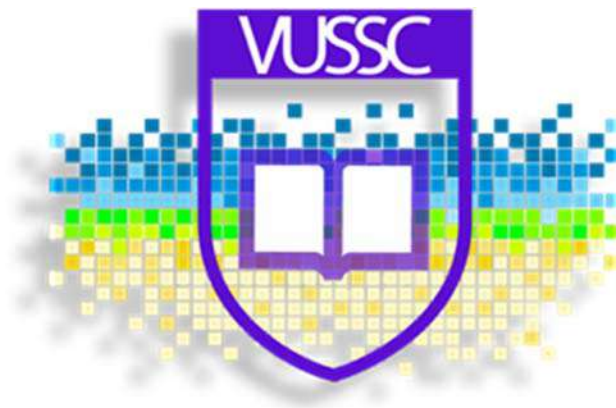


BUSINESS PLAN DEVELOPMENT



Course Name: Business Plan Development

Course Author:

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Commonwealth of Learning
Edition 1



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Table of Contents

COURSE OVERVIEW.....	1
Introduction	1
Course Goals	1
Course Structure	1
Assignments and Projects	2
Journaling Requirements	2
Assessment	2
Time Required	2
Course Schedule.....	3
STUDENT SUPPORT	4
Academic Support.....	4
How to Submit Assignments	4
Technical Support	4
UNIT ONE – CREATING A NEW BUSINESS FROM THE GROUND-UP	5
Unit Introduction	5
Unit Objectives.....	5
Assignments and Activities	5
Topic 1.1 – Coming Up with A Good Business Idea	6
Topic Introduction.....	6
Topic Objectives.....	6
Coming Up with a Good Business Idea	6
Brainstorming Techniques	7
The Idea Generation Process	9
Some Final Thoughts about Idea Generation	9
Topic Summary	10
Topic 1.2 – Evaluating And Formalizing Your Business Idea	11
Topic Introduction.....	11
Topic Objectives.....	11
Selecting The Best Idea	11

Who is Your Customer?	12
Will Your Product or Service be able to Compete with Existing Companies?	14
How will you Distribute your Product or Service?	14
How will you Promote your Product or Service?	14
Do you Need Intellectual Property Protection for your Idea?	15
Are there any Government Restrictions or Obligations that could limit your Idea?	15
Another Approach to Evaluating Business Ideas	15
Topic Summary	16
Assignment 1: Business Idea Generation and Evaluation	17
Unit One Summary	18
Next Steps	18
References	18
Other Resources	18
UNIT TWO – COMPETITOR ANALYSIS	19
Unit Introduction	19
Unit Objectives	19
Assignments and Activities	19
Topic 2.1 – Industry Analysis	20
Topic Introduction	20
Topic Objectives	20
Why is Industry Analysis an Important Part of a Business Plan?	20
Researching Industry Size	21
Why Forecast Industry Growth?	21
Understanding Industry Structure	22
Industry Cost Structure and Distribution	22
Distribution Systems	23
How to Spot Trends	23
Key Success Factors	23
A Short How-to Guide on Conducting An Industry Analysis	24
Topic Summary	26
Topic 2.2 – Key Questions to Ask About Your Competitors	27
Topic Introduction	27

Topic Objectives	27
Why Bother to Analyze Competitors?	27
Key Questions to Ask About Your Competitors	28
Some Sources of Information for Competitor Analysis	28
What Businesses Need to Know About Their Competitors	29
Topic Summary	30
Topic 2.3 – Competitor Analysis Framework	31
Topic Introduction.....	31
Topic Objectives	31
Gathering Information about Competitors.....	31
Analyzing the Competition.....	32
Writing the Competitive Analysis Section.....	33
Topic Summary	33
Topic 2.4 – The Strategic Force Field Model	34
Topic Introduction.....	34
Topic Objective	34
A Brief Introduction to Lewin’s Force Field Model	34
Applying Lewin’s Force Field Model to Factors Affecting your Business.....	36
Topic Summary	38
Assignment 2: Competitor Analysis	39
Unit Summary	39
Next Steps	39
References	39
Other Resources.....	39
UNIT THREE – CUSTOMER PROFILE	41
Unit Introduction	41
Unit Objectives.....	41
Assignments and Activities	41
Topic 3.1 – The Components of a Customer Profile	42
Topic Introduction.....	42
Topic Objectives	42

Demographics	42
Geography.....	43
Psychographics.....	43
Attitudes	44
Buying Behaviour	45
Topic Summary	46
Topic 3.2 – Creating a Customer Profile for The Ideal Customer	47
Topic Introduction.....	47
Topic Objectives.....	47
The Ideal Customer – Where to Begin	47
What Does Your Ideal Customer Look Like?	48
Creating an Ideal Customer Profile	48
Topic Summary	50
Assignment 2: Creating an Ideal Customer Profile	50
Unit Three – Summary	51
Next Steps	51
References	52
Other Resources.....	52
UNIT FOUR – BUSINESS PLANNING.....	53
Unit Introduction	53
Unit Objectives.....	53
Assignments and Activities	53
Topic 4.1: The Importance of the Financial Plan.....	54
Topic Introduction.....	54
Topic Objectives	54
Building an Income Statement.....	54
Creating a Cash Flow Statement	56
Creating a Balance Sheet	57
How a Balance Sheet Works	57
Assets	58
Liabilities	58
Revenue Generation Models	60

Financial Forecasting and Growth Projections	61
Topic Summary	63
Topic 4.2: Writing the Business Plan	64
Topic Introduction.....	64
Topic Objectives	64
A Review of the Business Plan Components.....	64
Writing the Plan	66
Topic Summary	67
Major Assignment 4: Writing the Business Plan.....	68
Unit Four – Summary	69
References	69
Other Resources.....	69
COURSE SUMMARY.....	71
Lessons Learned	71
Application Of Knowledge And Skills	71
Course Evaluation	71
COURSE APPENDICES	72
Appendix 1: Ideal Customer Profile Worksheet.....	72
Appendix 2: Sample Financial Statements	81
Appendix 3: Example Business Plan: Retail Gift Shop.....	84
Appendix 4: Example Business Plan: Retail Clothing	107
Appendix 5: Business Plan Elements Checklist	116

COURSE OVERVIEW

INTRODUCTION

This Business Plan Development course is designed to help prepare future entrepreneurs to formalize and communicate their business idea to a variety of audiences including potential funders such as banks, other lending institutions, government agencies, and venture capitalists. This course will help ensure that future entrepreneurs understand how to conduct a competitor analysis by asking key questions about their competitors. It will also guide them through the process of profiling customers and determining the target market for their goods or services. With this as a background, and drawing on the other courses in this certificate program, future entrepreneurs will be develop a complete business plan for their business venture including all of the financial components, competitive analyses, and customer profiles.

COURSE GOALS

Upon completion of this course, future entrepreneurs should be able to:

1. Identify, develop and evaluate a business idea.
2. Acquire the entrepreneurial skills required to gather and analyze industry information, potential markets, assess the impact of competitors and define the needs of potential customers.
3. Analyze the environment or industry in which the proposed business will exist.
4. Conduct a feasibility analysis.
5. Create a customer profile.
6. Analyze the competition and determine their impact on your proposed business venture.
7. Produce strategies to address the competition.
8. Develop a revenue generation model and growth strategies.
9. Produce a multi-year financial plan that supports the business venture.
10. Projecting business growth and its impact on resources, personnel and finances.
11. Describe the content of a business plan.
12. Apply the business planning process to produce a business plan.

COURSE STRUCTURE

The course is divided into four units:

- Unit 1: Creating a New Business from the Ground-up
- Unit 2: Competitor Analysis
- Unit 3: Customer Profile

Unit 4: Business Planning

Each unit is further broken down into related topics. Each unit and many topics include self-reflection questions to ponder, activities to complete and formal assignments to complete and send to your instructor.

The units contain a number of references that learners are encouraged to review. This may require that you have access to a computer with Internet connection to download the reference. Each unit should take between two and three weeks to complete.

ASSIGNMENTS AND PROJECTS

A series of activities and assignments guide you through concepts in this course and ask you to demonstrate that you can apply the concepts to support the creation of your business idea and business model. A summary of this work is included at the beginning of each unit. The major assignment in this course is found in Unit Four, where you will write a business plan for your new venture. Your institution / tutor will help you through this material and will also assign additional projects.

JOURNALING REQUIREMENTS

To capture the output from the reflective questions and activities you are asked to keep a personal journal. At the end of the course the personal journal will be submitted to your instructor for feedback and grading.

ASSESSMENT

Assessment takes the form of responding to activities, as well as written assignments and examinations as determined from time-to-time by the institution. In cases where coursework assignments, fieldwork projects, and examinations are used in combination, a percentage rating for each component will be communicated to you at the appropriate time.

TIME REQUIRED

This course is worth 16 credits, or a credit value assigned by your institution. Each credit is equivalent to 10 notional hours. You are, therefore advised to spend not less than 160 hours of study on the course. This notional time includes:

- going over activities embedded in the study material;
- peer group interaction (where necessary);
- face-to-face tutorials (where necessary);
- working on tutor-marked assignments; and
- preparation time for and sitting examinations (where that is a requirement.)

COURSE SCHEDULE

A course schedule with due dates and additional readings will be supplied to you by your institution.

STUDENT SUPPORT

ACADEMIC SUPPORT

<Insert the following information if relevant>

- How to contract a tutor/facilitator (Phone number, email, office hours, etc.).
- Background information about the tutor/facilitator if he/she does not change regularly. Alternatively provide a separate letter with the package describing your tutor/facilitator's background.
- Description of any resources that they may need to procure to complete the course (e.g. lab kits, etc.).
- How to access the library (either in person, by email or online).

HOW TO SUBMIT ASSIGNMENTS

<If the course requires that assignments be regularly graded, then insert a description of how and where to submit assignments. Also explain how the learners will receive feedback.>

TECHNICAL SUPPORT

<If the students must access content online or use email to submit assignments, then a technical support section is required. You need to include how to complete basic tasks and a phone number that they can call if they are having difficulty getting online>.

UNIT ONE – CREATING A NEW BUSINESS FROM THE GROUND-UP

UNIT INTRODUCTION

Welcome to the first unit in this course on the development of a business plan. In other courses in this certificate program you have been introduced to the world of entrepreneurship, and a range of topics that will help you to run and put your business into operation. In this unit, you will take a new business idea (it could be one that you developed earlier in this program or it could be a new one) and evaluate and present your idea.

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Describe an idea for a new business.
2. Evaluate your new business idea against a set of criteria.
3. Formally present your new business idea to potential funders.

ASSIGNMENTS AND ACTIVITIES

There are a number of learning activities and assignments throughout this unit. The major assignment for this unit involves the generation of good business ideas and evaluating these ideas against a set of criteria. As in earlier courses, you will also be asked to complete a self-assessment to help you identify your own strengths and weaknesses. This will help you identify areas that need improvement and strengths that you can build upon.

TOPIC 1.1 – COMING UP WITH A GOOD BUSINESS IDEA

TOPIC INTRODUCTION

Every entrepreneur that decides to start a new business has to spend some time developing a business idea. Most entrepreneurs start with an idea that is driven by their passion and interests. However, just because you are interested and passionate about something does not mean that it will translate into a profitable business.

Coming up with a good business idea involves determining the potential demand for your product or service and having knowledge about your competitors and the needs and wants of potential customers. Gathering this information means doing research.

In this topic, you will consider strategies and approaches to coming up with a new business idea.

TOPIC OBJECTIVES

Upon completion of this topic you will be able to:

1. Describe the stages of idea generation for a new business venture.
2. Ask yourself some key questions that can help you come up with a new business idea.

Let's begin by looking at how to generate a good business idea.

COMING UP WITH A GOOD BUSINESS IDEA

Earlier in this program you considered the characteristics of a good entrepreneur. Coming up with a winning idea is one of the qualities that is critical to success. Many entrepreneurs are able to spot a gap in the market and come up with products and services that are able to fill the gap. Others are able to take an existing product and make a significant improvement that will capture the attention of consumers. For other entrepreneurs come up with a winning idea may be a challenge.

There are many ways to identify a new business idea. You may want to ask yourself the following kinds of questions as a way of helping you to generate a new idea:

- Do you have any particular skills that could form the basis of a new business?
- Are you aware of a gap in the market in the industry that you currently work in?
- Do you have a hobby that could be turned into a business?



"This really is an innovative approach, but I'm afraid we can't consider it. It's never been done before."

- Has there ever been a time when you needed a particular service or product that nobody else provides? If you needed it, there is a good chance that other people will too.
- Are there others that you know and trust that you can talk to and **brainstorm** ideas about new business ideas?
- Are there any organizations or networks in your local community that you can join that will act as forums to discuss your ideas and get new ideas from others?



There are various established methods for developing a business idea. For example, you can:

- conduct **market research** to discover whether your idea fills a gap in the market - see our guide on market research and market reports
- **brainstorm** your idea with friends, colleagues or staff - they can give different perspectives on the idea and may know if anyone else is doing the same thing
- think about whether your idea can take advantage of an opportunity created by **new technologies**
- consider whether **social trends** will affect demand for your product, e.g. the increasing demand for organic food or concerns about global warming and carbon footprints

BRAINSTORMING TECHNIQUES

Brainstorming is an effective way of ensuring that you don't settle on the first thought that enters your head. The first solution to a problem is seldom the most creative and only occasionally the best solution. The first solution is, on the other hand, usually the most commonplace solution. It is the solution that most people including your competitors' would adopt in the same circumstances. Applying the same solution as your competitors will likely not lead to success.

So, how does one brainstorm ideas? There are several useful techniques that you can apply. Here is a sample of some useful techniques to consider.

Gap Filling

This technique is useful for taking an idea and enhancing it or 'filling a gap'.

