http://www.sbsso.org)

## State Taxes

Businesses in St. Bernard Parish may also be responsible for paying certain taxes to the State of Louisiana, mainly state sales and use taxes. The Louisiana Department of Revenue is responsible for collecting state taxes.

The process of signing up for a state sales tax ID has been streamlined by the GeauxBIZ portal. When you are registering your business with the Secretary of State through GeauxBIZ, the portal will also guide you through the process of registering with the Louisiana Department of Revenue. For information on the

state sales tax as well as other taxes you may be responsible for, contact the Louisiana Department of Revenue Directly.

**Louisiana Department of Revenue**

617 N 3rd St  
Baton Rouge, LA 70802  
(855) 307-3893  
[www.rev.state.la.us](http://www.rev.state.la.us)

## Federal Taxes

In addition to registering with the Louisiana Department of Revenue, you might also need to apply for an Employer Identification Number (EIN) with the federal government when you start your business. The Internal Revenue Service (IRS) is responsible for issuing EINs and collecting federal taxes.

Typically, businesses with employees with need an EIN. If you don't plan on hiring anyone for a while, you may be able to use your social security number for federal tax purposes. However, there are other instances where a business without employees with need to register for an EIN. Contact a tax professional or attorney to ensure you are following all federal and state tax regulations.

**Internal Revenue Service**

1555 Poydras St  
New Orleans, LA 70112  
(504) 558-3344

Or visit them online to see if you will need an EIN:

<https://www.irs.gov/businesses/small-businesses-self-employed/do-you-need-an-ein>



## Section 5: Other Considerations

### Trademarks & Patents

It is crucial to protect any creative works or ideas original to your business. These creations are called intellectual property, and they include things such as inventions, symbols or logos, and artwork. The US Patent and Trademark Office offers the following ways to make sure others can't steal and profit from your intellectual property:

#### TRADEMARKS

Trademarks protect words, names, symbols, sounds, or colors that distinguish goods and services from those manufactured or sold by others and indicate the source of the goods. Trademarks, unlike patents, can be renewed forever if they are being used in commerce. Trademarks must be registered with the US Patent and Trademark Office.

#### PATENTS

Patents grant inventors the right to exclude others from making, using, offering for sale, or selling their invention throughout the United States or importing the invention into the United States for a limited time in exchange for public disclosure of the invention when the patent is granted. Patents are granted by the US Patent and Trademark Office.



#### **US Patent and Trademark Office**

(800) 786-9199

[www.uspto.gov](http://www.uspto.gov)

### Copyrights

Copyrights protect works of authorship, such as writings, music, and works of art that have been tangibly expressed. The Library of Congress registers copyrights which last for the life of the author plus 70 years.



#### **The Library of Congress**

US Copyright Office

(877) 476-0778

[www.copyright.gov](http://www.copyright.gov)

## Insurance Needs

### IMPROVE YOUR UNDERSTANDING OF INSURANCE

The Insurance Information Institute is a valuable resource for anyone purchasing business insurance for the first time. Here you'll find articles, explanations, and other publications on the various insurance policies and resources available to you.

Starting a business requires a significant investment, so you'll want to make sure that you're protected. Insurance minimizes your financial risks by covering your business during unforeseen events, such as natural disasters, employee injuries, or accidents on business property. Insurance companies can compile packages of different types of insurance specific to your business' needs.

In order to make sure that you are properly covered, speak to an insurance agent and make sure you have the policies that are most suited for your needs. State governments determine the insurance requirements for businesses, so if you're going to operate a business in Louisiana, you should be familiar with the following options:

- **Workers Compensation and Unemployment Insurance:** If your business has employees, these types of insurances are required by law. These policies pay for employee medical expenses and a portion of their lost income in the event of an injury. In addition, workers compensation insurance also protects employers from lawsuits due to employee injuries.
- **General Liability Insurance:** These policies protect against payments your business might have to make due to bodily injury, property damage, medical expenses, libel, slander, and legal costs. There are other, more specific forms of liability insurance, such as product liability for manufacturers and professional liability for businesses providing professional services. Check with your agent to make sure you are properly protected.
- **Property Insurance:** You will most likely want to get property insurance coverage if you own the building where your business operates. However, property insurance can also cover lost income, business interruption, buildings, computers, etc. These policies cover losses and damages to your property due to events such as natural disaster, fires, burglary, and vandalism.



**Insurance Information Institute**

[www.iii.org](http://www.iii.org)

## Mentorship

Sometimes the easiest way to do something you've never done before is to find someone who has and ask him or her your questions. It's no different when it comes to starting your own business! If you have a friend, family member, or coworker who has started their own business, ask that person if he or she would like to mentor you. Chances are they had many of the questions you have now and were able to work through them. Mentors are an excellent source of advice and experience.

If you don't know anyone who has started their own business, don't fret. SCORE is an organization that helps new businesses find mentors. They are a nonprofit association dedicated to helping small businesses get off the ground, grow, and achieve their goals through education and mentorship. They can provide you with:

- **Mentors:** Volunteers whose combined expertise spans across 62 industries. SCORE offers free, confidential business mentoring in person or via email.
- **Tools:** Free online business templates and tips.
- **Workshops:** Inexpensive or free local workshops or online webinar

SCORE has been helping small businesses for over fifty years. Because their work is supported by the U.S. Small Business Administration – and thanks to a network of 11,000+ volunteers at 320 chapters nationwide – they are able to deliver services at no charge or at very low cost. If you are interested in any of SCORE's services, research them online and reach out to their location in New Orleans.



### **SCORE New Orleans**

365 Canal St, Ste 2820  
New Orleans, LA 70130  
(504) 589-2356

[www.neworleans.score.org](http://www.neworleans.score.org)

## Appendix

The remaining pages of this kit contain supplemental information and some of the necessary forms you will need to start a business in St. Bernard Parish. This Appendix Includes:

### Step-By-Step Business Plan Workbook

Referenced in Business Plan Resources on page 7 of this kit

Also available online at: [www.lsbdc.org/b\\_business\\_plans.php](http://www.lsbdc.org/b_business_plans.php)

### Trade Name Affidavit

Referenced in Starting a Business in St. Bernard Parish (Cont'd) on page 12 of this kit

Also available online at: <http://stbclerk.com/wp-content/uploads/2012/10/TradeNameAffidavit.pdf>

### Occupational License Application

Reference in Starting a Business in St. Bernard Parish (Cont'd) on page 12 of this kit

Also available online at: <https://sbsso.org/wp-content/uploads/2013/12/SBSO-OLA-V.1.0-2012-001.pdf>

# The Plan

## A Step-by-Step Business Plan Guidebook

### INTRODUCTION

Planning is your map to success in the business world. You need to write a business plan if you are:

- starting or buying a business
- financing or refinancing your business
- raising debt or equity capital

Much money is made then lost because one area of a business fails, dragging the positive parts down with it.

THE PLAN helps you find hidden business flaws and makes you think carefully about each phase of your business.

It is important that you write your business plan. *Why?* You will gain in-depth knowledge about your business which will make it easier to answer lenders' questions. The process of writing your business plan will clarify what is involved in making your business work successfully.

## How To Use This Workbook

Divide your business plan into sections that match the “contents” outline shown on the next page. There is no set length for your answers — they will range from a paragraph to a few pages long.

Once it’s written, your business plan will need editing. Ask other people to read and critique your plan. Include a statement on the inside cover that says its contents are confidential, and making copies is prohibited.

Your business plan should be neat and organized to make a professional impression. After your text is written, use a spelling and grammar check feature to be sure your work is error free. For financial data, use a spreadsheet program.

Once you’re done, make copies for your lender and for others who are interested in your business. Make sure all the copies you submit are readable and include original signatures. Lenders keep your presentation even if you are rejected, so make copies for yourself of everything you submit. Number the business plan copies and make a list of each person you’ve given one to.

It’s a good idea to put your loan presentation in a 3-ring binder with tabs and indexes.

## Business Loan Basics

### ASK YOURSELF THESE QUESTIONS:

- How much money do I need?
- What type of lender do I need? (bank, state or federal agency, venture capitalist firm, or other investor)
- What is the lender’s minimum and maximum loan size?
- Can the lender meet my present and future needs?
- What types of businesses will the lender finance?
- What collateral does the lender accept?

### BEFORE MEETING WITH A LENDER:

- Call to find out the rules for their business loans.
- Make sure the lender is looking for loans of your size and type.
- Ask for a loan application.
- Make an appointment.
- Rehearse your presentation.
- Remember, the lender is like a customer. You have to convince the lender that your business has merit.

### BASIC QUESTIONS A LENDER WILL ASK YOU:

- How much money do you want?
- How much are you investing in the business?
- Exactly how will the money be used?
- How long do you need to repay the loan?
- How will the loan be repaid?
- What collateral do you have to offer?

### LENDERS USE THE EIGHT “C’S” RULE:

1. Credit (must be good)
2. Capacity (ability to repay)
3. Capital (money going into the business)
4. Collateral (your assets that secure the loan)
5. Character (you)
6. Conditions (economy, finances, anything that affects your business)
7. Commitment (your ability and willingness to succeed)
8. Cash Flow (can it support the business’ debt and expenses?)

