PLAN2 PROFIT

A GUIDE TO WRITING

THE MODERN BUSINESS PLAN

VOLUME 2

HAFFHOUR HANDBOOK

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Welcome!

So you have to write a business plan do you? - Great. (*It is one of those things that will make the blood drain from your face.*)

Is it for the bank? Is it for an investor? For you?

There are also tons of templates out there that you can download for free, or you can go to your local business center and they'll give you one; but you probably don't have the time or the patience to fill in the 250 sections that those entail. And are any of those going to be what you need? - Probably not. Long gone are the days when a business plan was evaluated by weight.

Instead, I will give you in ½ an hour or less, the key components that you must include in any plan; including the one that you need to complete for yourself. Yes you need a plan! It is a well-written strategic document that not only provides you the means to acquire funding for your new business; but also, proves that your business idea is viable and sustainable.

We only have ***29 minutes left*** so let's get going.

Stage #1. Concept

Before you start your business plan, you must have a very clear picture of what it is you want to open.

- A hardware store?
- A landscaping company?
- A restaurant?
- A retail store?

No matter what it is, you have to be able to **describe in detail what is going to happen in that business – before you open it -** Seriously.

- Are you working alone or do you have employees?
- What products are you selling?
- How much are you charging?
- Who are your suppliers?
- Who is your ideal customer?

It is so important that you can envision exactly what it is you are trying to do, and how you are trying to do it, **before** you go through the process of actually doing it.

Once your concept is clear, go out and run it by people whose opinion you respect. "Hey, Bob, gotta minute?" Then describe it to them and gauge their reaction.

Flying these trial balloons lets you get immediate feedback on the potential for your business. And listen. If Bob says: *"I really don't see a lingerie and bait shop working in this town."* then go and try it on someone else. If the response is the same – and in this case it probably will be – then ditch it.

Too many people THINK they have a great idea and just run headlong into start-up mode and start incurring expenses without going through the first and most important step – **developing and testing the concept**.

It is okay if people don't embrace your idea because maybe the idea really hasn't got 'legs'. It'll send you back to the drawing board and save you having to complete the business plan, as well as spending a whole bunch of money. Do not be scared to walk away. You can always come up with another idea.

Oh y**es**, by the way, **make sure that the concept matches your skills and your work experience**. How many lawyers have you seen get into the restaurant business thinking that it would be cool to own a bar and then slink back to their oak-panelled offices two years later a whole lot poorer and a whole lot wiser.

If you haven't got the experience, go get some - your idea can wait. Yes, you could bring someone who has experience in as a partner, or hire them as a manager. (*I suggest you avoid partnerships because eventually you are going to tire of each other, and although you'll address divorce in your partnership agreement – and you better have one – it will be ugly).* Stay to what you know and the rest is easier.

This **concept** thing is too big a step to skip over. In fact, the way to ensure that you complete it properly is to **put it into writing – and in detail**.

Taking it from an idea in your head to being down on paper will ensure that you really do have a grasp on your idea. When you write it down, leave nothing out - be detail oriented.

Sure this involves a little work and a whole lot of discipline; but wouldn't you like to know before you start your business where you are going? And when you write it out, you have the opportunity to challenge your own assumptions and that is the key to concept development.

You may believe that you have a singular idea; however, when you put it down in black and white it may not turn out to be as unique as you originally thought it was.

→ Can you move forward without clearly defining your concept?

→ Can you go on a vacation without knowing your destination?

Imagine getting in a car for your holiday and just driving. Where are you going? What route is the best to take? How much money do you need? Do you need a parka or a swimsuit? Are you taking the kids? *Get it?*

Okay, it doesn't have to be a literary masterpiece – **it can be in point form** – *just do it please!* You'll thank me later, I promise.

So:

- You have your concept *and*
- You have written out in detail what your business is going to be.

Well done. We can move on.

Stage #2. Financial Forecast

If you are looking for money, the bank doesn't care:

- How many households there are in your town with average incomes in excess of $80,000, *and it doesn't care*
- Who your strategic alliance partners are.

All they want to know is - if you have the wherewithal to pay them back.

For that to happen, **you need**:

- ✓ A good credit rating
- ✓ Some assets that they can latch on to
- ✓ A financial forecast that is well thought out *and*
- ✓ The resources generated from the business to repay the loan.