Identify where you are at with your business idea (Point A) and your end goal (Point B).

Answer the following questions:

- What is the gap that exists between Point A and B?
- What do you need to fill this gap? What resources? Expertise?

Mind Mapping

Mind mapping can be an exciting method for generating ideas because you are building on the ideas that come to mind and expanding an original idea in what can be new or novel ways. You are mapping out the tangents that your mind takes.

To create a mind map, take a concept or idea and write it in the centre of your page. Write concepts and ideas around that idea until something interests you. When you exhaust the options for one of the topics, elaborate on one of the subtopics. Here is an example of a mind map diagram to give you an idea of what one looks like.



Brain Writing

Brainwriting is a particularly useful when working with a group of people who are reluctant to share their ideas openly in a group.

Typically, brain writing involves the following process:

- Each person writes down a problem or business opportunity. Each person in the group may write down a different problem or it may be the same problem.
- Next, each person passes what they have written to the next person who writes down ideas to solve the problem.
- The sheets are passed along to the next person who adds more ideas using the exiting ideas as stimuli. The sheets are passed around until they are full.

Now let's consider the entire idea generation process.

THE IDEA GENERATION PROCESS

The diagram to the right illustrates the various stages of the idea generation process and the relative amount of investment (a little as indicated by the minus (-) sign or a lot as indicated by the plus (+) sign) that is required during the early stages of idea generation versus the latter stages leading up to full commercialization of a business idea. Clearly, the early stages are inexpensive but when it comes time to test market and introduce a commercial version of the product or service, the costs can be considerable.



SOME FINAL THOUGHTS ABOUT IDEA GENERATION

One of the challenges that many entrepreneurs face when generating ideas is to think that their idea is going to capture a significant share of a large market. This belief leads to over-estimating the amount of revenue that can be captured particularly in the early stages of a start-up. While large estimates of revenue will attract the attention of potential funders they can also set up a new enterprise for failure.

In order to create a business that has a reasonable chance of success it is necessary to do conduct market research that will enable you to screen your ideas **before** they are tested in the market and commercialized. Commercializing a business idea without undertaking the necessary market research and analysis will most often result in failure. Many good ideas are fine tuned or even scrapped at an early stage which is better than making an investment and taking a product or service to market and have it fail.

Now, on the next page, let's take a moment to reflect on the idea generation process and what you have learned in this topic about ways to come up with good business ideas.

Self-Reflection Questions

Think about the idea generation questions that were raised earlier in this topic. Think also about the new business that you would like to start. What is the service or product gap in the market that your idea addresses? What skills do you have that will help to make the launch of your venture successful? Who do you think will need your new product or service? How do you know?

Record your thoughts in your personal journal.

TOPIC SUMMARY

In this topic you have learned about how to generate a good business idea and some of the techniques that you can use to help bring forward new ideas. You have also been introduced to the stages of the idea generation process.

Now, let's move on and consider how you can formalize your business idea and move it from the idea stage further down the track toward the commercialization stage.

TOPIC 1.2 – EVALUATING AND FORMALIZING YOUR BUSINESS IDEA

TOPIC INTRODUCTION

Somewhere between scribbling your idea on a piece of paper and actually starting a business, there's a process you will need to carry out that essentially determines either your success or failure in business. Often, would-be entrepreneurs get so excited about their ideas and the possibilities of a given idea that they forget to find out whether the idea is viable.

Of course, sometimes the idea works anyway, in spite of a lack of market research. Unfortunately, other times, the idea crashes and burns, halting a business in its tracks. The latter is what you need to try to avoid. Researching and formalizing your business idea is just what you need to keep your business goals on track.

TOPIC OBJECTIVES

Upon completion of this topic you will be able to:

1. Describe a process for evaluating your business ideas.
2. Describe the importance of formalizing your business ideas as a part of a business plan.

SELECTING THE BEST IDEA

Selecting the best idea from a range of possible business ideas can be a difficult process for an entrepreneur. Which ones are most likely to succeed and which ones will fail are questions that entrepreneurs grapple with all of the time.

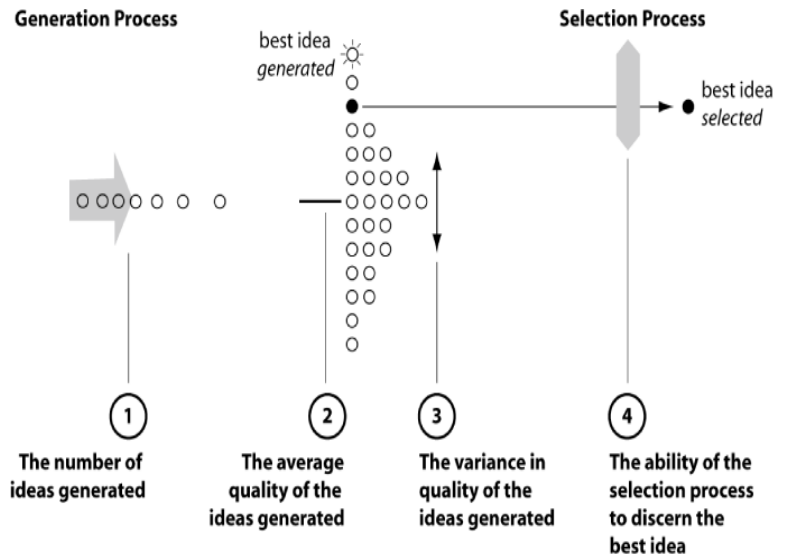
If you have used a brainstorming approach as suggested in the previous topic you will want to sort and evaluate the ideas that have been generated before committing to further business development that could cost you or your potential investors any additional money.



The diagram on the following page illustrates one way to think about the idea selection process.

As can be seen in this 4 step process, a typical brainstorming exercise will generate literally dozens of ideas that will vary in quality. The selection process that is used to pick the best idea is critical.

In the next section of the course we are going to consider a series of questions that will help you to evaluate and formalize your business ideas. These questions will form a framework that you can use prior to establishing a business plan.



Is Your Idea Truly Original?

You will need to research your idea to see if it is truly original or whether someone else has a similar product or service. Capturing a niche market, i.e. something no one else is doing, may be more profitable than competing with a similar product or service. A business expert or mentor can help you to evaluate or enhance your original business idea.

Will People be Willing to Pay for Your Product or Service?

Great ideas can only translate into a successful business if people are willing to pay for the product or service.

- First, you need to identify who the target market is for your product. Are you planning to sell to young people or seniors? Is your product primarily for women, men or both? Are you going to sell to individuals, other businesses or to the government? What income level would people need to have to be able to afford your product or service?
- Once you know who you are going to sell to, you should consider doing some market research to find out if your target market would be interested in buying your product or service and how much they would be willing to pay for it.
- If your product or service is something people would be interested in, but not willing to pay for, you can consider alternate business models. Some businesses, in particular in the service industries, offer their service for free or at a low price, but are able to make money through other avenues, such as advertising.

WHO IS YOUR CUSTOMER?

Before you begin selling something, you need to know who you are selling to. If you haven't determined who your target market is, you are likely to try to be all things to all people and end up with a product nobody likes or a service that doesn't meet anyone's needs.

When developing a general profile of your customers, you might want to define them by their demographic characteristics, such as:

- Age, usually given in a range (20-35 years)
- Sex
- Marital status
- Location of household
- Family size and description
- Income, especially disposable income (money available to spend)
- Education level, usually to last level completed
- Occupation
- Interests, purchasing profile (what are consumers known to want?)
- Cultural, ethnic, racial background



“Someone calling themselves a customer says they want something called service.”

For example, a clothing manufacturer may consider a number of possible target markets — toddlers, athletes, grandparents, teenagers and tourists. A general profile of each of these possible markets will reveal which ones are more realistic, pose less risk and are more likely to show a profit. A test market survey of the most likely target groups, or those who buy for them, such as parents for babies and toddlers, can help you separate real target markets from unlikely possibilities.

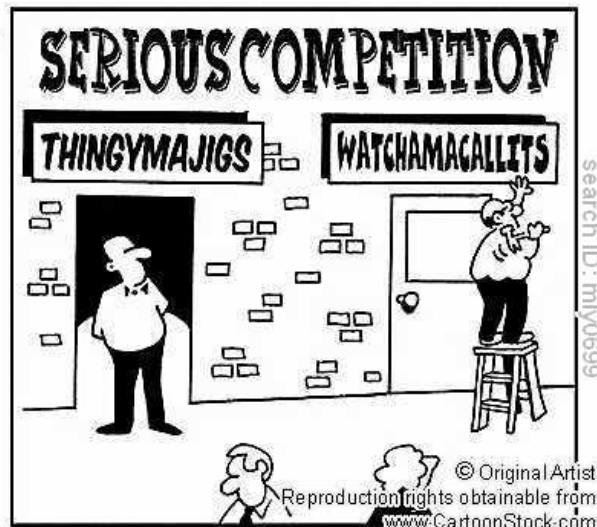
Once you have defined your target customers, you must learn about their needs and preferences.

- What challenges do they have that could be solved with your product or service?
- What are their needs and expectations regarding this product or service?
- What types of things do they desire?
- What do they spend their money on?
- Where do they shop?
- How do they make spending decisions?

Those are just a few of the many things you might want to learn about your prospective customers.

WILL YOUR PRODUCT OR SERVICE BE ABLE TO COMPETE WITH EXISTING COMPANIES?

Once you find out who your customers are, you will need to look at who else is selling



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similar products and where they are selling them. Will you be competing with a product that has already been marketed? If your idea is a consumer product, check stores and catalogues or visit trade shows to find out what other products are available and what companies market them. You need to determine why customers will buy from you and not from your competitor. Is your product superior or is your price lower than other businesses? The best way to do this is to conduct market research using data that already exists or by doing your own survey.

HOW WILL YOU DISTRIBUTE YOUR PRODUCT OR SERVICE?

To distribute your product or service, you can either start your own company or you can try to convince an existing company to buy your product or idea from you. It may be easier to start your own company than to try to convince another company to distribute your product or service. Many potential buyers are more willing to deal with a company as a supplier than they are to take on a product or invention from an independent person.

HOW WILL YOU PROMOTE YOUR PRODUCT OR SERVICE?

An idea or invention is not very useful without customers to buy it! Have you considered how potential customers will discover your product? Some ways to market your product are:

- Participating in and attending trade shows, and by getting known through your trade association
- Placing advertisements in newspapers, on the radio, on television and on the Internet
- Distributing brochures
- Having a website and being active in social media (this is something that is becoming increasingly popular but may not be available in every local area)

DO YOU NEED INTELLECTUAL PROPERTY PROTECTION FOR YOUR IDEA?

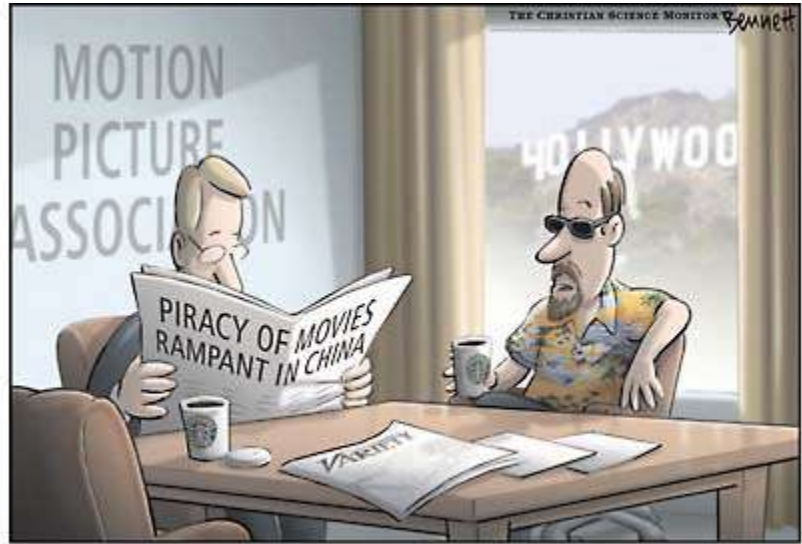
Intellectual property protection is one of the most important things that you need to attend to as the originator or owner of an idea.

Failure to protect your ideas may result in having them stolen or copied and used by others for profit.

There are a number of different legal ways that you can protect yourself.

These include:

- Patent protection
- Trade-marking
- Copyright
- Industrial design protection



"Is it still intellectual property theft if the property isn't intellectual?"

The rules that apply to each of these forms of protection and how one applies for them will vary to some extent from one country to the next. In some cases you may find that your idea cannot be copyrighted but it may still be worth pursuing from a business perspective.

ARE THERE ANY GOVERNMENT RESTRICTIONS OR OBLIGATIONS THAT COULD LIMIT YOUR IDEA?

Before you move ahead with your business idea, you may want to check to see if there are any regulations that may prohibit or limit the sale of your proposed product or service or the operation of your business.

ANOTHER APPROACH TO EVALUATING BUSINESS IDEAS

When working with firms on brand development it is important to look at a business idea from four perspectives: company, customer, competitor and collaborator (Keller, 2003). This approach allows one to scrutinize a business idea before even approaching the topic of brand development.

Here are the perspectives to consider when evaluating a business idea.

Company Perspective

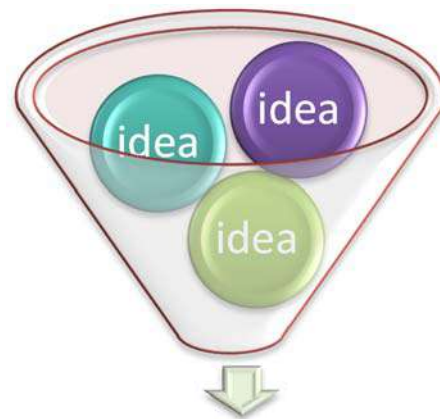
Think of your idea in terms of its product/service features, the benefits to customers, the personality of your company, what key messages you'll be relaying and the core promises you'll be making to customers.