### WHEN MEETING WITH A LENDER:

- Bring your business plan, a completed loan application, and any other materials you need.
- Keep the entire presentation to 30 minutes. Give an overview or outline at the beginning. Know how you are going to end the presentation.
- Invite your lender for a tour of your current or proposed operation.
- Answer all negative questions with positive answers. Be prepared to back up your answers.
- Find out when you can expect a decision.
- Ask that your lender’s decisions be sent in writing, even if you received the decision on the phone.
- Follow up with a thank you letter and a phone call, even if your loan request was rejected.

## The Appendix

The APPENDIX comes at the end of your business plan and includes all details and documents that support the plan.

Items that need to be included in the APPENDIX are indicated throughout this workbook. On page 31, you’ll find a comprehensive list, which you can use as a guide.

The first page of the APPENDIX should be a listing of its contents. Be sure to separate and organize the documents logically, perhaps in the order they are referred to in the plan.

The APPENDIX will grow, so it is a good idea to use a 3-ring binder with tabbed dividers. Some people prefer using an expandable file.

## Formulas

Generally, lenders like to simplify the process used to screen loan requests. Take your business through the same exercise that lenders do. The complexity or size of the loan request doesn't matter; the basic formula is as simple as 1-2-3.



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## Executive Summary

The Executive Summary (your Cover Letter) briefly explains the rest of your business plan in about one or two pages.

Page two is the Table of Contents. It shows the lender on which page each section can be found (see page 5 for the breakdown of sections).

### Elements of an Executive Summary

#### OWNER(S)

- The owners' names and their credentials
- Leave off your return address if the letter is on your company's stationery.

#### PRODUCTS OR SERVICES

- Mention your products and services.

#### MARKET(S) AND COMPETITION

- Briefly mention your markets and customers.
- Include key facts about your competition.

#### LOAN DETAILS

- List the purpose of the loan (starting, buying, or expanding a business).
- Mention how much money you would like to finance and the terms (how many years). List the source of re-payment (loans should be repaid by the business' cash flow). Also include how much you are investing and where your money will come from.
- List the secondary source of repayment. This is usually collateral which includes business and personal assets (see page 18). Also, fill in the equity value of these assets.

#### CLOSING

- To build the lender's enthusiasm, make references to what's included in your business plan.
- Tell the lender who should be contacted and provide a phone number and email address.
- Include all signature(s) and typed name(s).

## Example Cover Letter

The Green Rose  
456 Oak Street  
This Town, USA 67890

Mr. John Nelson  
ABC Bank  
123 Main Street  
Anytown, USA 12345

Re: Loan Request for \$300,000

Dear Mr. Nelson,

With 20 years of management experience in the residential landscaping business, we are requesting a loan to start our own landscaping business, called The Green Rose.

The climate for a successful landscaping business is ideal. Last year, the number of new homes built in Pembroke Pines increased by 15%. Just this quarter, new building permits are up 10% over last year. Of the 45,000 homes in the area, 3,000 were built last year.

Our marketing focus will be owners of new and older homes. In addition, we have good working relationships with many building contractors, who will refer us to their clients.

Two of our six local competitors have filed Chapter 11. Of the other four, two are family-owned businesses who concentrate on commercial contracts, and two are healthy competition, though they lack our marketing and management expertise.

We are investing \$75K from our savings and requesting a \$300K loan from your bank. Using the cash flow of the business, we are confident requesting a five-year term for repayment. Our secondary source of repayment will be from collateralized equipment. Our homes and business assets, valued at \$300K, are offered as collateral for the loan.

Our business plan is attached. Please contact Mr. Green at (321) 234-5678 to discuss further.

Respectfully submitted,

Ed Rose

Tim Green

## Your Cover Letter

Date \_\_\_\_\_

Your Address

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Lender's name, bank name, and address

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Re: Loan Request for \$ \_\_\_\_\_ (fill in amount)

Dear (fill in lender's name) \_\_\_\_\_:

I am (or we are) requesting a loan of \_\_\_\_\_. The owner(s) (fill in names) \_\_\_\_\_ have experience in this industry including... (mention experience in industry or training that would qualify you to run this business).

The industry we are entering... (including one brief paragraph about the industry and its growth).

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Our target market is... (include one brief paragraph about your target market/consumers).

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The competition includes... *(include one brief paragraph about your competition and how your business will attract their customers).*

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We are investing \$ \_\_\_\_\_ of our own money. Our collateral consists of business assets having a fair market value of \$ \_\_\_\_\_ and personal assets *(if applicable)* with a value of \$ \_\_\_\_\_.

Attached is our business plan which backs up our request. If you have any questions, please contact *(name)* \_\_\_\_\_ at \_\_\_\_\_ *(include phone number and email address).*

Sincerely,

-----

*Your signature(s) and printed name(s) here*

# Business Description

## Elements of a Business Description

### GENERAL

- List the business name, location, mailing address, telephone, fax, e-mail and web site address.

### OWNERS

- List each owner's name, business title, home address, telephone number, email address and social security number.
- Include a brief description of owners and managers (experience and credentials in running the business) and their ownership percentage of the business.

### LEGAL BUSINESS DESCRIPTION

- Sole proprietorship, partnership, limited liability, "C" or "S" corporation.
- List the state where the business is incorporated.

### PURPOSE

- Describe the intent of your business.

### BUSINESS STATUS

- New/start up, ongoing, expansion, or buying a business.
- Include the date your business started or will start.
- If buying a business, include a detailed business history in this section.

### TYPE OF BUSINESS

- Retail, wholesale, service, manufacturing, contracting, professional, importing/exporting.

### REASONS

- Reasons for starting, buying, or expanding business.

### GOALS

- Include both current and long-term projections.

### INDUSTRY

- Talk about what's going on in your industry, including economic trends, outlook, growth patterns and forecasts.
- Keep this section short. Explain more fully in your Marketing section.

### PROFESSIONAL RELATIONSHIPS

- Include name, address, and telephone/fax numbers and email address for your accountant, attorney, banker, insurance agent, and professional advisor(s).

## Example Business Description

GENERAL	<p>Name: MRJ Design  Address: 21 Longwood Drive, Orlando, Florida 32751  Phone: (407) 123-4567 Fax: (407) 123-4789  E-mail: smith@MRJ.com Web Site: www.MRJ.com</p>
OWNERS	<p>Bob Smith: 10 Brookfield Rd., Orlando, FL 32751, Ph: 407-456-7891, SSN: 367-89-7088  Over 20 years of experience in creative management. Worked for several design firms. Mr. Smith owns 60% of the business.</p> <p>Linda Jones: 96 Elm St., Orlando, FL 32751, Ph: 407-567-1234, SSN: 234-56-7891  Ten years of experience as manager of large marketing communications department within Fortune 1000 corporation. Ms. Jones owns 40% of the business.</p>
LEGAL STATUS	Florida S Corporation
PURPOSE	Produce superior marketing communications material for other businesses.
STATUS	Start-Up
BUSINESS TYPE	Service: Graphic design, illustration, and artwork production. Other services, supplied by vendors/suppliers, include writing, photography, printing, and mailing.
REASONS	Both partners have over 30 years of industry experience that will be put to profitable use in our own firm. The demand for graphic communications is ...etc.
GOALS	<p>Current: Bring to profitable status that will equal or exceed current income levels. Create relationships with clients. Build ...etc.</p> <p>Long-Term: In four years, we will have 50-100 clients. Hire administrative person ... etc.</p>
INDUSTRY	100 design firms and designers exist in our territory. Advertising agencies (about 235) are also competitors, but their specialty is not design. Many companies have relocated to Orlando so the demand for our services is growing. The number of start-up companies numbered ...etc.

PROFESSIONAL RELATIONSHIPS

Accountant: Larry Stuart, CPA, 123 Main St., Winter Springs, FL 32751. Ph: 407-678-9012, Fax: 407-678-7890

Attorney: Linda Johnson of Johnson and Smith, 456 Elm St., Winter Park, FL 32789. Ph: 407-234-5678, Fax: 407-345-6789

Banker, Insurance Agents, Professional Advisors, etc.



## Your Business Description

### General

Business Name \_\_\_\_\_

Location \_\_\_\_\_

Mailing address \_\_\_\_\_

Phone \_\_\_\_\_

Fax \_\_\_\_\_

Tax Identification Number \_\_\_\_\_

Email address \_\_\_\_\_

Website \_\_\_\_\_

### Professional Relationships

Include name, address, and phone/fax for:

Accountant \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Attorney \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Banker \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Insurance agent \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### Owners

Provide the following information for each principal in the company:

Name \_\_\_\_\_

Business title \_\_\_\_\_

Home address \_\_\_\_\_

Phone \_\_\_\_\_

Social Security Number \_\_\_\_\_

Include a brief description of owners and managers (experience and credentials in running the business) and their percentage of ownership.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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Professional advisor(s)

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**Legal business description** Sole proprietorship, partnership, corporation, etc.