Stop - End of Story. Please *re-read that section*.

So, I can't help you with your credit standing; and I can't co-sign your loan – somebody else can though – but:

I can show you how to build a Financial Forecast that will demonstrate that you will have the money on your bottom line to be able to re-pay a loan.

Note: *Things are going to change, but you have to start somewhere and you have to start at the beginning, so get going now.*

The Financial Forecast, just like the whole plan, is **not** something that you do once and put on a shelf to collect dust. It is a living thing that has to be visited and updated regularly - *especially as you get going; and the* ***numbers change from estimates to being real***.

Building your Financial Forecast

Remember a few minutes ago when I told you that you had to be able to describe what was happening in your business in detail? Good, you remember. **You have to use that information now to build your forecast.**

Step 1. Start with revenue

Let's take the retail business as an example. You open at 10 a.m. in the mall.

- How many customers are you going to serve on your average mid-week morning?
- How many on an average weekend afternoon?
- How about in the evenings?

No matter what business you are starting, you have to be able to actually SEE your customers doing stuff in your business. Once you can actually see them doing things – buying your goods and services – you will be able to move on to the next phase.

Now let's take the landscaping business as another example.

- How many services are you going to offer?
- How many calls can you make in a day?
- Are you going to have more than one crew?

Again, you have to be able to **SEE what you need**; then and only then can you **project the number of services you will be capable of handling in a day**.

a) Forecasting customer counts

You have to:

1. Develop a spreadsheet and fill in your customer counts for each of the periods you are open for business. *(If you aren't good with spreadsheets, find someone who is and give them the info to input)*
2. You have to break the year down into quarters; and your quarters into 13 weeks; and your weeks into mid-week and weekend days.
3. You have to identify which periods are good, which periods are average, and which periods are poor.
4. You then have to estimate the number of customers per day or per week.

If you are in landscaping, for example, your business in the spring, summer, and fall, is going to be better than the winter. You will be going like crazy during the week and be less busy when your customers are home on the weekends. If you are in retail, the December holiday period is going to be stronger than in January.

This looks like a lot of work, but again, wouldn't you like to have a **handle on your volume of business before you open?** *I would*.

Take your time and think it through**. If you have a good handle on your business, you'll be accurate in your forecasting.** Why? You have checked out the competition and have an understanding of the business from your experience working in the industry.

If you have worked this through thoroughly, **you should have numbers of customers you'll be serving, or numbers of services that you will be undertaking during the various times of the year.** Take a good look. Are you being fair? Are you being aggressive?

I like aggressive as it makes you work harder to achieve your numbers. *You could be conservative like everyone else tells you to be; however, setting the bar low does not challenge you*.

Anyway, if you are comfortable with your forecast, then it's time to move to the next step.

b) Establishing your pricing strategy

Now you have to establish how much an average customer is spending on each purchase - *$10, $150, $5000?*

Now don't give me any of that "How am I supposed to know?" It is your job to know. If you don't, you aren't in the right business.

- Look at what your competition is doing.
- How much are they charging?
- Do they offer special rates at different times of the year?

If you have a handle on your competition - you'll find out how busy you should be and what prices you should be charging.

At this point you have to decide whether you are going to charge:

- ✓ Above
- ✓ Below or
- ✓ Right on Market Price.

Some new business owners make the mistake of entering the marketplace and trying to grab market share by charging below market price. I discourage that course of action.

It is easy for your competitors to lower their prices to chase you away, because they already have a customer base. Instead:

a. Match the market price and try and gain a foothold by offering a better service or a better product

b. Charge more and add value to your product.

If price alone was a main motivator, then the cheapest items would have the highest number of sales in all categories, and that is rarely the case.

Once you have set a pricing strategy – and it is strategic – be strong on price. *I see too often owners talking themselves down on price.*

c) Projecting your revenue

You now have your estimated customer counts; and how much each of them is going to spend. Do the math.

Customer Count x Average Spend = Revenue.

(I knew those hours spent studying algebra would be useful to you sooner or later).

You now have your revenue. Stop! Look!

If you have done things right, you should have your Total Revenue Forecast for the year in the bottom right corner of your spreadsheet. Got it? Okay.

Is that what you thought you might do, if so good - if it is higher, great. If it is lower, then rethink your customer counts and your average spends. Maybe you are not charging enough?