Customer Perspective

There are three different customers you'll need to think about in relation to your idea: purchasers (those who make the decision or write the check), influencers (the individual, organization or group of people who influence the purchasing decision), and the end users (the person or group of people who will directly interact with your product or service).

Competitor's Perspective

Again, there are three different groups you'll need to keep in mind: primary, secondary and tertiary. Their placement within each level is based on how often your business would compete with them and how you would tailor your messages when competing with each of these groups.



Viable Business Idea

Collaborator's Perspective Think of organizations and people who may have an interest in your success but aren't directly paid or rewarded for any success your business might realize, such as associations, the media and other organizations that sell to your customers.

Whatever your approach to evaluating your idea, just be sure you're meeting the research objectives you've outlined for your product or service. With those goals always top-of-mind, your analysis will help you discover whether your idea has any holes that need patching.

TOPIC SUMMARY

You have now completed this topic on evaluating a business idea. You have learned about a framework of key questions that can help guide you through a process to evaluate your business ideas and select the best ideas for further development and formalization. You have also considered an alternative approach to evaluating business ideas.

Before you move on to the next topic, take a moment to reflect on what you have learned by answering the following questions.

Self-Reflection Questions

For a business idea that you have in mind, which of the evaluation questions do you think is the most important? Why do you think that is the case?

Write your answers in your personal journal.

ASSIGNMENT 1: BUSINESS IDEA GENERATION AND EVALUATION

Research and use one of the idea generation techniques outlined in this unit (e.g. mind mapping, brainstorming, etc.) to come up with a set of potential business ideas. After you have done this, evaluate each idea using one of the two idea evaluation frameworks discussed in this unit. Determine which of your business ideas is the best and outline why your analysis suggests that it is the best idea to take to the next stage of development.

Write your answers in your personal journal.

UNIT ONE SUMMARY

In this unit of the course you have gained an understanding of how to come up with a good business idea. You have also learned about a number of ways that you can generate ideas either independently or with a group. The introduction to these techniques is important for not only the development of a startup business but also for the future refinement of products and services that have made it to market. In addition, you have learned about frameworks for evaluating business ideas and a number of important questions that need to be answered before developing a product or service and taking it to market.

NEXT STEPS

In the next unit, you will have the opportunity to develop an understanding of how to analyze your competition and models that can be used to evaluate the competitive position of a business idea.

REFERENCES

Keller, K. (2003). *Strategic Brand Management: Building, Measuring and Managing Brand Equity*. New Jersey: Prentice Hall.

OTHER RESOURCES

If you have access to the internet you may wish to refer to the following link as a source for good social entrepreneurial business ideas:

<http://www.boardofinnovation.com/category/non-profit-public/>

UNIT TWO – COMPETITOR ANALYSIS

UNIT INTRODUCTION

Welcome to the second unit in this course on business plan development. The first two topics of this unit are intended to provide you with a review and a more in-depth treatment of some of the topics that you learned earlier in this program. One of those topics was industry analysis which forms the basis for competitor analysis. Competitor analysis is a key component of any business plan. You will also be introduced to the strategic force field model which can serve as a way of outlining the business environment forces that will help you to achieve your business goals and those that will resist your efforts to sell your idea to the market.

Let's take a moment to consider the learning objectives for this unit.

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Analyze the environment or industry in which your proposed business will exist.
2. Conduct a competitor analysis.

ASSIGNMENTS AND ACTIVITIES

There are a number of learning activities and assignments throughout this unit. The major assignment for this unit involves undertaking a competitor analysis in relation to the business idea that will be the basis for the business plan that you build.

As in earlier courses, you will also be asked to complete a self-assessment to help you identify your own strengths and weaknesses. This will help you identify areas that need improvement and strengths that you can build upon.

TOPIC 2.1 – INDUSTRY ANALYSIS

TOPIC INTRODUCTION

Earlier in this certificate program you took a course on the Business Environment. In that course you were introduced to the factors that need to be considered when undertaking an industry analysis and to some tools that you could use such as the PESTEL tool and Porter's Five Forces.

In this topic of the Business Plan Development course you will take a closer look at some of these factors particularly as they relate to the competitiveness of your business idea. These industry factors will have a bearing on how you write a business plan and how you position your business.

TOPIC OBJECTIVES

Upon completion of this topic you will be able to:

1. Analyze the competition and customer requirements in order to identify opportunities for competitive advantage within an industry.

WHY IS INDUSTRY ANALYSIS AN IMPORTANT PART OF A BUSINESS PLAN?

Industry analysis is not the same as market research or competitor analysis. The latter will be discussed in some detail in the next two topics in this unit.



Make sure your research regarding the industry is clear and purposeful. Gathering information about the industry supplies additional data which will tell you whether or not your industry is attractive and has profit potential.

In addition, it allows you to identify the key success factors, trends, threats and opportunities that will point out which assets and skills you need to prosper in the industry.

In addition to researching the industry as a whole, you should also research critical market segments. The following areas should be investigated:

- Actual and potential size of the industry.
- Industry growth prospects.
- Structure of the industry.
- Costs of operating in this field.
- Distribution channels.
- Trends and developments within the industry.
- Key industry assets and skills.

RESEARCHING INDUSTRY SIZE

Knowing the actual and potential size of the industry is important not only to evaluate investment decisions, but also to determine the market share of each of your competitors.

You can determine the actual size of the industry by referring to several secondary research sources like the Australian Bureau of Statistics and Department of Commerce and Trade, as well as industry associations.

These sources often provide market information, charting sales by product line, growth, geographic markets and major players in the industry.

To gauge the potential size of the industry, you will have to look closely at gaps within the industry.

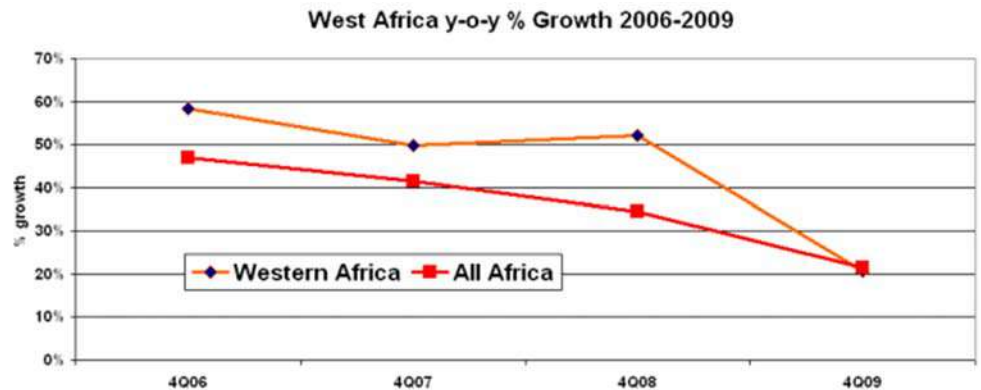
Such gaps may be in product lines, distribution, usage, competitiveness or any number of other areas. By gathering research on your customers, competitors and the industry, you will be able to spot those gaps.

WHY FORECAST INDUSTRY GROWTH?

To forecast industry growth, you can set up several growth models and examine what has to happen for each to occur.

A Chart Illustrating Growth in Telecommunications in Africa

Growth models allow you to develop an idea of when turning points in growth will occur and what will cause them to occur.



Gathering data on leading indicators will allow you to chart growth. These indicators will most likely be industry sales, industry segment sales and demographic data.

You can develop forecasts for new industries by taking comparable industries as examples. For example, if you wanted to forecast growth for digital audio tape (DAT) technology, you might use the market for CD or cassette-tape technology as a basis for your projections.

UNDERSTANDING INDUSTRY STRUCTURE

A study of the industry's structure will reveal just how attractive the industry is for a long-term investment. You will need to take the following into account:

- Competition among current firms. You will be primarily interested in uncovering data detailing the number of competitors in the industry, their comparative size, product lines, strategies, fixed costs, and commitment to the industry. Much of this information should already appear in your research on your competition.
- Threat of competition from potential entrants.
- Threat of competition from alternate products and technology. These are products or services that are not in direct competition with you, but whose presence affects the sales growth of the industry. You can gather this data by analysing secondary competitor groups and contacting associations pertinent to them.
- The buying power of customers. Determine the buying power of customers by looking at the amount of competition and by charting prices. If too many businesses are cutting prices because of customer pressure and do not produce a sufficient profit, investment in the industry may be unwise.
- The negotiating power of suppliers. To determine supplier power within the industry, find out who the major suppliers are and the extent of their product lines. You can do this by looking through trade periodicals and contacting associations.

INDUSTRY COST STRUCTURE AND DISTRIBUTION

When researching the cost structure of an industry, the first thing you'll have to do is identify the stages at which you add value to your product or service.

A product-oriented business will have the following stages:

- Procurement
- Processing
- Fabrication
- Assembly
- Distribution
- Marketing.

A service business, of course, would not have the "fabrication" and "assembly" steps shown above.

Each stage adds additional value to the final product. Most trade associations have information regarding production and marketing costs for their respective industries.

DISTRIBUTION SYSTEMS

This section applies mainly to businesses that are involved in the manufacturer of goods. Yours is a business that most likely relies on additional distribution systems aside from your own sales force, so you should conduct research into the best distribution system available.

When researching distribution systems within an industry, you should ask yourself three strategic questions:

- What are the current distribution channels and who controls them?
- Are any alternative distribution channels available?
- Have any new distribution channels emerged? Are any likely to emerge?

Many large industrial companies use their own sales force to sell directly to their customers. Other, smaller firms might sell directly to retailers or through wholesale distributors, brokers or agents.

Generally, companies that sell more directly to the end user have more control over their marketing efforts, but also face greater risks.

If a few companies dominate a distribution channel, you may need to consider alternatives. To choose an alternative system, you need to take a close look at the channels employed by your competitors.

HOW TO SPOT TRENDS

To spot industry trends, you constantly need to ask yourself several questions concerning your customers, competitors, and the industry in general, such as:

- What is important to customers?
- Which needs aren't being met?
- What new strategies are my competitors starting to employ?

You need to sit down and take a close look at your market analysis up to this point to spot the most significant trends in the industry.

KEY SUCCESS FACTORS

Perhaps the most important result of your industry analysis will be the identification of the key success factors of your competitors. Key success factors are assets and skills that a company within a particular industry must have to succeed.

Key success factors might be:

- Name recognition (brand recognition)
- Access to distribution channels (market



- access)
- Financial resources.
- Price and value.
- Market and competition.
- Loyal consumers.

Whatever the key success factors happen to be in your industry, the completed analysis of the industry should define them and provide you with enough information to make an educated guess about success factors needed in the future.

A SHORT HOW-TO GUIDE ON CONDUCTING AN INDUSTRY ANALYSIS

Every company that sets out on a business venture, whether expanding existing operations or launching a new one, wants to know the answers to questions like:

- What is the opportunity (market analysis)?
- What is the competitive landscape (competitor analysis)?
- How good is the project (opportunity analysis)?
- How are we doing (profitability analysis)?

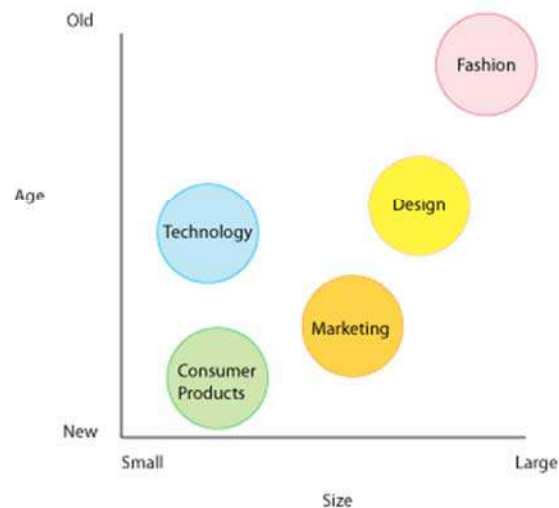
While a gut-feel answer might not be wrong, it will definitely present an incomplete and distorted picture, without any numbers or any evidence to support it. But the answers to these questions need not be elusive. You can arrive at an accurate evaluation of your strategy by conducting an industry analysis.

The success of most ventures depends on the accuracy and extent of the analysis, and hardly any CEO today would put money into projects without a comprehensive industry analysis.

Background Information

Conducting an industry analysis and understanding industry drivers can be an onerous task. Before proceeding further, analyze where your company and industry are in terms of their lifecycles. This is crucial to figuring out the possible impact of any decision on your business. For example, if you operate in a mature industry, spending a lot of money on untested

Trend Spotting Industry Focus: Age vs. Size



technology may not be a sound business decision. On the other hand, a company in a young and rapidly developing industry may want to take the risk on untested technology with the potential payoff coming in the form of exponential growth.

A Possible Industry Analysis Action Plan

1. Tap sources of information. Before you begin an industry analysis, you must realize that the biggest obstacle is to get accurate and up-to-date inputs. If you have other managers in your company, tap into the information that they have about your industry. Being familiar with financial statements is a good place to start since these metrics will tell you a lot about your industry and where your company fits. (Note: financial statements are reviewed in Unit 4 of this course).

2. Define the industry. Understanding your industry and its key success factors (KSFs) is essential to determining how to enter an industry with a new business. It will also help you to select the right technologies.

Answering the following questions is an excellent starting point to understanding your industry. Note: If the company competes in several different industries, then it may be helpful to prioritize each industry on the basis of profitability, growth prospects, and strategic importance.