---

**State** What state is your business organized in? What states will you operate in?

---

**Type of business** Retail, wholesale, service, manufacturing, contracting, etc.

---

**Business status** New, ongoing, expanding, or buying a business

---

**Date** Date your business started or will start

---

**Also include:**

- Reasons for starting, buying, or expanding business
- Summary of products and services
- Describe the purpose/intent of your business
- Current goals (within the next year)
- Long-term goals (over the next five years)
- Provide a brief summary of what’s going on in your industry. Include economic trends, outlook, growth patterns and forecasts. Include details in the Appendix.

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## Managers & Employees

### Managers

- How many departments and managers do you need? What are their functions?
- If there are gaps in your management team, explain how they will be filled. Lenders also like to see a back-up plan. If you die or can no longer work, who will run the business and repay the company's debts? One solution is to buy enough life insurance to cover the business debt.

### Employees

- How many part-time and full-time employees are needed to run the company? It's a good idea to develop an organizational chart (example below).
- How and where will you find employees and keep them?

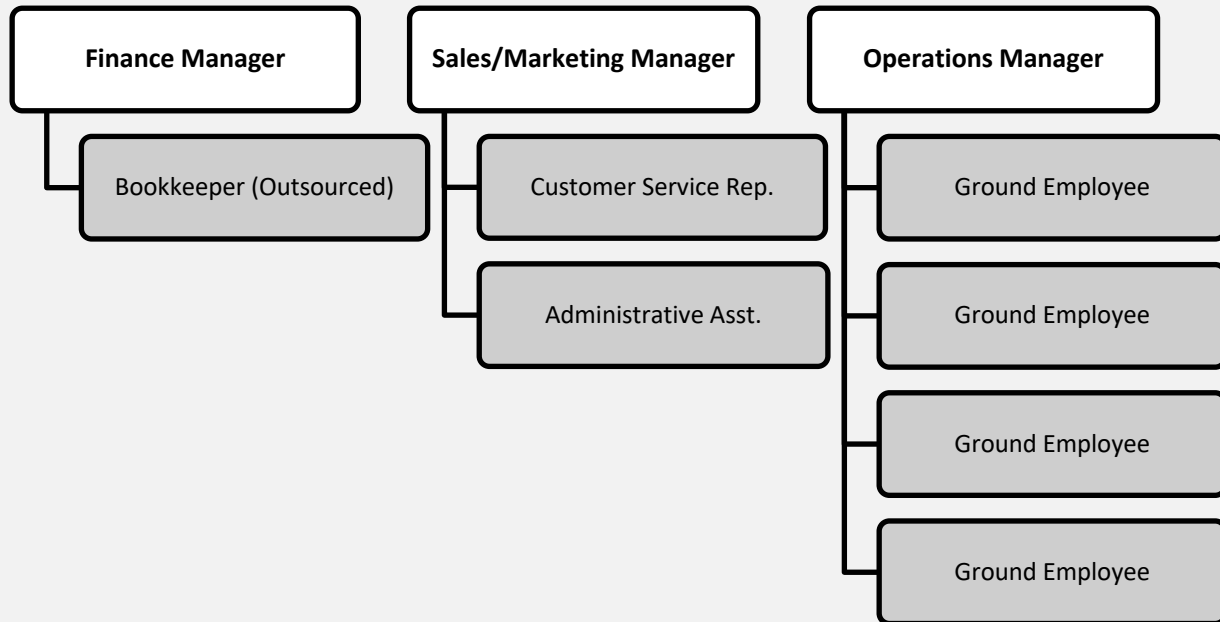
### Costs

- Include managers' job descriptions, salaries, benefits and resumes in the APPENDIX.
- How much are you going to pay each employee?
- What are the employee benefits and their costs?
- What employee training is needed and how much will it cost? How will it occur?

### General

- Describe any resources available from outside the business. For example, you may use an accountant for financial reporting.
- The cost for outsourcing some services should be included in the APPENDIX. For example, you can outsource a direct mail program to a marketing firm.

## Example Organizational Chart



### Finance

- Mike Jones, Accountant & Owner: 20 years of accounting experience in various industries...
- A bookkeeper will be outsourced.

### Sales & Marketing

- Lee Myers: 10 years of marketing experience. Myers will be responsible for the sales staff (estimators), customer service, promotional plans...
- Two office staff: One full-time customer service representative and one full-time administrative assistant. Each will be paid \$40,000 annually. They will receive health insurance, ten paid sick days, paid holidays, and two weeks of vacation. These benefits will cost ...

### Operations

- John Smith: 20 years of operational experience in landscaping industry. Smith will supervise the grounds staff and handle ...
- Four full-time grounds employees starting at minimum wage for working Monday- Friday, 7:00 a.m. to 3:30 p.m. A two-day training program is required before joining the company. Employees will receive paid health insurance, five paid sick days, paid holidays, and one week of vacation. These benefits will cost ...

## Operations & Location

### How Will Your Business Operate?

- How will the product be produced and sold? How will your services be rendered?
- What months, days, and hours will your business be open? Is the business seasonal? If so, show how you will adjust your time, schedule, inventory, and personnel.
- What furniture, fixtures, equipment and machinery is needed? Will it be bought, leased, or rented? Include proposed purchases in your APPENDIX.

### Suppliers

- If you need suppliers and other companies to complete your product or service:
  - What and how much will you need?
  - Where will you get these products and services?
    - How much will they cost?
  - What system will you use for materials processing and inventory control?
- In the APPENDIX, include details about your suppliers, including names, addresses, products or services supplied, costs/quotes, delivery/shipping fees and turnaround, terms of sales, contracts, and a purchasing plan.
- If you've requested financial, managerial, or technical assistance from your suppliers, include details in the APPENDIX.

### Location

- What kind of space does your business need?
  - Why is the area and location desirable?
  - Does this location affect your costs?
  - How much are utilities, taxes, and other expenses?
  - Is it easily accessible? Is public transportation available? Is there adequate parking?
  - Does your business comply with zoning laws?
  - Do you own or lease the building? In the APPENDIX, include zoning statements from local government and approval letters from local and state inspectors. If owned, provide a copy of the deed in the APPENDIX. If leased, the term of the lease must be renewable to match the loan period you are requesting. Include a copy of the lease (or proposed lease) with terms, conditions, length, and cost in your APPENDIX.
  - Are improvements, renovations, furniture, fixtures, equipment or machinery necessary? Show quotes in the APPENDIX.
  - Retailers:
    - Research and show traffic patterns in the APPENDIX.

- What other businesses are in your immediate area?
- Wholesalers, manufacturers and other businesses:
  - Are you located near your customers and suppliers?
  - Do you have easy access to major highways, railways, and airports?
- Provide photos and a summary of your location including a floor plan, blueprint or plot plan (if building) in the APPENDIX.

## Example Operations & Location Statement

### **Clothes with Class**

We are a school uniform shop. Business hours will be from 10 to 5, Monday through Saturday. Our plan is to purchase fixtures to display uniforms and furniture to create a relaxed retail atmosphere. A computer system to track customer purchases and inventory will be leased. These costs are included in the Appendix.

Our stock will come from three suppliers – two national and one local. Local supplies will be delivered by truck, with the remainder of goods coming via UPS. Information on our proposed suppliers and purchases may be found in the Appendix.

The five-year lease we have signed on a 1,500 sq. ft. building is included in the Appendix. The building is located within 15 miles of 22 private and parochial schools who require uniforms that we will stock. Our building is on a major thoroughfare, conveniently located right off Highway 93.

A floor plan of the building is included in the Appendix. We have divided the area into retail space and warehousing/office space. 700 sq. ft. will include retail displays, three dressing rooms, restroom facilities and two purchasing counters. The remaining 800 sq. ft. will warehouse stock. It includes a delivery receiving area, two offices, and a small employee lounge with restroom. The 20-space parking lot is adjacent to the building.

## Marketing

Thinking like a marketer is necessary to attract and keep customers. The right product and service at the right price is only the beginning. You also need to create a mix of marketing on and off the internet.

Product, Price, Place, and Promotion are the traditional “Four Ps” of marketing. But don’t forget to add one more important element – Plan.

### The 5 Ps of Marketing

#### PRODUCT

- What are the benefits of your products and services? Is there a demand?
- Who are your customers and what do they want? Think about their age, income, gender, education, marital status, and lifestyle. If you’re selling to businesses, learn about the companies you’re targeting.
- How are your products and services different from your competitors? Research their weaknesses, strengths, pricing, service, creativity and marketing.
- Are research and development needed?
- What are the licensing requirements and regulations?
- What about legal issues? Do you need patents, copyrights, and trademarks?
- Is your business seasonal? How will your business fare during the rest of the year?

#### PRICE

Your products and services need to be offered at prices your market will pay, while providing your desired profit. Thinking about about your products and services from the customer’s point of view is called the perceived value. What does your customer expect to receive at certain prices? For example, a company produced a top-selling light bulb for \$2 and then raised the price to \$3 and sales went down. Study the benefits, convenience and quality of your products and services, factoring in your company’s image and reputation.

#### PLACE

How will you connect your product or service with your customers? There are many methods for reaching customers besides retail stores and internet sites. You could sell:

- to a wholesaler who buys a large quantity from you and resells it. or through a manufacturer’s representatives who charge you commissions.
- by “consignment” when another company sells your product and the price is divided between the two of you.