That revenue figure is going to be your target going forward, so if you are too conservative, you'll suffer, because it has been shown that whatever you THINK you'll do - that is what you WILL most probably do.

If your revenue is too low you can:

- ✓ Change your forecast;
- ✓ Spend money on marketing to raise your number of sales *or*
- ✓ Raise your prices.

Don't be scared to do any or all of the above. People do it all the time.

McDonald's advertises non-stop; and Apple isn't scared to charge for its products.

Now what do you do?

Step 2. Project your expenses

You have to estimate your expenses.

a) Cost of Goods Sold

What does it **cost for you to purchase your products or deliver your services?** That's called - your *Cost of Goods Sold.* In the retail business, you may decide to set your mark-up at say 3 times the buying price; so a sweater that you buy for $20 - you will sell for $60.

Cost %: $\$20/\$60\ X 100\% = 33\%$

Now life isn't that simple. When you have sales and specials, your cost of purchasing remains the same; but the sales revenue is lower because you may be offering a percentage discount – 50% OFF or a 2 for 1 sale - so your Cost of Goods Sold percentages will be higher.

You are looking for an average. So let's say you aim for an overall cost of 33%, you should budget for 38% to allow for specials and discounts.

If you know your industry and the business, you will understand what the Cost of Goods Sold should be. There are industry averages, but do the work yourself. Business is all about numbers so you might just as well get used to it now rather than later when you are open - and it is too late.

b) Labor Expenses

The next expense is labor. In the same way you had to forecast your numbers of customers to determine your revenue; you now have to figure out:

- The number of employees you will need to serve those customers *and*
- What they are going to cost you.

Get those spreadsheets going again.

1. Do up schedules for the various weeks of each quarter. I am being serious. *Do the schedules before you have even opened*.
2. Forecast how many slow, average, and busy weeks you will have; and then multiply the hours that you require help in each of those weeks by the amount you will be paying your employees.
3. Add 10% to cover government statutory payroll requirements and you are good to go.

Do the math thing again and get your labor costs for each period. Yes this is tedious, **but labor costs can kill your bottom line if you don't keep them under control** - so it is well worth it.

Remember, employees want hours, and you only want to pay them when you need them. Going forward, labor cost percentages will dominate your business life, so get used to it.

To recap:

- ✓ You now have your Revenue,
- ✓ Your Cost of Goods Sold, *and*
- ✓ Your Labor costs.

Whew. Good work and thanks for sticking with me. Just realize that most business people do not go through this process, and you wonder why people fail. Well, not any more you don't.

c) *Other Expenses*

You now need to make allowances for all the other expenses you may incur: **Advertising and Promotion, Accounting, Payment Processing, Bookkeeping Fees, Rent, Supplies, Office, Utilities, Web Hosting, etc.**

In each of these accounts, you can allocate either a **% or a $** figure to it. It may be that supplies are 2% and rent is $4500 per month. Do your homework and find out the numbers. **You want to know exactly what you will be paying out every month.**

Are you tired yet? Do you want to take a break? Okay.

We're back. You should have a bottom line.

That's a really good start; because now you know that **you really can make money**.

So let's move on to the next issue.

Step 3. Determine your Start-Up Costs

It is a good thing that you took that short break, because now we are going to deal with the single biggest cost that you will have and that is starting the business. No matter whether you working out of your home or are leasing a space, you have to convert it from what it was now into what you want it to be.

You may need help in:

- *Design*
- *Architectural*
- *Mechanical*
- *Engineering*

And then you may need to:

- *Complete the construction and/or renovations*
- *Buy furniture and fixtures*
- *Purchase equipment*
- *Pay deposits for utilities and rent*
- *Kick start your marketing and advertising program*
- *Recruit, Hire and Train your staff*
- *Purchase accounting software*
- *And so much more*

Most new business owners do not fully develop, itemize and price their start-up costs. When they first open they are expecting the operation to pay off the balance of the start-up costs and that can be a substantial amount of money that they might not have. It isn't fair to the fledgling operation because it will be struggling to get on its feet and will not be in a strong enough financial position to take the added burden.

So do it right by setting a budget and sticking to it. You will put some of the money in and the rest will come from a lender or investor.

So there you have it. A full forecast including start-up costs.
Imagine walking into a bank with this Financial Forecast as part of your plan? Wouldn't that rock the banker's world? – "you betcha." And you'll be able to defend each and every number. **That's what I call being prepared**.