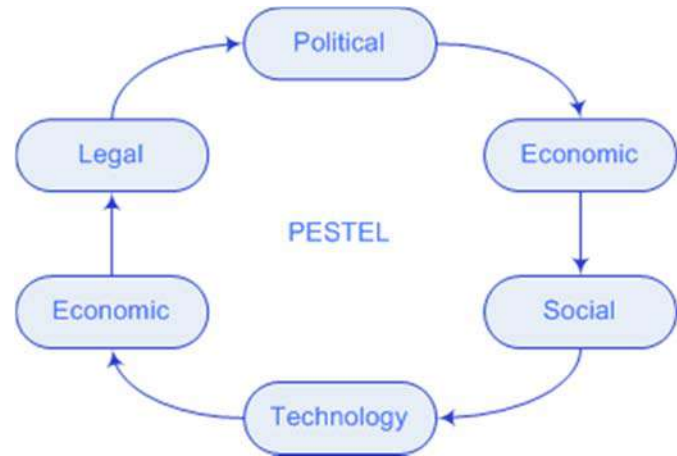
- In what industry (or industries) do you operate?
- How large is the industry and what role does your company play in it?
- Is the industry dynamic and quick to change, or is it a traditional industry where things have been essentially the same for the last 20 years?
- If the company operates in multiple industries, what are the KSFs for each, as they relate to information technology?

3. Define the opportunity. This step involves clearly identifying the need to acquire new technology. A lot of competitive and market information is required, and fact-finding surveys from prospective users will become indispensable tools for this stage. The analysis involves answering four basic questions to identify the KSFs behind the proposed IT project:

- Identify the market size in terms of number of buyers. Will the proposed project increase the number of buyers or the share-of-wallet of existing buyers?
- Gather information on the demographic and psychographic profiles on the buyers and end-users to assess their buying behavior. How will the IT project help in analyzing this information and implementing the decisions?
- Analyze logistics, marketing, and distribution channels. How important are these factors to the firm's bottom-line and to what extent will the proposed IT project improve these?

4. Conduct a PESTEL Analysis.

Conduct an analysis of existing and potential Political, Economic, Social, Technological, Environmental, and Legal (PESTEL) factors for each industry in which the company competes. It is very important to keep an eye on some of the high level issues and trends that can affect the future of your company. It is also important to understand how these factors help or hinder the business, and how competitors are using technology to mitigate these uncertainties or exploit any opportunities.



TOPIC SUMMARY

You have now completed this brief review of industry analysis. You have looked at industry growth factors and considered how to conduct an industry analysis. This background will help you write the section of the business plan that deals with industry analysis and will help you to position your business idea within the industry that you have selected. Knowledge of your industry will help you be competitive.

Now, take a moment to consider the following question before moving on to the next topic.

Self-Reflection Questions

Think about the business that you would like to start and the industry sector that this business is in. Which industry sector is your new business venture in? What are the important trends that you are observing about this industry? What opportunities do you have to capture a share of the market in this industry sector?

Write your answer in your personal journal.

TOPIC 2.2 – KEY QUESTIONS TO ASK ABOUT YOUR COMPETITORS

TOPIC INTRODUCTION

Uncovering everything that you can about your competition and finding out what they are up to is an important part of the business planning process. One way to do that is to become a customer of the competition either by shopping for their products or services or having one of your friends or colleagues to that.

By finding out what your competition is doing and how they are doing it you will be positioned to do it better. Understanding your competition is all about helping you to determine what will set you apart from similar businesses.

In this topic, you are going to learn about the kinds of questions you need to ask about your competitors so that you are well positioned in the market that you are entering with your new business venture.

TOPIC OBJECTIVES

Upon completion of this topic you will be able to:

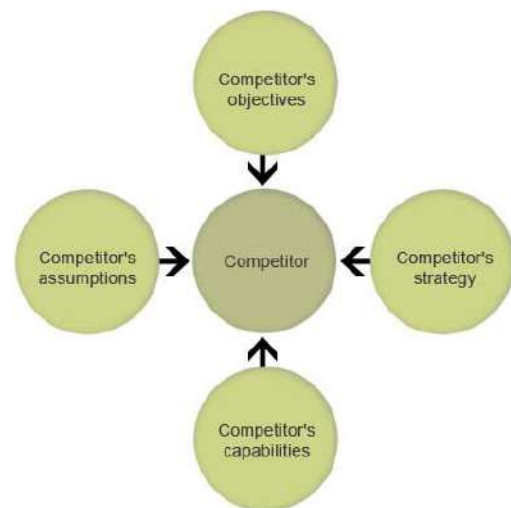
1. Demonstrate an understanding of the key questions that need to be asked in order to understand your competition and determine your competitive advantage.

WHY BOTHER TO ANALYZE COMPETITORS?

Some businesses think it is best to get on with their own plans and ignore the competition. Others become obsessed with tracking the actions of competitors (often using unethical or illegal methods). Many businesses are happy simply to track the competition, copying their moves and reacting to changes.

Competitor analysis has several important roles in business planning. It can:

- Help management understand their competitive advantages/disadvantages relative to competitors.
- Generate an understanding of competitors' past, present (and most importantly) future strategies.
- Provide an informed basis to develop strategies to achieve competitive advantage in the future.



- Help forecast the returns that may be made from future investments (e.g. how will competitors respond to a new product or pricing strategy?).

KEY QUESTIONS TO ASK ABOUT YOUR COMPETITORS

What questions should you ask when undertaking competitor analysis? The following is a useful list to bear in mind:

- Who are our competitors?
- What threats do they pose?
- What is the profile of our competitors?
- What are the objectives of our competitors?
- What strategies are our competitors pursuing and how successful are these strategies?
- What are the strengths and weaknesses of our competitors?
- How are our competitors likely to respond to any changes to the way we do business?

SOME SOURCES OF INFORMATION FOR COMPETITOR ANALYSIS

Davidson (in Keegan, 2003) described how the sources of competitor information can be neatly grouped into three categories:

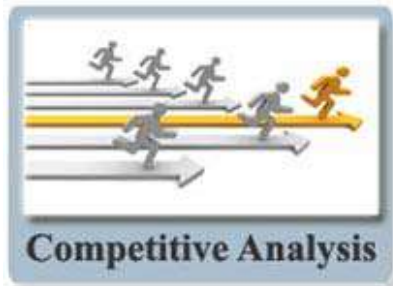
- **Recorded data:** this is easily available in published form either internally or externally. Good examples include competitor annual reports and product brochures;
- **Observable data:** this has to be actively sought and often assembled from several sources. A good example is competitor pricing;
- **Opportunistic data:** to get hold of this kind of data requires a lot of planning and organisation. Much of it is “anecdotal”, coming from discussions with suppliers, customers and, perhaps, previous management of competitors.

The table below lists possible sources of competitor data using Davidson’s categorisation:

Recorded Data		Observable Data	Opportunistic Data
Annual report & accounts		Pricing / price lists	Meetings with suppliers
Press releases		Advertising campaigns	Trade shows
Newspaper articles		Promotions	Sales force meetings
Analysts’ reports		Tenders/RFPs	Seminars / conferences
Regulatory reports		Patent applications	Recruiting ex-employees
Government reports			Discussion with shared distributors
Presentations / speeches			Social contacts with

Recorded Data	Observable Data	Opportunistic Data
		competitors

In his excellent book *Even More Offensive Marketing*, Davidson (1998) likens the process of gathering competitive data to a jigsaw puzzle. Each individual piece of data does not have much value. The important skill is to collect as many of the pieces as possible and to assemble them into an overall picture of the competitor. This enables you to identify any missing pieces and to take the necessary steps to collect them.



WHAT BUSINESSES NEED TO KNOW ABOUT THEIR COMPETITORS

There is a wide range of competitor information that will help you to complete a high quality competitor analysis.

You can probably think of many more pieces of information about a competitor that would be useful. However, an important challenge in competitor analysis is working out how to obtain competitor information that is reliable, up-to-date and available from a legal perspective.

Here is a list of what businesses probably already know about their competitors.

- Overall sales and profits
- Sales and profits by market
- Sales by main brand
- Cost structure
- Market share (revenue and volumes)
- Organization structure
- Distribution structure
- Identity and profile of senior management
- Customer or consumer profile and attitudes
- Customer retention levels

And here is a list of what businesses would really like to know about their competitors.

- Sales and profits by product
- Relative costs
- Customer satisfaction and service levels
- Customer retention levels
- Distribution costs
- New product strategies
- Size and quality of customer databases
- Advertising effectiveness
- Future investment strategy
- Contractual terms with key suppliers
- Terms of strategic partnerships

TOPIC SUMMARY

You have now completed this topic on the importance of competitor analysis as a part of the business planning process. You have found out why it is important to have information about your competitors and have been given some questions that you can use as a starting point for determining what you need to ask about your competitors.

Now, take a moment to consider the following question before moving on to the next topic.

Self-Reflection Questions

Given the small business that you want to start, who are your competitors? What do you know about them? Why do you think these companies considered competitors? What kind of data do you want to collect about them so that you can become more competitive? Why do you think this information is important?

Write your answer in your personal journal.

TOPIC 2.3 – COMPETITOR ANALYSIS FRAMEWORK

TOPIC INTRODUCTION

The competitive analysis section can be the most difficult section of a business plan to write. Before you can analyze your competitors, you have to find out information about them. Specifically you will want to know about the markets or market segments your competitors serve, the benefits your competition offers, why customers buy from them, and their products, services, pricing and promotion approaches. In this topic you will be guided through the process of gathering information about your competition.



TOPIC OBJECTIVES

Upon completion of this lesson you should be able to complete a competitor analysis for the industry that your small business is in.

GATHERING INFORMATION ABOUT COMPETITORS

A visit is still the most obvious starting point - either to the actual bricks and mortar store, or to the company's web site (if they have one). You can learn a lot about your competitor's products and services, pricing, and even promotion strategies by visiting their business site, and may even be able to deduce quite a bit about the benefits your competitor offers. Go there, once or several times, and look around. Watch how customers are treated. Check out the prices. You can also learn a fair bit about your competitors from talking to their customers and/or clients - if you know who they are. With a bricks and mortar local competitor, you might be able to find out about the reasons customers buy from them by canvassing friends and acquaintances locally.

Other good "live" sources of information about competitors include a company's vendors or suppliers, and a company's employees. They may or may not be willing to talk to you, but it's worth seeking them out and asking.

And watch for trade shows that your competitors may be attending. Businesses are there to disseminate information about and sell their products or services; attending and visiting their booths may be an excellent way to find out about your competitors.

You'll also want to search for the publicly available information about your competitors. Newspapers, magazines, and online publications may all have information about the company you're investigating for your competitive analysis. Press releases may be particularly useful.

Once you've compiled the information about your competitors, you're ready to analyze it. Tips and instructions for analyzing the competition are on the following page.

ANALYZING THE COMPETITION

The competitive analysis section of the business plan is not just a list of information about your competitors. It's the analysis of the information that's important.

Study the information you've gathered about each of your competitors and ask yourself this primary question:

How are you going to compete with Company X? Company Y?

For many small businesses, the key to competing successfully is to identify a market niche where they can capture a specific target market whose needs are not being met.

Is there a particular segment of the market that your competition has overlooked? For example, if you hope to start a book store, and your competitor sells all kinds of books to all kinds of people, might you be able to specialize in children's books, or educational books and supplies?

Is there a service that customers or clients want that your competitor does not supply? What if you want to start a business offering computer repairs and you discover that none of the other computer repair businesses in town offer home service? Computer owners may have a desire for in-home repair services that you could meet.

The goal of your competitive analysis is to identify and expand upon your competitive advantage - the benefits that your proposed business can offer the customer or client that your competition can't or won't supply.

WRITING THE COMPETITIVE ANALYSIS SECTION

When you're writing the business plan, you'll write the competitive analysis section in the form of several paragraphs. You may wish to give each paragraph a separate heading.

The first paragraph will outline the competitive environment, telling your readers who your proposed business' competitors are, how much of the market they control, and any other relevant details about the competition.

The second and following paragraphs will detail your competitive advantage, explaining why and how your company will be able to compete with these competitors and establish yourself as a successful business.

Remember, you don't have to go into exhaustive detail here, but you do need to persuade the reader of your business plan that you are knowledgeable about the competition and that you have a clear, definitive plan that will enable your new business to successfully compete.

Self-Reflection Questions

Write a draft of the competitive analysis section of your business plan. You can use what you write as a part of the final assignment in the course after Unit 4.

Write your answers in your personal journal.

TOPIC SUMMARY

This topic provided you with some suggestions on how to write the competitive analysis section of your business plan and how to gather information about your competitors.

Now, let's go on to the last topic in this unit on force field analysis. This topic provides you with another tool that you can use to analyze the forces that you need to consider when developing your business.

TOPIC 2.4 – THE STRATEGIC FORCE FIELD MODEL

TOPIC INTRODUCTION

In this topic, we will discuss the Lewin's (American Psychological Association, 1999) force field model as it applies to the development of a business idea. Kurt Lewin wrote that "An issue is held in balance by the interaction of two opposing sets of forces - those seeking to promote change (driving forces) and those attempting to maintain the status quo (restraining forces)".

Let's now take a look at the objectives for this topic.

TOPIC OBJECTIVE

Upon completion of this lesson you should be able to:

1. Describe Lewin's force field theory.
2. Apply Lewin's theory to a personal business problem.

A BRIEF INTRODUCTION TO LEWIN'S FORCE FIELD MODEL

As an introduction, let's start with a simple illustration that will outline the basics of Lewin's Force Field Theory.