- via business partnerships, even if the other company is different than yours. For example, a pool cleaning company sends new customers coupons every month for free coffee at a local shop. Websites are perfect for partnerships, since clicking on a link connects people from one site to another.

## PROMOTION

How will you create awareness of your products and services? Make it your business to know what your audience is looking for, and gear your promotion accordingly. See pages 13-15 for ideas.

## PLAN

Without a marketing plan, your efforts could become scattered and your results not measurable. You should include money for marketing in your annual budget. Think of marketing as an investment, not an expense. Industry trends, consumer sentiment and the economy are always changing, so your marketing plan should grow, adjust and evolve. Include detailed plans and costs in the Appendix.

## Your Image

You need professionals to make you look and sound your best. A graphic designer will create your logo, packaging, signage and website, working closely with your website programmer/developer/host. A copywriter can create copy to help your website, ads and other promotional material get noticed.”

## NAME

Getting customers to remember your name is a mighty hurdle! Think about standing out. If you repair computers, The Mouse Trap is a better choice than JB Computer Repair.

## LOGO

The symbol or type treatment that represents your business should be memorable. Choose colors and use them consistently. Your logo belongs everywhere, from business cards to signage to emails, and it can be used, unchanged, for years.

## TAGLINE

Your company tagline should be short, catchy and, in some cases, functional. If your company is called Ocean State Restoration, it's unclear what you restore. So a tagline like “New Life for Old Boats” serves an important purpose. Your logo and tagline should be inseparable.



## PACKAGING

A beautiful gold watch in a rumpled brown bag will never be given the same value as that same watch presented in an elegant velvet box. Presentation and packaging is branding, so everything customers see – from bags to menus – represents you.

## PRINTED MATERIAL

If it's on paper, it matters. Ads, direct mail and brochures represent your image, so never compromise when it comes to being sure they look polished and professional. Even emails, invoices and letters to your customers should be given attention.

## Traditional Tools

In addition to your website, traditional marketing tools are still vital to your overall marketing mix. It may take a little time to find the combination that works best for you.

## ADVERTISING

Advertising can take the form of print ads in local or trade publications, or media ads on radio and TV. If you're unsure where to advertise, consult with professional organizations. Talk to your local radio and TV stations about affordable packages. Analyze websites that make sense for advertising your product or service. For example, online banner ads are more effective on websites that attract your target audience.

## DIRECT MARKETING

Direct Marketing uses traditional mail, email or phone to contact prospects "directly." Be focused in choosing your method. Measuring response is crucial, because it will help you determine which lists are best – and the cost of gaining an order or client. You can buy databases or develop your own list from customers and leads. Keep a book for customers to sign, ask them for business cards or send emails that request feedback.

## PUBLIC RELATIONS

Public Relations is a great way to build a brand identity, and to influence the attitudes of your audience. If you make all-natural sunblock, you could sponsor a sandcastle contest at the beach. To create a buzz, send press releases to area newspapers, online publications, radio and TV stations.

## TRADE SHOWS

Trade Shows offer a chance to meet customers, introduce products, get leads and write orders. Networking with others in your industry and sharing information can uncover unexpected insights and connections.

## Websites

A website in today's world is as basic as a business card. "If you build it, they will come" doesn't always apply to websites, which are dynamic (changing constantly) and not static (do it and you're done). Directing traffic to your site – and giving visitors a reason to come back – is the goal.

## INTERNET MARKETING

You'll find that maintaining a vital Internet presence does require some time and effort, so put limits and practical guidelines in place. You don't want customers browsing in your retail business while you remain behind the counter, updating your site. Here are some other basics:

- Virtually visit your competition and other websites in your industry on a regular basis. What do you like about the experience, and what don't you like? Is the copy boring or interesting? Is the site easy to navigate? What's the balance between words and pictures? This will help you develop a more tangible idea of what you want your website to be – or not be.
- Working with a web designer/developer and a copywriter pays off, making you look polished and professional. Once your site is "live," you'll need a "host." A good one will be able to help you create traffic, measure activity, collect data and ensure security.
- Be sure that you have a system in place, so you can "go in" yourself and update your website information. There's nothing that gives website visitors a worse impression than to see you promoting an event that happened last month.

## SEO MATTERS

A potential customer who lives just six miles away wants 28 replacement windows for her Victorian home. She googles "replacement windows" and chooses another company that appeared third on the list of results. Why is your website buried on the second page? Because your SEO/Search Engine Optimization left something to be desired. Codes written by the developer, the regularity of blogging posts or the use of highly relevant words and phrases can all enhance optimization.

## ONLINE FEEDBACK

Years ago, people shared their opinions about companies with 2 or 3 people over the back fence. Today, websites that feature consumer feedback reach thousands, even millions of people.

## CROSS MARKETING

Cross marketing can be quite effective. Suppose you make organic pet treats. Why not approach a local dog grooming business and ask to be featured on their website – and you, of course, return the favor. Get creative in partnering with your community!

## Social Media

Social media sites are two-way expressways, where people contribute to, interact with and participate in your online presence. These sites help you gain new customers and engage existing ones. Another advantage of social media is your ability to measure results. Your posts and updates can also be “shared” across many social media sites.

## BLASTING

Blasting is sending one email out to a large audience made up of active, interested recipients. After signing on at your physical site or your website, your “A-listers” should be romanced with special offers that are exclusive to them, as a thank you for allowing you into their inboxes. Sign yourself up on multiple email lists, from the local nursery to big retailers and see how they do it. Companies that specialize in email marketing can make your emails look great – and compile valuable data on effectiveness.

## BLOGGING

Blogging is keeping an online journal (“web” + “log” = blog). Start by subscribing to relevant blogs, especially from competitors. Blogs with high readability are fairly short, and feature “no scroll” posts. Determine the content your audience wants, and write to it. Keep your tone positive and chatty – and always end by asking for the reader’s feedback or comments. Blogging with regularity will help move you higher up in search results ranking. Ask your website developer to incorporate a blog into your website, or check out sites that let you set up a blog.

## FACEBOOK

Facebook is the social media “go to” site – the place where the world “meets.” This open forum can be a marketer’s dream, an easy way to get a message out, talk about promotions, get feedback and generally engage customers. Check out how other companies are handling their postings.

## LINKEDIN

LinkedIn is the site that means business, where professionals post résumés, network and read industry news. You should establish profiles for yourself and your staff, and don’t be afraid to brag a little. It is a good site to find vendors and resources, too.

## TWITTER

Twitter is a “microblogging” network, where messages called “tweets” are sent out to only those readers who “follow” you. This isn’t the place for long messages, as tweets are limited to just 140 characters. The word “immediacy” captures the essence of Twitter; it’s a buzz generator.

## YOUTUBE

YouTube is the world’s TV channel. It’s easy to start your own “network” where you can post videos that will educate, inform, market to and entertain your audience. And YouTube has made cross promoting as simple as possible.

## VLOGGING

Vlogging is video blogging, plain and simple. Suppose you’re celebrating your 10th year in business, or you want to show off what your new printing press can do for your customers. A short video – no more than 2 or 3 minutes – can be posted on your website, or other sites like Facebook or YouTube, and reach a bigger audience than you ever thought possible!

## Buying a Business

### Questions that need answers:

- Why is the business for sale?
- What is the value of the business?
- What are the company's products and services?
- Who started the business? What is the history of the business? Where is it located and where are its customers located?
- Has the competition increased or changed? (see page 15)
- What sales and marketing plans have you seen? What are the business' sales trends? How will you increase sales?
- Will you hire new employees and managers or use the existing staff?

### Checklist for Buying a Business

- Talk to the business' customers and suppliers.
- Review financial statements and tax returns from the last 3 years.
- Develop a purchase and sale agreement which shows:
  - the purchase price components - down payment, allocation of the price, and how it will be financed
  - how the business will be conducted until purchased
  - the liabilities you are assuming including accounts payable, loans, leases, contracts, taxes, and legal
  - the value of the assets you are buying including Accounts Receivable (quality and the age of the invoices), inventory (value and age), machinery/equipment/furniture/fixtures (age, condition, and value), patents/trademarks, and real estate.
  - that the purchase and sale agreement is subject to financing and inspections
- Know how you will finance the business. Is the seller willing to finance all or any of the business (especially the goodwill - the difference between the value of hard assets and the business' purchase price)? What are the terms, rates, and conditions? Develop a Loan Request (see page 18).
- Determine who will pay for closing costs including legal services, points, appraisals and environmental inspections.

In your Appendix, include pictures of the business location, a detailed description and appraised value of the building, inventory and equipment, assets and liabilities, inspection reports, and any patents/trademarks. Also include the purchase-and-sale agreement and any legal documents

## Example

### ORANGE DOT MACHINE

**Product:** machining services for the seller's railroad product line

**Owners:** Jack Reich and Tom Wallis, both of whom want to retire

**Location:** Western Connecticut. The building's landlord is Reich Holdings, LLC (see Appendix Section 9, "Business Location")

**Legal Status:** S Corporation registered in Connecticut

**History:** Started in 1982 as a division of a larger corporation.

**Clients:** 200 companies in Connecticut and southern New England. (Commercial companies: 60%; military-related: 25%; railroad: 15%)

**Sales:** \$1.4 million in sales last year — a 30% increase over the previous fiscal year, due to an expanded product line and aggressive marketing. The quality of the equipment and caliber of the staff present an excellent growth opportunity.