Stage #3. Marketing

The next step is to put together a *Marketing Strategy* to meet your revenue projections. If you are being aggressive – and I hope you are – then you will require a thorough marketing strategy in place. This should not be a problem for you if you know your customer and the marketplace as a whole.

Marketing is best described as having the RIGHT product or service in the RIGHT place at the RIGHT price and at the RIGHT time - simple really. So all you have to do is that - really. Okay it involves a little more than that, but you get the idea.

- ✓ You have developed your product or service to meet your customers' needs.
- ✓ You know your marketplace intimately having studied it.
- ✓ You have selected the price that you want to enter the market with and are confident that you can get it.
- ✓ You will make sales because you have test marketed it.

So now it is all about timing.

You will have to use a marketing mix that includes:

- Public Relations
- Promotion *and*
- Advertising

PR is the cheapest so push that as far as you can. With everything else, you are limited by only two things – your budget and your imagination. **Since your imagination costs you nothing, use it**.

Since this is the 21st Century, you'll utilize the Web and Social Media. If you do it right, you can chase up interest in some of the most obscure places for little or no cost using digital marketing strategies.

Plan to not cut corners. Use a proven and professional Web designer and not your neighbour's kid to build your Internet sites. Once you have settled on your concept, you can get the Website and Social Media pages up right away so you can drum up interest - before you even open. Hire marketing professionals to help you promote your business.

Prospective lenders will be much more comfortable about a product that they can see is past the "idea" stage.

Pin down your costs for marketing, and be prepared to stick to them. Yes, you may need to allocate more monies down the road, but that is down the road: you'll have to be nimble in all areas of your forecast not just marketing.

So you now have:

- ✓ Your concept
- ✓ A financial plan *and*
- ✓ A marketing strategy in place.

What now you ask?

Stage #4. The Team

To be successful in a new business venture, this is what is important:

1. You
2. Your Team
3. Your Idea

And in that order. As stated previously, ideas are like streetcars.
You – personally - have to be solid financially.

Then your team gives you guidance and credibility.

- Gather together as many good minds as you can find and ask them to be members of your board of advisors.
- Draw from people who are in your industry and those who are not.
- Grab professionals and successful people from all walks of life.

If someone says, "If Bob is on your team it must be good" then you are on the right track. Run your plan by members of your team. Let them drag you through the mud first. It will give you experience and get you prepared to answer objections later on, when and if you may have to present your concept or plan.

- Make sure that you keep members of your team informed.
- Don't look for a rubber stamp.

Encourage honest feedback and then act on their suggestions. They didn't get those wrinkles and grey hairs for nothing. *(Yes, you should have experience and age on your side.)*

- Hook up with Professionals

You should have a business advisor, lawyer and accountant on board. They will help you with setting up your company properly, and make sure that you don't have issues down the road. *Look for the smart ones; not necessarily the cheapest ones.*

Stage #5. Putting it all together

If you think you are going to be presenting the plan to someone, you should now have all the necessary and pertinent information.

Now set up the plan so it has a flow to it. You should have:

1. An Overview – essentially the concept in review
2. Financial Forecast
3. Start-Up Costs
4. Marketing Strategy
5. Your Team
6. Any other information that you think the reader will deem pertinent: samples of your products or a copy of the lease for example
7. The Ask - what are you looking for in terms of money, Line of Credit and terms? Be specific and be strong. Ask for what you need. Your start-up costs will tell you exactly what you need.

Make the whole thing look good. Email it to the reader ahead of time. You want them to have a handle on what you are proposing before you start pitching. There should be no surprises.

- Take your most recent tax return with you.
- Take a list of your assets and liabilities with back-up.
- Take your business advisor with you - as it will add credibility to you and your plan.

If you are just developing the plan for yourself, then keep it close at hand and **update it regularly**.

Stage #6. Know your Business Plan

If you are going to have to present your plan, first test it out on someone whom you know will not be interested. Fumble around and mess up on him or her rather than on someone whom you think might be interested. Do this for real.

You want your meaningful presentation not to be your first presentation. Practice does make perfect.

And there you have it.

You have a plan that will help you succeed; and will attract attention of lenders; and you found out how to do it in less than ½ an hour - courtesy of:

THE HAFFHOUR HANDBOOK
On
How to Write a Business Plan

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