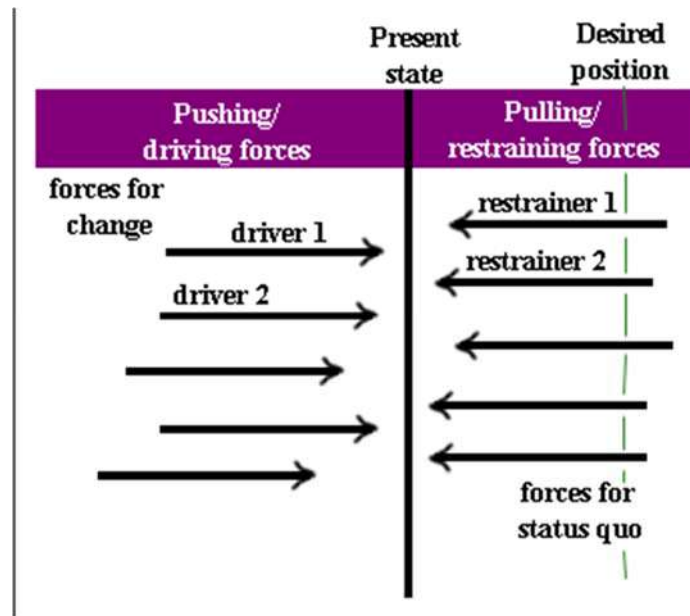
Gravity is a force of nature that affects all of us. For example, if you sit in a chair, gravity is pushing you down into the chair (it could be considered a driving force). The chair is also exerting a force in the opposite direction which balances the force of gravity.

This situation is one that is considered in equilibrium. Two forces keep you in equilibrium. Gravity pushes down, keeping you in the chair, and the chair resists this, stopping you from

falling to the ground.

In Lewin's terms there are two equal forces, a driving force and a resisting or restraining force, working to keep the equilibrium or status quo. Lewin applied this thinking to his theory of change within social situations among people.

This is much the same as the experiment we just did and is summarized in the diagram below.



So before change the force field is in equilibrium between forces favourable to change and those resisting it. Lewin spoke about the existence of a quasi-stationary social equilibrium.

For change to happen the status quo, or equilibrium must be upset – either by adding conditions favourable to the change or by reducing resisting forces.

What Kurt Lewin proposes is that whenever **driving forces** are stronger than **restraining forces**, the status quo or equilibrium will change.

Now that's useful. Especially if we apply this to understanding how people move through change and why they resist change.

There will always be driving forces that make change attractive to people, and restraining forces that work to keep things as they are.

Successful change is achieved by either strengthening the driving forces or weakening the restraining forces.

The force field analysis integrates with Lewin's three stage theory of change as you work towards unfreezing the existing equilibrium, moving towards the desired change, and then freezing the change at the new level so that a new equilibrium exists that resists further change.

APPLYING LEWIN'S FORCE FIELD MODEL TO FACTORS AFFECTING YOUR BUSINESS

Lewin's force field analysis can also be used to determine which factors within a business drive a person towards or away from a desired state (such as a purchase of goods or services), and which factors oppose these driving forces. These forces can be analyzed and used to inform business decisions.

To understand what makes people resist or accept change we need to understand their values and experiences or those of the group that they belong to. The behaviour of others (in this case that of customers) will alert you to the forces that are at work (either driving or resisting forces).

Here is a step-by-step guide to using a force-field analysis in your business.

1. **Define the change** that you want to see. Write down your thoughts concerning a desired future state. You can also use this step to help understand the present (status quo or equilibrium state).
2. **Brainstorm** or mind-map the driving forces (You have been presented with brainstorming techniques earlier in this course and in the Business Environment course that you took earlier in this program). The driving forces are those that are favourable to change. Record these drivers on a force field diagram.
3. **Brainstorm** or mind-map the restraining forces. Rate each force from 1 (weak) to 5 (strong). This helps to provide you with a relative value of each of the forces (i.e. which are the ones that you need to pay most attention to).
4. **Review the forces** and decide which ones have some flexibility (i.e. which ones can be influenced).
5. **Create a strategy**. Look at the forces and determine how the driving forces can be strengthened and the restraining forces weakened.
6. **Create an action plan**. Write down the action steps that you can take to achieve the greatest impact. Identify the resources (human and capital) that you will need and write down how you will implement the actions you have outlined.

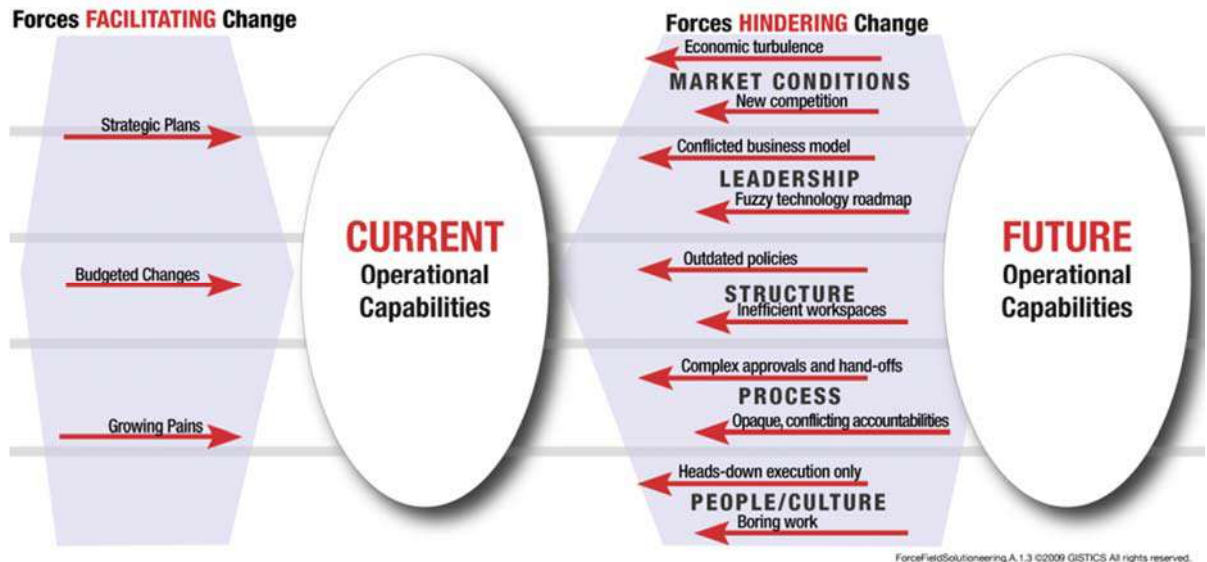
On the next page, you will see a field force diagram for a business. This analysis shows that the business has three forces that will help or facilitate change:

- Its strategic plan
- Changes that it intends to implement through its budget plan
- And growing pains that it is feeling (i.e. it is growing fast – a good thing and something that can be used to its advantage)

There are also a number of restraining forces that are hindering change for this business. These are:

- Economic turbulence (the economy is in the doldrums).
- There are new competitors in the market.
- The company`s business model doesn`t work anymore.
- The company`s technology plan is dated.
- The company`s policies need to be renewed.
- Employee workspaces need to be updated.
- Accounting processes need to be improved.
- Staff need to become more engaged.

The greater the degree to which the forces facilitating change (on the left) can be maximized while reducing the forces that hinder change (on the right), the greater the likelihood that this company can move toward the future and away from its current reality.



Now, let`s consider some questions about the field force model and how you can use it in your business.

Self Reflection Questions

Given Lewin`s force field model and thinking about your business idea, what are the driving forces for your business (those that facilitate change)? What are the restraining forces (those that prevent you from achieving your goal)?

Illustrate these forces in a field force diagram.

Write your answers in your personal journal.

TOPIC SUMMARY

You have now completed the last topic in this unit. In this topic, you learned about Lewin`s field force theory and how it can be applied to your business. You were given a process that you can use to develop your own field force analysis for the driving and restraining forces that are at play within your business.

Now it is time to work on an assignment related to what you have learned in this unit. Turn to the next page to start the assignment.

ASSIGNMENT 2: COMPETITOR ANALYSIS

In this assignment, you will be expected to complete a competitor analysis for the small business that you are intending to start. You can use this analysis as a part of the major assignment for this course which will involve the development of a complete business plan for your small business idea.

Write your competitive analysis in your personal journal.

UNIT SUMMARY

In this unit you reviewed the elements that are included in an industry analysis. This information will be an important part of the business plan that you will be creating in Unit 4 of this course. You also learned about some of the questions that you will need to ask about your competitors as you build the competitive analysis section of your business plan. Lastly, you learned about Lewin's force field model. This tool can be used to analyze the driving and resisting forces that are at work in relation to your new business.

NEXT STEPS

In the next unit, you will have the opportunity to consider the characteristics of the customers that you are trying to target for your business. This unit will include an overview of the creation of a customer profile, a discussion of the ideal customer (knowing this will help you to define your sales and marketing approach), and a framework for describing a customer profile.

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OTHER RESOURCES

If you have access to the internet you may wish to consider the following resources which will support your learning about competitor analysis:

Conducting Market Research

<http://www.canadabusiness.ca/eng/88/1194/>

<http://www.marketresearch.com/>

How to Conduct an Industry Analysis

http://www.sbtcd.org/pdf/industry_analysis.pdf

UNIT THREE – CUSTOMER PROFILE

UNIT INTRODUCTION

Welcome to the third unit in this course. As you learned in the last unit, it is important to have a solid understanding of your competitors. Equally important is having a good understanding of your customers or potential customers.

In this unit, we will consider the components of a customer profile (demographics, geography, psychographics, attitudes, and buying behaviour) and what an ideal customer for your business looks like in terms of these components.

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Describe the components that are included in a customer profile including demographics, geography, psychographics, attitude, and buying behaviour.
2. Describe the characteristics of an ideal customer for your business and develop a profile for your ideal customer.

ASSIGNMENTS AND ACTIVITIES

There are a number of learning activities and self-reflection assignments throughout this unit. The major assignment for this unit involves creating a customer profile for the new business venture that you want to launch. This assignment will help you to learn how to profile customers in a way that aligns with your business plan and strategy.

As in earlier courses, you will also be asked to complete a self-assessment to help you identify your own strengths and weaknesses. This will help you identify areas that need improvement and strengths that you can build upon.

TOPIC 3.1 – THE COMPONENTS OF A CUSTOMER PROFILE

TOPIC INTRODUCTION

Understanding your customers is a critical for the development of a successful business (big or small). Creating a profile of customers who will want to buy your product or service is an important activity for any business since it will help the business to define its marketing approach and help to refine its products and services to meet customer needs. In this topic you will learn about how to create a profile of existing and potential customers. You will consider their characteristics, attitudes and buying behaviours.

TOPIC OBJECTIVES

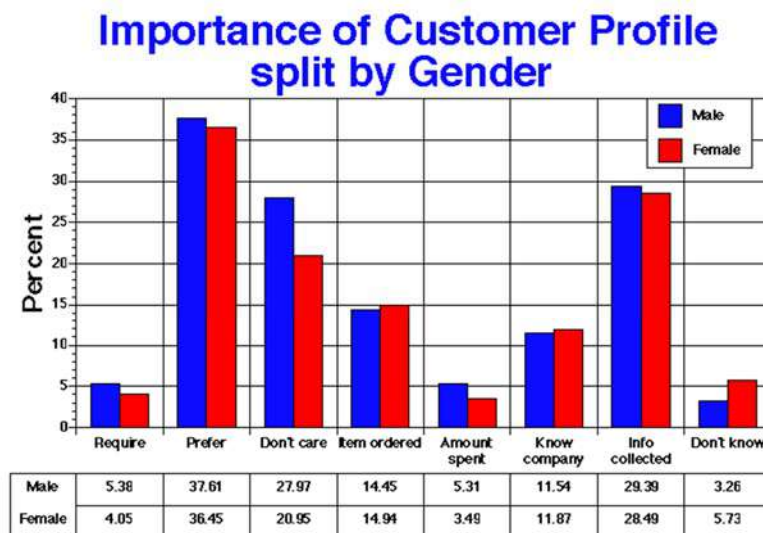
Upon completion of this lesson you will be able to:

1. Describe the components that are included in a customer profile including demographics, geography, psychographics, attitude, and buying behaviour.

DEMOGRAPHICS

The demographic breakdown of a population can help you describe potential customers in terms of their age, gender, household size, income, occupation, education and location. For example, the demographics of a customer who buys a particular product may be female, age 30- 45 years, employed in a white collar occupation, with a household income greater than \$75,000 and who lives in an urban centre.

A Sample Graph Illustrating Gender Differences in Buying Behaviour



Source: GYU's Eighth WWW User Survey™ (Conducted October 1997)
 <URL: http://www.gyu.gatech.edu/user_surveys>
 Copyright 1997 GTRC - ALL RIGHTS RESERVED
 Contact: www.survey@cc.gatech.edu

There are many websites including government websites that are good sources of information. These sites can be used to find out more about the demographics of the customers who live in the areas in which your business competes.

GEOGRAPHY

Location or geography also influences the buying behaviours and patterns of individuals. There are distinct differences between urban and non-urban (rural) buying trends when it comes to the purchase of both goods and services. Understanding the geographic trends will help you to make decisions concerning the location of a retail outlet or the marketing strategies that you are going to use to reach a particular market.

Consumer Behaviour and Marketing



As can be seen in the diagram to the right, consumer behaviour is both influenced by marketing actions that businesses take in terms of how they position their products in the market, price them, where they distribute them and how they promote them. Consumer behaviour also influences these actions.

PSYCHOGRAPHICS

Psychographics is the analysis of consumer lifestyle choices. It is used by businesses to help create a detailed customer profile. Market researchers create customer profile information by asking consumers to agree or disagree with questions about their activities and interests. When combined with demographic and geographic information, psychographic information helps to create a 'life-like' portrait of a targeted customer segment. For example using, a psychographic approach you can describe your customers in terms of:

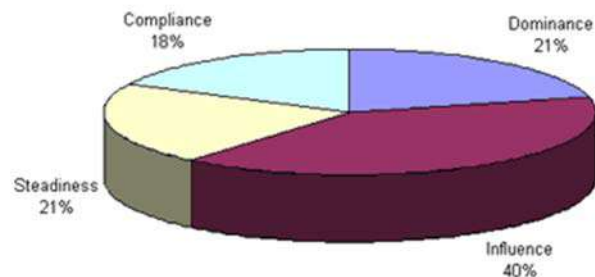
- Their interests – the key social interests your customers engage in (e.g. sports, family activities).
- The general personality characteristics of your customers (e.g. conservative, outgoing, introvert, extrovert).
- The places on and offline where they network or socialize.