**Marketing:** The redesign of the company website, along with a formal marketing program, is expected to increase the customer base and expand the service area.

**Purchase Price:** \$500,000 includes \$475,000 in assets (see appraisals in the Appendix) and \$25,000 in good will. An additional \$50,000 is needed for working capital. Refer to our Loan Request and Cash Flow Analysis.

**Transfer Terms:** As of the closing, all Accounts Receivable and Payable will be the current owners' responsibility. Work-in-progress inventory will be consigned to the buyer, then completed on a labor-only basis. When the product is completed, future revenue will be kept by the new owners.

**Liabilities:** The assumption of capital lease obligations (see Appendix)

## Buying a Franchise

### Buyer, Be Aware

A franchise is a legal business relationship between a franchiser (Burger King, for example) and the franchisee (you). The franchiser owns the right to the business name, and sells that right to you. In return, you sell products and services supplied by the franchiser.

The advantages of buying a franchise can be appealing. You get an established business presence. And since many of the decisions and products come from the franchiser, your risks are reduced. You are also provided with a range of support services, such as site selection, training, supplies and advertising/marketing plans.

### The Disclosure Document: Read It Carefully

The Federal Trade Commission (FTC) requires sellers of franchises and other business-opportunity ventures to provide a Disclosure Document to prospective buyers. In it, you should find detailed information that explains how business between you and the franchiser will be conducted.

It is crucial that you read this document very carefully, as many times as you need to, because it contains important information – audited financial statements, your start-up and ongoing costs, and locations of other franchises. It will clearly explain the responsibilities of the buyer and the seller. Have your attorney read through it as well.

The Disclosure Document must be given to you in advance so you can gather and consider any and all information you need to be sure your decision is an informed one.

### Top Ten Questions to Ask Before Buying a Franchise

1. How many franchises are there and how many in your area? Don't be afraid to ask for a list, then to visit as many as you can. If possible, speak with the owner(s) about some of the real-world realities of running the business.
2. How long has the franchiser been in the industry? Ask how long they have been selling franchises.
3. How financially healthy is the franchiser? You have a right to see their financial statements, which should be included in the Disclosure Document. Make sure you are comfortable with all the numbers.
4. What does your initial cost cover? Discuss things like the licensing fee, training, equipment, starting inventory and promotional fees. Find out if the land will be purchased or leased, and whether the building will be constructed or renovated.

5. Will the franchiser help finance the business? If so, you still need to develop a business plan with financial projections.
6. What ongoing costs will you pay the franchiser? Discuss royalties, training, insurance and advertising.
7. Will you be required to buy supplies from the franchiser or their designated suppliers? Will prices be competitive?
8. Do any restrictions apply when competing with the competition?
9. What is the length of the partnership? Be clear about the terms covering renewal rights,
10. Do you have the right to resell the franchise?



## Loan Request

### How much will you need?

You must invest 25% - 50% of your own money. Show how much and where your money will come from. Also provide information about money coming from investors. Show how much money you are requesting from the lender.

### How will the money be used?

Uses include inventory, furniture, fixtures, equipment, machines, repairs and improvements, and working capital (money for the business' day-to-day activities). Your business' income (and other money) must cover your expenses. You need more money if your expenses are more than your income. Use of funds must be fully documented with quotes in the Appendix (include a breakdown of machinery, equipment, fixtures and furniture).

### How long are you asking for repayment?

- Short Term (less than a year): Short-term loans are called Lines of Credit (LOC) or Revolvers and work like a credit card, with a pre-determined amount. Lines of credit are primarily used for working capital and must be paid in full within that year.
- Intermediate Term (1-10 years): Like a car loan, payments are monthly. Use for buying the business, equipment, or for long-term working capital.
- Long Term (10 years or more): Like a mortgage, used to buy commercial real estate, commercial vehicles, and heavy equipment.

### How will the loan be repaid?

The lender wants to see the loan repaid from the business' income. If necessary, the lender needs to know that the loan could also be repaid by selling an asset or by a cash infusion from an investor.

### If your loan request is rejected, ask:

- Why it was rejected.
- If you can correct the problems and re-submit the request.
- If you should go to another lender or seek alternative financing.

## What collateral are you offering?

Collateral is assets the bank has a lien on and will take if you can't repay the loan. Collateral can be personal (savings, stocks and/or equity in personally owned real estate) or business (receivables, inventory, equipment).

Lenders require appraisals of your collateral and they discount the value of your assets. The total discounted collateral amount must equal the total loan amount requested. Typical discounts include: saleable inventory at 50% or lower, fixed assets at 50% or lower, collectable accounts receivable at 25% or lower, and furniture / fixtures / machinery / equipment at fair market value of book value. In the appendix include the, model, year, serial number and fair market value.

## Example

	<i>Market Value</i>	<i>Discount Percentage</i>	<i>Discounted Value</i>
Inventory	\$100,000	50%	\$50,000
Fixed Assets	\$50,000	50%	\$25,000
Accounts Receivable	\$80,000	25%	\$60,000
<b>Total</b>	<b>\$230,000</b>		<b>\$135,000</b>

The maximum loan request of \$135,000 is based on the collateral value of their assets.

## Loan Decisions

The "1-2-3 Method" on page 30 helps you calculate your maximum loan amount

## Loan Request Worksheet

### AMOUNT NEEDED

Amount Requested	\$ _____
Owner's Investment	\$ _____
Other Investors	\$ _____
Total	\$ _____

### USE OF FUNDS

Inventory	\$ _____
Working Capital	\$ _____
Equipment, Machinery, Computers	\$ _____
Furniture & Fixtures	\$ _____
Other	\$ _____
Real Estate	\$ _____
Total	\$ _____

### REPAYMENT

Period: \_\_\_\_\_ years

Source: Business Cash Flow

Collateral:

Accounts Receivable	\$ _____
Inventory	\$ _____
Equipment & Machinery	\$ _____
Furniture & Fixtures	\$ _____
Equity in Real Estate	\$ _____
Other	\$ _____
Total	\$ _____

## Financials

Four financial statements are included in this section:

1. **Personal Financial Statement:** Your own personal financial health will be carefully examined by the lender. See page 20.
2. **Balance Sheet:** This is a snapshot of your business. A moment frozen in time. See page 22.
3. **Income Statement:** Think of this as your business' "report card" over a period of time. See page 24.
4. **Cash Flow Statement:** This will show how much money comes in and how much goes out. See page 26.

### Hints for Developing Financials

- Make realistic assumptions. Lenders know there are risks, so explain how they will be handled. They like to see business owners who recognize and solve them. Make a record of your assumptions so you can prove to the lender that your projections are realistic.
- Show reasonable links between the past (if buying a business), actual, and future projections.

### Watch for these Common Financial Problems

#### LIMITED CAPITAL

Capital is just another word for money, and if there's not enough of it, it can lead to insufficient working capital (money for day-to-day activities). Don't try to make money stretch too far. Ask for more loan money, or cut down on liabilities and expenses.

#### LITTLE OR NO RECORD KEEPING

You must keep meticulous records for yourself, the IRS, and your lender.

#### FAILURE TO SEEK OUTSIDE HELP

Consult an accountant, gain business advisors, contact the Small Business Administration/SBA ([www.sba.gov](http://www.sba.gov)) or your state's Department of Economic Development (look in the phone book or search on the Internet). Your advisors' input is valuable but don't be totally dependent on them. Educate yourself. You should have a basic understanding of your company's finances. Know how to read your own financial statements and reports.

## POOR MANAGEMENT

A business needs a good financial manager (within the company or an outside advisor). It's your money, so be very self-disciplined.

## RELUCTANCE TO INVEST IN THE BUSINESS

Why should the lender stand behind you if you won't invest any of your own money? You must put a percentage of your own money into the company (usually 25% to 50%).

## FAILURE TO PERSONALLY GUARANTEE THE LOAN REPAYMENT

If the business fails for any reason, the owners must repay the loan. Lenders need to be assured of your total commitment.

## Accounting Methods: Accrual vs. Cash

There are two ways to handle your accounting - accrual or cash.

### CASH METHOD

The cash method means you don't record a sale until you collect money, and you don't record an expense until you pay for it.

### ACCRUAL METHOD

The accrual method, the one lenders want, means:

- Sales are made but payments are not immediately collected. Your customers pay later, which creates "accounts receivable."
- Business purchases are made, but paid for later, creating "accounts payable."
- Assets (like equipment) are depreciated over their lifetime. This is tax deductible.
- Net Income does not always mean cash since money is tied up in accounts receivable and inventory

## Personal Financial Statement

Personal financial health is carefully examined by the lender or investor. Complete a Personal Financial Statement for each person listed in the business plan who will be guaranteeing the loan (partners, officers, stockholders). It's a good idea to order your credit report from the three credit bureaus and review it because lenders will scrutinize it. Be prepared to explain any negative reports.

Most lenders will supply you with their own Personal Financial Statement form, but the information they usually request is shown in this sample.

### Personal Financial Statement

Date	_____
Your name and address	_____
Business name and address	_____
Social Security	_____
Date of Birth	_____
Phone / Fax / Email	_____

#### ASSETS AND LIABILITIES

##### ASSETS (what you own)

Cash	\$	_____
Savings Account	\$	_____
Retirement Account	\$	_____
Accounts & Notes Receivable	\$	_____
Life Insurance (Cash Surrender Value)	\$	_____
Stocks & Bonds (Market Value)	\$	_____
Real Estate (Market Value)	\$	_____
Automobiles (Market Value)	\$	_____
Other Property	\$	_____
Other Assets	\$	_____
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>_____</b>

##### LIABILITIES (what you owe)

Accounts Payable	\$	_____
------------------	----	-------

Notes Payable	\$
Residential Mortgage (Balance)	\$
Investment Mortgage (Balance)	\$
Installment Loan Balance (Auto)	\$
Installment Loan Balance (Other)	\$
Unpaid Taxes	\$
Other Liabilities	\$
<b>TOTAL LIABILITIES</b>	<b>\$</b>
NET WORTH (assets less liabilities)	\$
<b>TOTAL LIABILITIES + NET WORTH</b>	<b>\$</b>
<b>INCOME AND EXPENSES</b>	
<b>ANNUAL INCOME</b>	
Salary, Bonuses, and Commissions	\$
Dividends, Interest, Investment Income	\$
Real Estate Income	\$
Other Income	\$
<b>TOTAL ANNUAL INCOME</b>	<b>\$</b>
<b>ANNUAL EXPENSES</b>	
Mortgage/Rental Payments	\$
Loans and Notes Payable	\$
Taxes: Federal, State, Local, Property	\$
Insurance Premiums	\$
Alimony and Child Support	\$
Tuition	\$
Medical Exp./Insurance	\$
Contingent Liabilities	\$
Other Debt or Liabilities	\$
<b>TOTAL ANNUAL EXPENSES</b>	<b>\$</b>

## PERSONAL FINANCIAL STATEMENT NOTES

- **Life Insurance:** In the Appendix, provide face amount and cash surrender value of policies, name of insurance companies and beneficiaries.
- **Other Property:** Describe in the Appendix. If any is pledged as security/collateral, include name and address of lien holder, lien amount, and payment terms.
- **Notes Payable:** In the Appendix, include the name and address of the noteholder, original loan balance, current balance, payment amount, and what collateral is used for security.
- **Stocks & Bonds:** The total is included here. In the Appendix, include the number of shares, name of securities, cost, market value with date.
- **Real Estate:** The total is included here. In the Appendix, include type of property, date purchased, original cost, and the present market value. Also include the mortgage account number, balance, and monthly payment.
- **Unpaid taxes:** The total is included here. In the Appendix, specify the type of tax, who it's owed to, when it's due and whether there is a lien on any property
- **Annual Expenses:** Multiply your monthly expenses by 12.
- **Contingent liabilities:** Are you an endorser, co-maker or guarantor of other loans? If so, are there any legal actions or contested taxes?

In the Appendix, include copies of:

- Assets: life insurance statements, stocks and bonds, real estate, and personal property.
- Liabilities: notes payable, mortgages on real estate and unpaid taxes.
- Loans/mortgages: monthly payment amount and a copy of the last statement.
- Three years of tax returns for each owner.
- Copies of credit reports for each owner.



## Balance Sheet

The Balance Sheet is like a picture of your business, frozen for a second. The numbers change every day.

In the APPENDIX, include fiscal yearend statements for the last three years, and an interim statement not more than three months old. Start-up companies: Include an opening Balance Sheet (what the balance sheet will look like the day after the loan closes).

### Your balance sheet includes the following:

#### ASSETS: WHAT THE COMPANY OWNS

- **Current Assets:** Can be converted into cash in one year Accounts Receivable Sales made but not collected
- **Inventory:** Inventory on hand, waiting to be sold
- **Total Current Assets:** Add up all of the Current Assets
- **Non-Current Assets:** Takes one year or more to turn into cash
- **Fixed Assets:** This includes property, plant, and equipment
- **Less Depreciation:** Subtract accumulated depreciation.
  - Except for land, assets wear out. The value goes down and can be deducted. Values for assets are presented via a reserve for depreciation. Market value the price you could sell it for will differ from this figure.
- **Fixed Assets (net):** Fixed Assets minus Accumulated Depreciation
- **Advances to Owners:** Money that owners take out of the business in the form of a loan to be repaid
- **Total Non-Current Assets:** Add up all the Non-Current Assets
- **Total Assets:** Add Current Assets and Non-Current Assets

#### LIABILITIES: HOW MUCH THE COMPANY OWES

- **Current Liabilities:** Liabilities due within one year
- **Current Portion of Long-Term Debt:** One year's worth of loan payments
- **Note Payable:** Due within one year
- **Accounts Payable (A/P):** Purchases not paid for

- **Total Current Liabilities:** Total all the Short-Term Liabilities
- **Long-Term Liabilities:** Due for more than one year
- **Loan Payable:** Due after one year's worth of payments
- **Total Long-Term Liabilities:** Total all the Long-Term Liabilities
- **Total Liabilities:** Add the Current and Long-Term Liabilities

#### CAPITAL OR NET WORTH: THE BUSINESS' EQUITY

- **Owners Investment:** Amount of money owners have invested. Also called capital or common stock in a corporation.
- **Retained Earnings:** Income earned and kept in the business
- **Total Capital:** Add Owners Investment and Retained Earnings. Also called net worth.
- **Total Liabilities & Capital:** Add Liabilities and Capital. Equal to Total Assets

Think of the balance sheet as a seesaw. The assets and liabilities alone are out of balance. Capital, the last weight you put on the scale, makes a perfect balance.

## Example Balance Sheet

<b>ASSETS</b>		
Current Assets		
Cash	10,000	
Accounts Receivable	75,000	
Inventory (ending)	85,000	
Total Current Assets		170,000
Non-Current Assets	140,000	
Fixed Assets	(25,000)	
Less Accumulated Depreciation	115,000	
Fixed Assets (net)	6,000	
Advances to Owners		
Total Non-Current Assets		121,000
Total Assets		291,000
<b>LIABILITIES</b>		
Current Liabilities		
Current Portion of Long-Term Debt	6,000	
Note Payable	100,000	
Accrued Taxes	3,000	
Accounts Payable (A/P)	41,000	
Total Current Liabilities		150,000
Long-Term Liabilities		
Loan Payable	54,000	
Total Long-Term Liabilities		54,000
Total Liabilities		204,000
<b>CAPITAL OR NET WORTH</b>		
Owners' Investment	20,000	
Retained Earnings	67,000	
Total Capital		87,000
Total Liabilities and Capital		291,000

## Your Balance Sheet

### ASSETS

Current Assets

Cash

\_\_\_\_\_

Accounts Receivable

\_\_\_\_\_

Inventory (ending)

\_\_\_\_\_

Other Current Assets

\_\_\_\_\_

Total Current Assets

\_\_\_\_\_

Non-Current Assets

Fixed Assets

\_\_\_\_\_

Less Accumulated Depreciation

\_\_\_\_\_

Fixed Assets (net)

\_\_\_\_\_

Advances to Owners

\_\_\_\_\_

Other Non-Current Assets

\_\_\_\_\_

Total Non-Current Assets

\_\_\_\_\_

Total Assets

=====

### LIABILITIES

Current Liabilities

Current Portion of Long-Term Debt

\_\_\_\_\_

Note Payable

\_\_\_\_\_

Accrued Taxes

\_\_\_\_\_

Accounts Payable (A/P)

\_\_\_\_\_

Total Current Liabilities

\_\_\_\_\_

Long-Term Liabilities

Loans & Notes Payable

\_\_\_\_\_

Total Long-Term Liabilities

\_\_\_\_\_

Total Liabilities

=====

### CAPITAL OR NET WORTH

Owners' Investment

\_\_\_\_\_

Retained Earnings

\_\_\_\_\_

Total Capital

\_\_\_\_\_

Total Liabilities and Capital

=====

## Income Statement

The Income Statement is your company's report card. Expenses are subtracted from income, which gives you the business' financial performance or net profit (or loss). Other names for the Income Statement are Operating Statement, Earnings Statement, or Profit and Loss Statement

In the Appendix, include three years' fiscal year end statements plus an interim statement (not more than three months old).

Start-up companies: Project month by month for the first year, quarterly for the second year and one whole year for the third year.

**Important Note:** Compare numbers in the current year's Income Statement with the previous year. You should know whether income/profits and expenses are going up or down

### Your Income Statement Includes the Following:

#### SALES

- **Net Sales:** Revenue or income. Gross sales is before returns and allowances. Net sales is after returns and allowances.
- **Less Cost of Goods Sold:** Cost to make products including materials and labor.
- **Beginning Inventory:** Comes from the Ending Inventory of the previous year.
- **Purchases:** Used to make product.
- **Labor:** Used to make product only. Other labor-related expenses are included in the Operating Expenses section.
- **Less: Ending Inventory:** This number becomes the beginning inventory for the next year's Income Statement. This number is pulled from the Balance Sheet on page 22.
- **Total Cost of Goods Sold:** Compute the Cost of Goods Sold.
- **Gross Profit:** Sales less cost of goods sold. This is your profit margin.