If you know your customer's psychographics you can tailor promotional activities, sales campaigns and communication messages that appeal to their specific interests and lifestyles.

Some of the kinds of questions that you can use to gather this information from consumers are:

- What do they like about your product?
- What do they like about your competitor's product?
- What made them decide to buy your product?
- Did they know which brand they were buying before they purchased it?
- What advertising messages had they seen prior to buying?
- How much disposable or discretionary income is available for this type of purchase?
- What are their hobbies?
- What emotional aspects impact their purchase?
- Who is the actual decision-maker for this type of purchase?
- What values and attitudes play a part in this type of purchase?
- Who do they look to when making purchasing decisions?

Respondent Personality Distribution



ATTITUDES

Customers' attitudes can have a profound effect on their buying behaviour. In the simplest terms, attitude refers to what a person feels or believes about something, in this case about a consumer product or service. Customers' attitudes will play out when they act on their beliefs. If a customer has a negative attitude towards a product or service it will take considerable effort to change what they believe is true.

This has significant implications for the way in which companies market their products and services. This type of situation (i.e. trying to overcome a negative impression) often occurs

when companies are competing against strong rivals with loyal consumers. In these cases, it is important to try to understand why consumers feel positive about a particular brand and then try to beat the competitor on these issues.

BUYING BEHAVIOUR

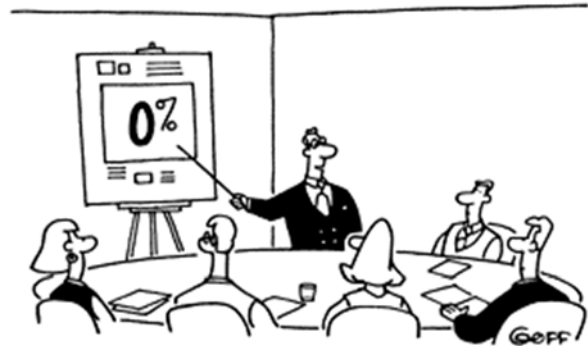
Buying behaviour relates to how your customers behave when deciding to buy your product or service over those provided by your competitors.

Buying motives and influences may vary by customer group and will always include both rational and emotional reasons. Rational reasons include the location of the business, convenience factors, customer service, image (i.e. they like the image that the brand portrays), range (i.e. the number of options), and promotional offers.

Consumers will also have emotional reasons for making a purchase such as “it makes me feel good”, or “it gives me confidence” or a feeling of importance.

The more you know about your current and potential customers the easier it is to communicate with them and the more effective your marketing and promotion efforts will be.

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"Our study concludes that this is the percentage of our customers who will buy from us without any effort whatsoever on our part."

Now, let's take a moment to reflect on what you have learned in this topic on components of the customer profile.

Self-Reflection Questions

Choose one of the components of a customer profile (i.e. one of the following: demographics, geography, psychographics, attitudes, buying behaviour). Which one did you choose? Why do you think that it is important to gain an understanding of this particular component for your business? What are some of the data that you would include in a description of this part of your customer profile?

Write your answers in your personal journal.

TOPIC SUMMARY

You have now completed this topic which outlined the components or parts of a customer profile. You have learned about the various types of data that need to be included in a comprehensive customer profile. These included demographic, geographic, psychographic, attitudinal, and buying behaviour data. This information will form an important part of the business plan you will write in Unit 4 of this course.

Now, let's go on to the next topic in the course related to describing the ideal customer.

TOPIC 3.2 – CREATING A CUSTOMER PROFILE FOR THE IDEAL CUSTOMER

TOPIC INTRODUCTION

In this topic you will learn about the characteristics of the ideal customer and how to describe the ideal customer. Knowing who your ideal customer is will help you to define marketing strategies and reach those customers that are prepared to pay top dollar for your products or services and who will do so with a minimum of effort on your part.

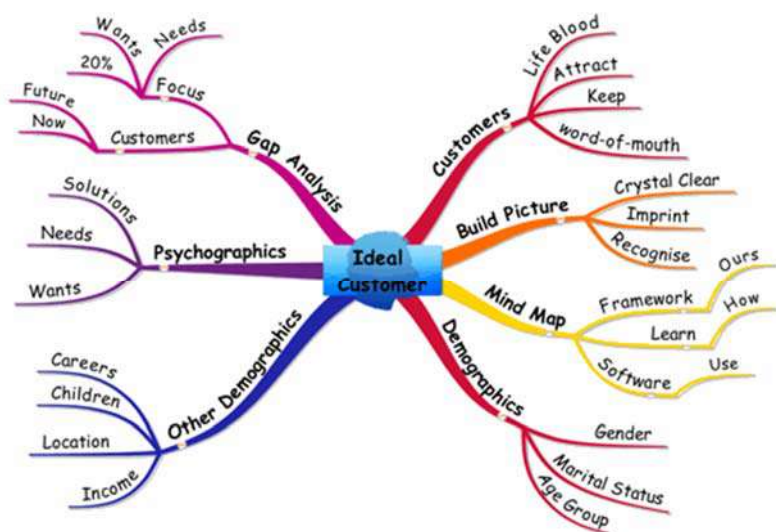
TOPIC OBJECTIVES

Upon completion of this topic you will be able to:

1. Describe the characteristics of an ideal customer for your business.

THE IDEAL CUSTOMER – WHERE TO BEGIN

Because potential customers come in all sizes, shapes, and spending profiles — and because ideal customers don't come with their profiles stapled to their heads — your very difficult job is to first identify your customers to figure out which ones are the most likely to



become your best customers and then to figure out how to attract and reach them.

Because your time and marketing dollars are limited, the best use of your money is to target your efforts to specific people (i.e. to the people most likely to buy your products and services).

Instead of running expensive radio or newspaper advertisements day after day, hoping to get the attention of the customers you seek, you may find that indentifying customers and using targeted advertising in a specific magazine or website delivers a much greater payoff.

In summary, profiling your ideal customer helps you to simplify your marketing efforts, identify who your customers are and who they aren't, and give your insights into your customers. This information enables you to understand how to deliver value to the customer.

WHAT DOES YOUR IDEAL CUSTOMER LOOK LIKE?

There are many definitions for what an ideal customer looks like. Here is one way to describe an ideal customer (Godin, 1999). An ideal customer is one who:

- wants your product
- has the ability to pay for your product
- has the authority to purchase your product

Let's review each of these qualities.

A customer who wants your product

Many business leaders say that "everyone needs" their product. But marketing to everyone is prohibitively expensive and nearly always leads to failure. What you are looking for is specific group who have specific needs that you can appeal to. The greater your understanding of customer needs and wants the more effective your marketing program will be.

A customer who has the ability to pay for your product

Many businesses look internally at their marketing, their tagline, or their sales messaging. But in reality, they are selling to the wrong people. Too often they think "Our product is so valuable, people will come up with the money to pay for it." This can leave a business owner stuck with inventory that they cannot sell because the customer they are targeting doesn't have the ability to pay for what they are offering.

A customer who has the authority to buy your product

This is the area that many business owners and sales people tend to overlook.

Experienced sales people recognize that there are individuals who may love a particular product but they have no authority to buy it. You can waste a lot of time and energy (and money) on trying to convince customers who will never be able to make a decision to buy what you are selling. Recognizing who has the authority to purchase is critical to your success.

CREATING AN IDEAL CUSTOMER PROFILE

Before you begin to create your ideal customer profile, consider the following questions:

- Who do you think your best customers will be?
- Are they individuals or businesses?
- If they're individuals, what do they like and what don't they like?
- What are their needs and problems?
- How will those needs and problems be best addressed?
- What's most important to your best customers?

- What's least important to them?
- How will you provide more of the former and less of the latter?

One way to create an ideal customer profile is to use these questions or similar ones to develop a written description of your ideal customer. After you have done this have some of your customers review it to validate it or to suggest changes.

Here is a very simple description of the ideal customer for a pet-sitting service.

PET SITTING SERVICE: IDEAL CUSTOMER PROFILE

My ideal customer is:

- A single, working adult with one or more pets including dogs, cats, or birds that require daily care and attention

My ideal customer often travels, has sufficient income (\$50,000 or more per year) to afford to hire a pet sitter, and prefers to keep his or her pet in its home environment rather than in a kennel or other offsite care situation.

My ideal customer loves his or her pets and wants to give them the best care possible.

In summary, when you're creating an ideal customer profile for a product you need to consider both the physical and emotional characteristics of the customer.

Physical characteristics (i.e. demographic information) include age, marital status, gender, occupation, employment status, income, and education level. By knowing your customers physical characteristics you can focus certain parts of your marketing approach to them based on that information.

Emotional (i.e. psychographic) characteristics include things like values, hobbies, fears, goals, desires, and interests. These characteristics are going to give you an idea about what your customer cares about, about their concerns, and about how they make decisions. All of which help you in marketing to them.

In Appendix 1 you will find a worksheet that you can use to create an ideal customer profile. The worksheet can be used for each product or service that your new business is going to offer. You should use the information on the worksheet to inform your marketing and promotional campaigns for your products and services.

Customer profile information can help you to easily figure out which marketing approaches (direct mail, web site, radio and TV ads, search engine listings, advertisement, etc.) has the highest probability of not only reaching your best customers, but also motivating them to want to find out more about what you've got to offer.

You can also use your ideal customer profiles when writing product and service descriptions, when searching for keywords used to find your product, in answering questions that customers may have, and in pricing your products and services.

Now, take a moment to reflect on what you have learned in this topic of the course.

Self-Reflection Questions

For the small business that you are thinking about starting, are any of your customers other businesses? If they are, how do you plan on finding out who has the authority to make buying decisions? If not, how would you go about finding out if an individual has the ability to buy your product or service?

Write your answers in your personal journal.

TOPIC SUMMARY

You have now completed this topic on creating a customer profile for the ideal customer for your business. You have learned about some of the key questions to ask about your ideal customer and the physical and emotional characteristics that you will want to describe. You have also learned about the benefits of creating customer profiles for each product and service that you are offering to customers. Customer profiles are an important part of any business plan.

ASSIGNMENT 2: CREATING AN IDEAL CUSTOMER PROFILE

For your small business, select one of the following:

1. One product and one service
2. Two products
3. Two services

Write an ideal customer profile for **one of 1, 2, or 3** using the template provided in Appendix 1 at the end of this course.

UNIT THREE – SUMMARY

In this unit you have learned about customer profiles and their importance in helping to define a marketing strategy for a company. You considered a number of different dimensions of a customer profile including demographic information, geography (i.e. where potential customers live), psychographic data (i.e. interests and personality, emotional qualities), attitudes, and buying behaviour. Each of these customer qualities helps to define how you will approach the market and promote and price your product so that it will be attractive to potential buyers.

NEXT STEPS

In the next unit, you will have the opportunity to learn the basics of financial planning as they pertain to the development of a business plan. You will be introduced the three important financial reports that you will need to include in your business plan: the income statement, the balance sheet, and the cash flow statement.

The major assignment for this course is included in this unit. You will be asked to take the knowledge that you have learned throughout this course and others in this certificate program and apply it by writing a detailed business plan for the small business idea you have been working on throughout this course.

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Godin, S. (1999). *Permission Marketing*. New York: Simon & Schuster.

Keegan, W. a. (2003). *Offensive Marketing: An Action Guide to Gaining Competitive Advantage*. Oxford: Butterworth-Heineman.

Keller, K. (2003). *Strategic Brand Management: Building, Measuring and Managing Brand Equity*. New Jersey: Prentice Hall.

OTHER RESOURCES

If you have access to the internet you may wish to access the following online resources to support your learning:

Consumer Buying Behavior (Global Demographic Information)

<http://www.library.hbs.edu/go/wdi.html>

<http://unstats.un.org/unsd/demographic/default.htm>

Now, let's move on to the last unit in this course. In this unit you will learn about how to create the financial statements that need to be included in your business plan and your will create a business plan for your own small business venture.

UNIT FOUR – BUSINESS PLANNING

UNIT INTRODUCTION

Welcome to Unit Four, the final unit in this course on Business Planning. In this unit, you will learn about the basics of financial planning as they relate to the development of a business plan. You will be introduced to the development of income statements, cash flow statements, and balance sheets. Each of these financial statements is a necessary part of a business plan since these statements will help to inform financial institutions and potential investors about how viable and sustainable your business idea is. You will also be introduced to revenue generation models and financial forecasting and growth projections as a part of the development of your business plan.

UNIT OBJECTIVES

Upon completion of this unit you should be able to:

1. Describe how to build an income statement, balance sheet and cash flow statement for your business.
2. Describe a variety of revenue generation models and indicate why they are ones that will work in your business.
3. Outline the importance of financial forecasting and growth projections.
4. Write a complete business plan for the business idea that you have been developing throughout this certificate program.

ASSIGNMENTS AND ACTIVITIES

There are a number of learning activities and assignments throughout this unit. The major assignment for this unit is the development of a complete business plan for your new business venture.

As in earlier courses, you will also be asked to complete a self-assessment to help you identify your own strengths and weaknesses. This will help you identify areas that need improvement and strengths that you can build upon.

TOPIC 4.1: THE IMPORTANCE OF THE FINANCIAL PLAN

TOPIC INTRODUCTION

In this topic you will learn about how to build an income statement for your business and create other financial reports such as a balance sheet and a cash flow statement. You will also learn about revenue generation models and how they apply to your business ideas and the importance of financial forecasting and growth projections.