#### EXPENSES

- **Selling Expenses:** Salaries and expenses related to sales only.
- **General and Administrative:** All other expenses used to run the company.
- **Operating Income (or Loss):** Shows how the business performed. Gross Profit less Selling Expenses and General/Administrative Expenses.

- **Interest Expense:** Subtract interest expense.

## PROFIT

- **Profit:** Net Profit before taxes
- **Less: Income Taxes:** Tax rates depend on your business' legal status.
- **Net Profit:** Profit left after all expenses (including taxes) have been paid

## Example Income Statement

<b>SALES</b>		
Net Sales		900,000
Less Cost of Goods Sold:		
Beginning Inventory	75,000	
Purchases	300,000	
Labor	200,000	
Total	625,000	
Less: Ending Inventory	(85,000)	
Cost of Goods Sold		540,000
Gross Profit		360,000
<b>EXPENSES</b>		
Operating Expenses		
Selling Expenses	90,000	
General & Administrative	170,000	
Total Expenses	260,000	
Operating Income		100,000
Interest Expense		20,000
<b>PROFIT</b>		
Net Profit before Taxes		80,000
Less: All Income Taxes		27,000
Net Profit		53,000

## Your Income Statement

### SALES

Net Sales		_____
Less Cost of Goods Sold:		
Beginning Inventory	_____	
Purchases	_____	
Labor	_____	
Total	_____	
Less: Ending Inventory	-	_____
Cost of Goods Sold		_____
Gross Profit		=====

### EXPENSES

Operating Expenses		
Selling Expenses		
General & Administrative	_____	
Total Expenses	_____	
Operating Income		_____
Interest Expense		_____

### PROFIT

Net Profit before Taxes		_____
Less: All Income Taxes		_____
Net Profit		=====

## Cash Flow Statement

### What's the big idea?

The Cash Flow Statement is your cash “register.” It shows money that comes into the business and what goes out. Profits do not guarantee positive cash flow. You need to know or estimate income and expenses based on the direct and variable costs of your products or services. Cash must be available to pay bills on time and for day-to-day activities. This statement will also show an important figure, the breakeven point, when cash income equals the cash outflow (see page 30).

#### TIPS FOR PREPARING CASH FLOW STATEMENTS

Numbers in the Cash Flow Statement will also appear in the Income Statement. However, the Cash Flow Statement differs because it records when cash is received, when cash is paid, and how much cash you have reserved.

- Begin with income at the top, followed by expenses and repayment of the loan.
- Show realistic assumptions. If sales increase 80% every year, this may seem unrealistic. Prove assumptions and include them in the Appendix.
- Cash jumps up from year one to two, because start-up costs are large in the first year.
- Negative balances are common in the first year. They must be covered by providing more cash (loans or owners' investments), or by reducing expenses.
- Increased sales can cause a cash drain (due to increased costs or labor). Show how you will overcome this.
- Show monthly figures in the first year, quarterly figures in the second year, and a lump sum in the third year.

### Essential Operating Data

The five items shown at the bottom of the Cash Flow Statement can be kept separately and included at the bottom of your monthly cash flow projections. They are important planning and cash flow projection tools.

1. **Accounts Receivable:** Previous unpaid credit sales, plus current month's unpaid credit sales.
2. **Bad Debt:** Should be deducted from the month. This figure is based on past history or industry standards.
3. **Inventory on Hand:** Any products available for sale at the end of the month.
4. **Accounts Payable:** Any accounts due at the end of the month.
5. **Depreciation:** Assets wear out and lose value. The monthly depreciation value is established by your accountant (as allowed by the IRS).



## Your Cash Flow Statement

Name of Business	Start-Up	Month 1	Month 2	Month 3	Month 4
<b>A CASH ON HAND</b> (beginning of month)					
<b>B CASH RECEIPTS</b>					
1 Cash Sales					
2 Collections from Credit Accounts					
3 Loan or Other Cash Injection (Specify)					
<b>C TOTAL CASH RECEIPTS</b> (B1+B2+B3)					
<b>D TOTAL CASH AVAILABLE</b> (A + C, before cash paid out)					
<b>E CASH PAID OUT</b>					
1 Purchases (Merchandise)					
2 Gross Wages					
3 Payroll Expenses (Taxes, vacations, etc.)					
4 Outside Services (Outside labor)					
5 Supplies (Office & operating, not for resale)					
6 Repairs and maintenance					
7 Advertising					
8 Car, Delivery & Travel					
9 Professional Services (Accounting, legal, etc.)					
10 Rent (Real estate only)					
11 Telephone					
12 Utilities (Water, heat, electricity, etc.)					
13 Insurance (On business property & products)					
14 Taxes (Real estate, sales, inventory, etc.)					
15 Interest (on loans)					
16 Other Expenses (Specify each)					
17 Miscellaneous (Small expenses)					
<b>18 Subtotal</b>					
<b>F OTHER OPERATING COSTS</b>					
1 Loan Principal Payment (Include equipment)					
2 Capital Purchases (Specify)					
3 Other Start-up Costs					
4 Reserve and/or Escrow (Insurance, tax, etc.)					
5 Owner's Withdrawal (Income tax, etc.)					
<b>G TOTAL CASH PAID OUT</b> (E18 + F1 through F5)					
<b>H CASH POSITION</b> (End of month, D minus G. Becomes cash on hand for next month)					
<b>ESSENTIAL OPERATING DATA</b> (Items explained on page 27)					
1 Accounts Receivable (End of month)					
2 Bad Debt (End of month)					
3 Inventory on Hand (End of month)					
4 Accounts Payable (End of month)					
5 Monthly Depreciation					

	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total Costs
<b>A</b>									
<b>B</b>									
1									
2									
3									
<b>C</b>									
<b>D</b>									
<b>E</b>									
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
<b>18</b>									
<b>F</b>									
1									
2									
3									
4									
5									
<b>G</b>									
<b>H</b>									
<b>EOD</b>									
1									
2									
3									
4									
5									

## Ratios

Ratios are your business' scores. Even though ratios are not included in your business plan, they will be calculated by lenders to make decisions.

Lenders and investors compare your ratios to:

- acceptable bank ranges
- a company's prior years
- your business' history
- other companies in your industry

Industry averages are found in the RMA Annual Statement Studies, your industry's associations, trade magazines and Small Business Administration/SBA.

### Asset Management Ratios

#### ACCOUNTS RECEIVABLE TURNOVER

Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)

**Formula:**      **Accounts Receivable x 365 / Net Sales Figure**

Example:       $\$75,000 \times 365 / \$900,000 = 30.4$   
*It takes 30 days to collect bills.*

Note: Shows how many days it takes to collect money owed to you. Lower answers are better.

#### INVENTORY TURNOVER

Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)

**Formula:**      **Inventory Figure x 365 / Cost of Goods Sold**

Example:       $\$85,000 \times 365 / \$540,000 = 57.4$   
*57 days to turnover or sell the inventory.*

Note: Shows how many days it takes you to turnover (or sell) your inventory. Lower answers are better.

## Liquidity Ratios

### WORKING CAPITAL

Number Source: Balance Sheet (pg. 22)

**Formula:**        **Current Assets – Current Liabilities**

Example:        \$170,000 – \$150,000 = \$20,000

Note: Shows if a company has enough cash to pay bills. This example shows an excess amount after paying all current liabilities. The answer must be positive. More money is needed to meet expenses if the answer is negative

### QUICK OR ACID TEST

Number Source: Balance Sheet (pg. 22)

**Formula:**        **(Total Current Assets Less Inventory) / Total Current Liabilities**

Example:         $(\$170,000 - \$85,000) / \$150,000 = 0.56$

*The answer should be 1 or more to show the company can pay all its current liabilities without selling any of its inventory. In this example, the answer, \$0.56, is less than 1. The company could not pay all its current liabilities without selling some inventory.*

Note: Shows current assets and cash after inventory is eliminated. (Inventory can become obsolete.) It's called "quick" because it includes items that can be turned into cash.

### CURRENT

Number Source: Balance Sheet (pg. 22)

**Formula:**        **Total Current Assets / Total Current Liabilities**

Example:         $\$170,000 / \$150,000 = 1.13$

*Number of times you can pay current liabilities.*

Note: Shows a company's short-term debt paying ability. This means there is \$1.13 in cash and current assets available to pay every \$1 of current liabilities.

## Debt Management Ratios

### LEVERAGE (OR DEBT-TO-WORTH): VERY IMPORTANT RATIO

Number Source: Balance Sheet (pg. 22)

**Formula:**      **Total Liabilities / Total Capital**

Example:         $\$204,000 / \$87,000 = 2.34$   
*The company is leveraged 2.34 times.*

Note: Shows whether or not a company has enough equity. Lower answers are better. Lenders prefer this ratio to be 3 or lower.

### ACCOUNTS PAYABLE TURNOVER

Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)

**Formula:**      **Accounts Payable x 365 / Purchases**

Example:         $\$41,000 \times 365 / \$350,000 = 42.75$   
*Accounts Payable are paid every 43 days.*

Note: Shows how quickly a company pays its suppliers. Lower numbers are better.