TOPIC OBJECTIVES

Upon completion of this topic you will be able to:

1. Describe how to build an income statement, balance sheet and cash flow statement for your business.
2. Describe a variety of revenue generation models and indicate why they are ones that will work in your business.
3. Outline the importance of financial forecasting and growth projections.

BUILDING AN INCOME STATEMENT

The income statement is one of the three financial statements (the others are the balance sheet and cash flow statement) that investors will consider and evaluate when looking at your business plan.

The income statement summarizes a company's sales (revenues) and expenses quarterly and annually for its fiscal year. The final total net figure (along with others in the statement) is of major interest to potential investors.

Like any other discipline, financial accounting has a lot of jargon that can be confusing. Sometimes the term income statement is referred to as a statement of income or a statement of earnings, a statement of operations or a statement of operating results. These all mean the same thing. Similarly, the terms profits, earnings, and income all mean the same thing and are used interchangeably.

While the income statement can take more than one form, the simplest form is presented here. This form of the statement includes lines for gross revenue (sales), cost of sales, expenses (fixed and variable), taxes, and net income. On the next page you will find a sample of an income statement in a spreadsheet. Using a spreadsheet is the easiest and most convenient way to produce financial statements. If you do not have access to a spreadsheet program or computer you can still do this manually.

Take a moment to review the spreadsheet and consider the categories of revenues and costs and how the income statement is structured. This example also includes a sample of revenue and expenditures that was used to produce the 2011 totals. This information does not necessarily have to be included in an income statement

Income Statement					
					2011
	<u>Sep - 11</u>	<u>Oct - 11</u>	<u>Nov - 11</u>	<u>Dec - 11</u>	<u>Total</u>
Revenue from Product and Service Sales					
Product 1	70,000	250,000	60,000	100,000	480,000
Service 1			15,000	25,000	40,000
Product 2	15,000	15,000	15,000		45,000
Service 2			15,000	15,000	30,000
Total Revenue(Gross)	85,000	265,000	105,000	140,000	595,000
Cost of Revenue(Cost of Sales)					
Product development	73,000	35,000	125,000	30,000	263,000
Product research				7,500	7,500
Customer service (contracted)	5,000	5,000	5,000	5,000	20,000
Expenses					
Salaries	20,000	20,000	20,000	20,000	80,000
Rent	5,000	5,000	5,000	5,000	20,000
Technology (leased printer, internet access)	1,000	1,000	1,000	1,000	4,000
Total Cost of Revenue:	104,000	66,000	156,000	68,500	394,500
Net Income (before taxes)	-19,000	199,000	-51,000	71,500	200,500
Taxes(assume 15% on first \$300,000)					30,075
Net Income (after taxes)					170,425

It is also important to point out that the income statement recognizes revenues when they are realized (that is, when they are received).

Take some time now to think about the following questions.

Self-Reflection Questions

For your small business, what are the revenue sources? What are the cost categories that you need to consider accounting for in your income statement? What expenses do you have that you need to list?

Write your answers in your personal journal.

CREATING A CASH FLOW STATEMENT

Essentially cash flow is the actual money that collected from sales and the actual money that is paid out for expenses on a monthly basis. Cash flow helps you to determine whether your business is viable and if you can draw funds from the business. Cash flow also provides a sense of reality in that it helps you to make the day to day decisions related to purchasing and staffing that you need to make. It will also help you to determine if you need to seek funding from an investor or through a loan or line of credit.

The reason potential investors are so interested in cash flow is because the most important indicator of a company's financial well being. Evaluating a company on a cash basis has a great deal of appeal to the financial community.

A Simple Cash Flow Approach

In this course we are going to assume that you are just starting your business and that your opening cash position (prior to loans and investments) is essentially zero.

A simple approach to creating a cash flow statement includes the following elements:

- Sources of cash – do these come from sales, loans, investments?
- Uses of cash – what expenses do you have to pay? What are your start-up costs?
- Balance – monthly receipts less monthly disbursements.

Self-Reflection Questions

For your small business, what are the sources of cash flow? What expenses do you have to pay for on a regular basis out of your cash flow?

Write your answers in your personal journal.

An example of a cash flow statement for a three month period is provided on the following page. As you can see, both cash receipts and expenses vary from month to month. The total cash available to the company owners at the end of three months is \$164,000 which puts the company in a positive cash flow situation. If the company has to upgrade, for example, production equipment to achieve higher sales and needs to spend month to do so, it now has a basis for making that decision.

Cash Flow Statement				
	<i>Month 1</i>	<i>Month 2</i>	<i>Month 3</i>	<i>Total</i>
<i>Cash Receipts</i>				
Sales	70,000	100,000	60,000	
Loans			15,000	
Investment	15,000	15,000	15,000	
<i>Total Receipts</i>	85,000	115,000	90,000	290,000
<i>Disbursements</i>				
Salaries	20,000	20,000	20,000	
Advertising	10,000	15,000	20,000	
Insurance	5,000	5,000	5,000	
Rent	2,000	2,000	2,000	
<i>Total Disbursements</i>	37,000	42,000	47,000	126,000
<i>Total Receipts Less Total Disbursements</i>	48,000	73,000	43,000	164,000

Now let's move on to consider how to create a balance sheet.

CREATING A BALANCE SHEET

A balance sheet is also known as a "statement of financial position". It shows a company's assets, liabilities, and an owners' equity (net worth). The balance sheet, together with the income statement and cash flow statement, make up a company's financial statements. If you are a shareholder of a company, it is important that you understand how the balance sheet is structured, how to analyze it and how to read it.

HOW A BALANCE SHEET WORKS

A balance sheet is divided into two parts that, based on the following equation, must equal each other, or balance each other out. The main formula behind a balance sheet is:

$$\textbf{ASSETS = LIABILITIES + SHAREHOLDER EQUITY}$$

This means that assets, or the means used to operate the company, are balanced by a company's financial obligations along with the equity investment brought into the company and its retained earnings.

Assets are what a company uses to operate its business, while its liabilities and equity are two sources that support these assets. Owners' equity is the amount of money initially invested into the company plus any retained earnings, and it represents a source of funding for the business. It is important to note that a balance sheet is a snapshot of the company's financial position at a single point in time.

A typical balance sheet has two sides:

<i>Assets</i>	<i>Liabilities</i>
Current Assets	Current Liabilities
Fixed Assets	Long Term Liabilities
Other Assets	Shareholder equity

Let's spend some time considering each of the asset and liability sides of the balance sheet.

ASSETS

Current Assets

Current assets have a life span of one year or less, meaning they can be converted easily into cash. Such assets classes include cash and accounts receivable and any inventory that is on hand. Cash also includes cash retained in bank accounts.

Accounts receivables consist of the short-term obligations owed to the company by its clients based on outstanding invoices or purchase orders. Inventory represents the company's finished goods (either 'on the shelf' or in progress). The makeup of a retailer's inventory typically consists of goods purchased from manufacturers and wholesalers.

Fixed Assets

Fixed assets are assets that cannot be turned into cash easily. They can refer to assets such as machinery, computers, buildings and land. They can also refer to copyrighted intellectual property owned by the company, patents or other intangible assets. Another asset that is intangible but may have considerable value is the company brand. Depreciation is usually calculated on these assets since their value over time typically decreases.

LIABILITIES

Current Liabilities

On the other side of the balance sheet are the liabilities. These are the financial obligations a company owes to outside parties and can take several forms. Long term liabilities include debts and other financial obligations which are due at some point in the future (usually at least one year out from the date of the balance sheet).

Current liabilities are those liabilities that are due or must be paid within one year. This might include a short-term loan, accounts payable to vendors and suppliers, or payments on longer term loans.

Shareholders' Equity

Initial investments made by owners are typically referred to as shareholders' equity.

Shareholders' equity is the initial amount of money invested into a business. If, at the end of the fiscal year, a company decides to reinvest its net earnings into the company (after taxes), these retained earnings will be transferred from the income statement onto the balance sheet into the shareholder's equity account. This account represents a company's total net worth. In order for the balance sheet to balance, total assets on one side have to equal total liabilities plus shareholders' equity on the other.

Here is an example of a balance sheet for a large corporation which will serve as an example.

Balance Sheet for Wal-Mart			
<i>As of Jan 31, 2006</i>			
Assets		Liabilities and Shareholders' Equity	
<i>Current Assets:</i>		<i>Current Liabilities:</i>	
Cash and Cash Equivalents	6,414	Commercial Paper	3,754
Receivables	2,662	Accounts Payable	25,373
Inventories	32,191	Accrued Liabilities	13,465
Prepaid Expenses and Other	2,557	Accrued Income Taxes	1,340
Total Current Assets	43,824	Long-term Debt, due within one year	4,595
<i>Property and Equipment, at cost:</i>		Obligations Under Capital Leases, due within one year	299
Land	16,643	Total Current Liabilities	48,826
Buildings and Improvements	56,163	Long-term Debt	26,429
Fixtures and Equipment	22,750	Long-term Obligations Under Capital Leases	3,742
Transportation Equipment	1,746	Deferred Income Taxes and Other	4,552
Total Property and Equipment, at cost:	97,302	Minority Interest	1,467
Less Accumulated Depreciation	21,427	<i>Shareholders' Equity:</i>	
Property and Equipment, net	75,875	Preferred Stock	0
Property Under Capital Lease:	5,578	Common Stock	417
Less Accumulated Amortization	2,163	Capital in Excess of Par Value	2,596
Property Under Capital Lease, net	3,415	Accumulated Other Comprehensive Income	1,053
Goodwill	12,188	Retained Earnings	49,105
Other Assets and Deferred Charges	2,885	Total Shareholders' Equity	53,171
Total Assets	138,187	Total Liabilities and Shareholders' Equity	138,187

Source: <http://www.edgar-online.com>

The balance sheet for your small business will likely not have as many categories and will therefore be less complicated.

An example of what a Balance Sheet for your business might include is provided below. Other samples are included in Appendix 2.

BALANCE SHEET (as at Sept 30, 2011)			
ASSETS		LIABILITIES	
<i>Current Assets</i>		<i>Current Liabilities</i>	
Cash	10,000	Accounts payable	8,000
Receivables	15,000	Taxes payable	12,000
Inventory	25,000	Long term debt	28,000
<i>Total Current Assets</i>	50,000	<i>Total Current Liabilities</i>	48,000
<i>Fixed Assets</i>		<i>Shareholder Equity</i>	
Computer Equipment	5,000	Common Stock	2,000
Office Equipment	3,000	Retained Earnings	33,000
Manufacturing Equipment	25,000	<i>Total Shareholder Equity</i>	35,000
<i>Total Fixed Assets</i>	33,000		
<i>Total Assets</i>	83,000	<i>Total Liabilities & Shareholders' Equity</i>	83,000

The balance sheet, along with the income and cash flow statements, is an important tool for potential investors to gain insight into a company and its operations. The balance sheet is a snapshot at a single point in time of the company's accounts - covering its assets, liabilities and shareholders' equity. The purpose of the balance sheet is to give users an idea of the company's financial position along with displaying what the company owns and owes.

REVENUE GENERATION MODELS

Determining your revenue model is a critical part of commercializing new products and technologies. The revenue model you choose will impact marketing decisions as well as customer service decisions, and ultimately the viability of your overall business model.

For example, if you advertise that your product is the highest quality in its category, you must price your product to align with this claim. Similarly, if your product is extremely costly, you may need to alter the manner in which you receive revenue in order to attract customers who cannot afford a large cash outlay all at once. Licensing your product means that you'll need a store of cash on hand to pay for business operations until you have sufficient customers, since each one will only pay a small recurring fee and it will take time to accumulate income.

The implications of revenue model decisions are complex and have a fundamental impact on how your business operates.

The following four revenue types, presented from most to least desirable, provide a basis for most revenue models:

Recurring Revenue

The best revenue models create the conditions for continuous, recurring revenue based on a one-time deliverable. Companies require more time and capital to implement recurring revenue schemes, but the economics are ultimately much more attractive than other models.

In its early days, IBM was an excellent example of a company founded on the recurring revenue model. It performed a one-time installation and implementation of their clients' computing hardware, and thereafter binds them to long-term service contracts that include relatively non-labour-intensive software updates, system maintenance and support. IBM has since moved to more of a service-based revenue model and moved away from proving computer hardware.

Transactional Revenue

Transactional revenue models are based on predictable sales of goods. Transactional revenue models are less attractive than recurring revenue because a company has to "do" something anew for every sale (produce and ship goods). Toothpaste and printer toner provide good examples of transactional-revenue products.

One-Time Project Revenue

For many companies one-time projects generate significant amounts of revenue but are unpredictable in terms of their value and timing. Companies that rely on project revenue have limited opportunity to build scale economies, face sporadic income and must expend resources to maintain relationships. They also need to continuously prove themselves to clients and prepare bids (RFQs, RFPs) for subsequent projects. With a project-based revenue model, companies may have many repeating customers, but they have no real means of knowing when the next sale might occur.

Services Revenue

The least attractive revenue model is services revenue. While the previous three business models sell goods, possibly in combination with service, the services revenue model essentially sells time. Time is easy to compete on, easy to negotiate down and cannot be leveraged. By implementing a services-based revenue model, a company's income stream will tend to be highly uneven, and may also remain low compared to other models.

FINANCIAL FORECASTING AND GROWTH PROJECTIONS

For a business to grow and survive in today's dynamic environment where profit margins are squeezed and companies are forced to operate with lower cost, budgeting and forecasting are important financial disciplines for business success.

Not only does the challenge lie in drafting the budget, the challenge lies in operating within the constraints of the budget and to generate income which achieves a revenue forecast.