## Profitability Ratios

### PROFIT MARGIN ON SALES

Number Source: Income Statement (pg. 24)

**Formula:**        **Net Profit / Net Sales**

Example:        \$53,000 / \$900,000 = 0.0588  
*The profit margin is 5.9%.*

Note: Shows the percentage of net profit for every dollar of sales. If the profit margin is too low, the prices are too low, the cost of goods is too high, or expenses are too high. Compare the profit margin to previous years (if the business is over three years old). New businesses may compare the profit margin to those published in RMA studies or by trade associations

### CASH FLOW TO CURRENT MATURITIES (DEBT SERVICE): VERY IMPORTANT RATIO

Number Source: Balance Sheet (pg. 22) & Income Statement (pg. 24)

**Formula:**        **(Net Profit + Depreciation) / Current Portion of Long-Term Debt**

Example:        (\$53,000 + \$10,000) / \$6,000 = 10.5  
*For every dollar of debt, \$10.50 is available to pay it.*

Note: Shows your ability to pay term debts after owners' withdrawals. Lenders prefer 2 or better.

## Your Business Ratio Analysis

*Your Answer*

<b>Assets</b>	Accounts Receivable Turnover	=	_____
	Inventory Turnover	=	_____
<b>Liquidity</b>	Working Capital	=	_____
	Quick or Acid Test	=	_____
	Current	=	_____
<b>Debt</b>	Leverage (or Debt-to-Worth)	=	_____
	Accounts Payable Turnover	=	_____
<b>Profit</b>	Profit Margin on Sales	=	_____
	Cash Flow to Current Maturities (Debt Service)	=	_____

## Formulas

### Breakeven Point

When a company has neither a profit nor a loss, it is the breakeven point. It is important to determine your breakeven point so you know the sales needed for your business to be profitable. The numbers for this formula come from your Income Statement (see page 24).

1. Determine your Net Sales
2. Total your Variable Expenses and divide them by the Net Sales to calculate the percentages they represent
3. Subtract your Total Variable Expenses from your Net Sales to calculate the Margin.
4. Divide your Fixed Expenses by the Margin and the answer is your Breakeven Point

### Example

1. Determine your Net Sales	\$900,000	<i>Net Sales</i>	100%
2. Total your Variable Expenses and divide them by the Net Sales to calculate the percentages they represent	\$540,000	<i>Cost of Goods Sold</i>	60% (540K / 900K)
	+ \$90,000	<i>Selling Expenses</i>	+ 10% (90K / 900K)
	<hr/> \$630,000	<i>Total Variable Expense</i>	<hr/> 70% (630K / 900K)
3. Subtract your Total Variable Expenses from your Net Sales to calculate the Margin.	\$900,000	<i>Net Sales</i>	100%
	- \$630,000	<i>Total Variable Expense</i>	-70%
	<hr/> \$270,000	<i>Margin</i>	<hr/> 30% Or 0.30
4. Divide your Fixed Expenses by the Margin and the answer is your Breakeven Point	\$170,000	<i>Fixed Expenses (this number comes from page 24)</i>	
	÷ 0.30	<i>Margin</i>	
	<hr/> \$566,667	<i>Breakeven Amount</i>	



This company needs sales of \$566,667 to break even. One dollar more and the business is profitable. One dollar less and the business shows a loss.

## The 1-2-3 Method for Loan Decisions

Use the 1-2-3 method to pre-qualify and calculate your maximum loan amount.

1. **Discounted Collateral:** Also called "Collateral Coverage." Every \$1 borrowed must be covered by \$1 in collateral. Lenders discount the value of assets (collateral) so the discounted value must equal the loan amount. This covers the lender in case of foreclosure. See page 18.
2. **The Ability to Repay:** Also called "Debt Service Coverage." For every \$2 a business has in annual cash flow, the bank will allow \$1 in loan payments.
3. **Equity:** Also called "Debt-to-Worth" or "Leverage." A business can borrow \$3 for every \$1 invested

## Example

### Discounted Collateral

Maximum Loan: \$55K

This is a common discount formula used with collateral:

	Market Value	Discount Percentage	Discounted Value
Inventory	\$30,000	50%	\$15,000
Fixed Assets	\$50,000	50%	\$25,000
Accounts Receivable	\$20,000	25%	\$15,000
Total	\$100,000		\$55,000

### The Ability to Repay

Maximum Loan: \$36.5K

The ABC Company needs to calculate how much they can borrow and afford to re-pay for a seven-year loan:

- \$12K net profit + 3K in depreciation = \$15K annual cash flow
- \$15K x 50% = \$7.5K the maximum lenders usually allow in annual payments is half of the annual cash flow
- \$7.5K/12 months = \$625 maximum monthly payment
- \$625/\$17.13\* = \$36.48K rounded to \$36.5K

\*Monthly payment on a \$1000, seven-year loan with an interest rate of 11% is \$17.13

**Equity**

*Maximum Loan: \$75K*

Assume ABC Company wants to refinance a \$75K loan. The business has assets of \$100K, liabilities of \$75K, and Net Worth or Equity of \$25K.

**The Loan Decision**

The lowest of the three answers calculated here is the maximum loan size. The maximum loan size for ABC Company is \$36.5K.

## Appendix Items Checklist

The Appendix comes at the end of your business plan. It includes all the details and documents that support your business plan. The first page of your Appendix should be a listing of its contents. Organize the documents in the order they are referred to in your business plan. The Appendix grows so it's a good idea to use a 3-ring binder with tabs or an expandable file.

In general, your Appendix should include:

- estimates for anything being purchased
- estimates on any work to be done
- copies of documents related to loans, mortgages, and accounts payable to be refinanced

### BUSINESS DESCRIPTION

- Legal documents filed with your state or municipality

### BUSINESS DESCRIPTION, EXPLAINED

- Detailed industry information including economic trends, growth patterns and forecasts.

### MANAGERS & EMPLOYEES

- Managers' job descriptions, salaries and benefits.
- Monthly cost and explanation of outsourced services or functions.
- Managers' and employees' résumés

### OPERATIONS & LOCATION

- Include proposed rentals, leases or purchases of furniture, fixtures, equipment and machinery.
- Suppliers' names, addresses, products or services supplied, costs/ quotes, delivery/shipping fees, turnaround, terms of sales, contracts, and a purchasing plan.
- Details about assistance from your suppliers.
- Provide a copy of the deed if you own the business location. If buying the location, include a purchase-and-sale agreement and related legal documents. An appraisal of the building, the assets and liabilities along with an environmental inspection, will be done by the lender.
- If your location is leased, include a copy of the lease (or proposed lease) with terms, conditions, and cost.
- Show quotes for improvements and renovations.
- Traffic patterns if you own a retail business.
- Zoning statement from local government.
- Approval letters from local and state inspectors (building, fire, health, environmental, and occupational safety).

- Photos of your location, inside and outside. Include a floor plan, blueprint or plot plan (if constructing location).

## MARKETING

- Detailed plans and costs for research and development.
- Advertising and promotional ideas, schedules and budgets.
- Compensation (salary, commission, or both) details for sales staff, reps, agents, brokers or wholesalers.
- Product and price comparisons of competitors.

## BUYING A BUSINESS

- Pictures of the business location.
- Detailed description of the building.
- Appraised value of the building, inventory and equipment.
- A current Balance Sheet, a year-to-date Income Statement, and copies of the seller's tax returns for the last 3 years.
- Inspection reports, if available. If not, let the lender order them.
- Patents and trademarks.
- Purchase-and-sale agreement and/or an offer to buy and any legal documents that apply to the purchase

## LOAN REQUEST

- The use of loan proceeds: Include quotes and a breakdown of furniture, fixtures, equipment and machinery.
- Collateral: Make, model, year, serial number, and fair market value of furniture, fixtures, equipment and machinery.
- Cash Flow analysis to prove working capital needs.

## PERSONAL FINANCIAL STATEMENT

- Stocks & Bonds: The number of shares, name of securities, cost, market value with the date.
- Life Insurance policies: Provide the face amount and cash surrender value, name of insurance companies and beneficiaries.
- Real Estate: List each property and include the date purchased, its original cost, and the present market value. Also include the mortgage account number, loan balance, and the monthly payment.
- Other property: Any pledged as security/collateral. Include the name and address of lien holder, lien amount, and payment terms.
- Notes Payable: Include the name and address of the noteholder, original loan balance, current loan balance, payment amount, and what collateral is used for security.

- Unpaid taxes: Describe the type of unpaid tax, who taxes are owed to, the amount, when payment is due, and whether there is a lien on any property.

#### PERSONAL FINANCIAL STATEMENT

- Copies of life insurance statements, stocks and bonds certificates, and real estate deeds.
- Copies of notes payable, real estate statements with monthly payment amounts, and unpaid tax bills.
- Copies of signed tax returns (past three years) for each owner.

#### BALANCE SHEET

- Existing businesses: Last three years' fiscal year-end statements and an interim statement (not more than two months old).
- Start-up companies: Include an opening Balance Sheet (balance sheet the day after the loan closes).

#### INCOME & EXPENSE STATEMENT (OR P&L)

- Existing businesses: Three years' fiscal year end statements, plus an interim statement (not more than two months old).
- Provide projections month by month for the first year, quarterly for the second year and lump sum for the third year