While many people use the terms budget and forecast to mean the same thing, these definitions may help:

Budget – a detailed projection of expenses for a fixed period (often 12 months) set before the start of the period. Budgets are based on a range of assumptions about external market conditions and internal performance. A reasonable budget allows you to use your resources where they're most needed, so your business will head in the right direction. Creating a financial plan lets you control your business's cash flow instead of it controlling you.



Forecast – a conservative estimate of how much sales revenue you'll have next year (sometimes also referred to as a sales funnel). A forecast involves looking at what you made last year, and extrapolating or forecasting from that.

In effect, budgets and forecasts are the detailed financial extensions to the business plan. They set out the financial expectations of the business. They also guide decision-making and where the business will invest its resources (inventory, staff, plant and equipment) and predicts business results.

Here are some budgeting and forecasting tips to consider:

- Make sure your budget and forecast makes sense (not only to you but to others who will read them).
- Revenues need to match expenses in terms of timing.
- Creating a good budget or forecast needs to be systematic so work on one type of expense or revenue at a time.
- Document assumptions and special entries thoroughly.
- Regularly compare the budget or forecast to actual data.

TOPIC SUMMARY

In this topic you have learned about the importance of creating an effective financial plan for your business. A financial plan includes three key financial statements: an income statement, a cash flow statement, and a balance sheet. You have also considered four possible revenue generation models and have been introduced to the concepts related to budgeting and financial forecasting. These concepts are important to the development of an effective business plan.

Now, take a moment to reflect on what you have learned by answering the following questions.

Self-Reflection Questions

For your small business, what are the revenue sources? What are the cost categories that you need to consider accounting for in your income statement? What expenses do you have that you need to list?

Write your answers in your personal journal.

Let's move on to the last topic in this unit and course on writing the business plan.

TOPIC 4.2: WRITING THE BUSINESS PLAN

TOPIC INTRODUCTION

In the first course in this certificate program you were given an overview of the components that are included in a standard business plan. In this topic, you will review a number of these components to refresh your memory about what needs to be included in a business plan and to prepare yourself for the major assignment in this course which involves the creation of a plan for your own business venture.

TOPIC OBJECTIVES

Upon completion of this topic you will be able to write a complete business plan for the business idea that you have been developing throughout this certificate program.

A REVIEW OF THE BUSINESS PLAN COMPONENTS

Having a solid business plan is an important part of starting and running a business. It helps you to think long term and about the big picture rather than focusing only on the immediate issues associated with starting a business. A business plan also will help you to determine if your business idea is viable and sustainable over the longer term.



If you require financing to start your business, you will need a robust business plan to attract the attention of potential funders (i.e. banks and other investors). In addition, a business plan can help you to remain focused on what you have set out to accomplish with your new venture and provide you with guidance along the way.

Writing a good business plan can be a time consuming and challenging activity. Having an outline for the plan is a good starting point. Here is an outline that can be used to help you get started with the business plan writing process:

1. Table of Contents

Although this may be self-explanatory it is often overlooked by authors of business plans. Having a detailed table of contents will enable readers to quick turn to the section of the plan that are of greatest interest. Making it easy for the reader is important especially if that reader is a prospective investor.

2. Executive Summary

The Executive Summary is a concise overview of the business opportunity that covers all of the important components of the plan. This summary should be no more than two pages in length, is future oriented and designed to demonstrate that you understand the business you are launching and that investment in the business will result in a good return.

Since the Executive Summary is likely the first impression that the reader will have of your business opportunity, it is important to capture the attention and interest of the reader. Often investors will read the Executive Summary to determine if they should read the rest of the plan so it is important to spend time on creating an effective and engaging summary.

3. Company Profile

This is a snapshot of your business including who is involved, your advisors (lawyers, accountants), and a description of your business, its location, and the date that you started your business.

4. Marketing Plan

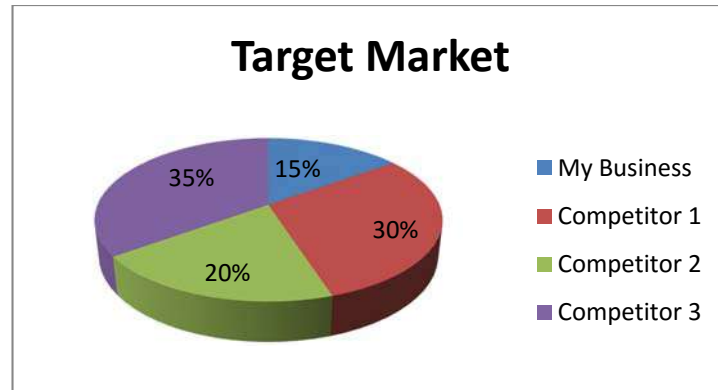
MARKETING



The marketing plan includes an overview of the industry that your business operates in and the trends in that industry. Industry trends help you to identify opportunities to create products or services that will help satisfy a particular customer need. Knowledge of these trends will help your business to be more competitive and provide you with direction for future growth. It is also important to know where the product or service you are planning on introducing to the market fits on the industry life cycle. If you are early to market then you may have a long life cycle for your product or service. On the other

hand if you are late to market your product or service may have a very short time where it is attractive to customers.

The marketing plan should also include background information on your service or product offering, the target market that you are trying to reach, a competitive analysis, and a description of the marketing mix (i.e. the promotion, place, price, and product – the 4 P's of marketing). Here is an illustration of a breakdown of the target market based on what you think your business can achieve in relation to other competitors. Including this type of analysis in your business plan is very important.



5. Operational Plan

This part of the business plan provides the reader with details about your business' suppliers, any manufacturing plans that the business has for products, the business' operating requirements, and a human resources plan which includes a staffing plan, descriptions of roles and responsibilities and job descriptions of key staff.

6. Financial Plan

The financial plan includes an overview of start-up costs (if these apply) and the basic financial statements (i.e. cash flow, income, and balance sheet).

7. Appendices (as needed)

Typically, appendices are included if there is too much detail than can be accommodated within the main body of the business plan.

WRITING THE PLAN

Often the most difficult part of writing a plan is getting started. With this brief review of the business plan components in mind here is some advice about writing your business plan.

- Break down the work into small chunks so that you don't see it as an onerous task.
- Use the assets of your management team (if you have one) to help with the writing task. Assign each of them a section.
- Set aside a specific time each day to write a few paragraphs or pages.
- As you write, continue to do more research and add information that you might have missed previously.
- Keep an open mind. Not every piece of research you find will support your idea. When the research presents alternative perspectives, include them in your narrative. These divergent ideas might modify your business plan and make it more viable.

- Remind yourself that good business plans can take some time to complete. A business plan is not a static document. It should evolve and grow as you deepen your understanding of the business environment.
- Avoid highly technical terms and diagrams that the reader may not understand or be familiar with.
- Write the plan in a way that assumes that the reader knows nothing about the business that you are starting.
- Your business plan is a sales document. It must convince you and your readers that your venture has the potential to be successful. It must come across as enthusiastic and confident.
- Remember not to omit or ignore any risk factors since these are a part of every business venture.

Self-Reflection Questions

Two sample business plans are provided in Appendices 3 and 4. Read each of the plans and then answer the following questions.

If you were an investor, which of the plans do you think you would be prepared to fund? Why? What parts of each plan were done well in your opinion? Justify your answer by referring to specific sections of each plan.

Write your answers in your personal journal.

TOPIC SUMMARY

In this topic you have refreshed your memory about the basic elements of a good business plan. You have also received some advice on how to go about writing your plan and some things to avoid.

It is now time to complete the major assignment for this unit and this course. Go to the next page to read the assignment and answer the questions that are outlined.

MAJOR ASSIGNMENT 4: WRITING THE BUSINESS PLAN***Writing Your Business Plan***

Before you begin to write your own business plan review the two sample business plans provided in Appendices 3 and 4. The business plan outlined in Appendix 3 is for a retail gift shop business and the plan in Appendix 4 is for a small retail clothing store. Use the Business Plan Elements Checklist provided in Appendix 3 to write a complete business plan for the new business venture that you have been developing throughout the course of this certificate program. You will also want to review the financial statement examples provided in Appendix 2 (start-up costs, income statement, and cash flow statement) since you will be expected to include these in your business plan.

Consider the target audience for your business plan to be an independent or institutional (i.e. bank) investor. Given this audience and since this is a major assignment it is expected that your business plan will provide sufficient detail so that an investor can make a funding decision concerning your business venture.

Write your plan in your personal journal or as a separate document that can be submitted to your instructor for evaluation.

UNIT FOUR – SUMMARY

In this unit you have learned about the importance of the building an effective financial plan that supports your business idea. You gained an understanding of the role of income statements, balance sheets, and cash flow statements. You have also considered a variety of revenue generation models that could be used in a business and learned the basics of financial forecasting and growth projections. You also reviewed the basic elements or components of a good business plan and you have applied what you have learned throughout this certificate program to the creation of a business plan for your business idea.

REFERENCES

Barringer, B. R. (2008). *Preparing Effective Business Plans: An Entrepreneurial Approach*. Toronto: Pearson Education.

DeThomas, A. &. (2008). *Writing a Convincing Business Plan*. Hauppauge, New York: Barron's Educational Series.

Harvard Business School Press. (2007). *Creating a Business Plan*. Boston: Harvard Business School Press.

Hazelgren, B. (2005). *Your First Business Plan (5th ed.)*. Chicago: Sourcebooks.

Knowles, R. &. (2010). *Small Business: An Entrepreneur's Plan*. Toronto: Nelson College Indigenous.

OTHER RESOURCES

If you have access to the internet you may wish to access the following online resources to support your learning:

Copyright and Intellectual Property

<http://www.canadabusiness.ca/eng/91/>

Business and Financial Planning

<http://www.canadabusiness.ca/eng/86/4878/>

<http://www.cybf.ca/wp-content/uploads/2011/07/Biz-Plan-Guide-29-05-08.pdf>

<http://www.bplans.com/>

<http://www.cybf.ca/resources/>

<http://www.entrepreneur.com/startingabusiness/businessplans/samplebusinessplans/standard204194.html>

<http://www.sba.gov/category/navigation-structure/starting-managing-business/starting-business/writing-business-plan>

<http://www.score.org/resources/business-plans-financial-statements-template-gallery>

COURSE SUMMARY

LESSONS LEARNED

Throughout this course, you have been introduced to a number of topics that you will need to consider when developing a business plan for your business.

Let's review what you accomplished in each unit of this course. In Unit One, you reviewed how to come up with a unique business idea and some ideas about how to formalize and evaluate your idea. In Unit Two, you reviewed the fundamentals of undertaking an industry analysis and a number of key questions to ask about your competitors. You also learned about the force field model and how it can be applied to an analysis of your business environment. In Unit Three, you considered the components of a customer profile ((demographics, geography, psychographics, attitudes, buying behaviour) and worked on exercises that helped you create a customer profile for your business. In Unit Four, you learned about the importance of having a financial plan for your business and the various financial statements that you need to include in your business plan (income statement, balance sheet, cash flow statement. You also learned about revenue generation models and financial forecasting and growth.

APPLICATION OF KNOWLEDGE AND SKILLS

As you have progressed through this course, you have continued to develop a knowledge base that will be useful for you as an entrepreneur. Through the self-reflection exercises, the activities and assignments you have been able to consider and apply the elements that are important in the business environment that you will be entering with your new business venture. You have also been able to apply these to the development of a business plan for your small business venture.

COURSE EVALUATION

<Insert instructions on how to complete and submit a course evaluation. You should include a course evaluation form in the Appendices>

COURSE APPENDICES

APPENDIX 1: IDEAL CUSTOMER PROFILE WORKSHEET

IDEAL CUSTOMER PROFILE	
AGE	GENDER
PHYSICAL DESCRIPTION	MARITAL STATUS
EDUCATION LEVEL	OCCUPATION
VALUES	INCOME
GOALS	HOBBIES
DESIRES	INTERESTS

APPENDIX 2: SAMPLE FINANCIAL STATEMENTS

o Costs

Item	Cost of Item	Owner Contributed	Loan	Other Loan (fill in name)	Totals - Check
asehold Improvements					
st month rent	3,000		3,000		3,000
plies	1,000		1,000		1,000
	2,000		2,000		2,000
o review lease	200		200		200
art-up Costs					
	1,000		1,000		1,000
cense	200		200		200
lies	500		500		500
ture (desk, filing cabinet)	1,500	1,500			1,500
printer, fax machine	2,500	2,500			2,500
System	500		500		500
Consultation to set up books	1,000			1,000	1,000
o review contracts	500		500		500
	2,100		2,100		2,100
	2,500		2,500		2,500
	3,500			3,500	3,500
	5,000			5,000	5,000
	1,500			1,500	1,500
	1,000			1,000	1,000
SUBTOTAL	\$29,500	\$4,000	\$13,500	\$12,000	
oital	2,500	1,000	1,500		2,500
TOTALS	\$32,000	\$5,000	\$15,000	\$12,000	\$32,000
e Contribution	100%	16%	47%	38%	100%

Sample Cash Flow Forecast

Cash Flow Forecast - Year 1

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Assumptions - sales per month													
Product 1	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Product 2	5	5	5	5	5	5	5	5	5	5	5	5	60
Product 3	10	10	10	10	10	10	10	10	10	10	10	10	120
Product 4	20	20	20	20	20	20	20	20	20	20	20	20	240
Product 5	30	30	30	30	30	30	30	30	30	30	30	30	360
Product 6	12	12	12	12	12	12	12	12	12	12	12	12	144
Cash Inflow	Avg \$												0
Product 1	100.00	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	\$120,000
Product 2	50.00	250	250	250	250	250	250	250	250	250	250	250	\$3,000
Product 3	25.00	250	250	250	250	250	250	250	250	250	250	250	\$3,000
Product 4	10.00	200	200	200	200	200	200	200	200	200	200	200	\$2,400
Product 5	5.00	150	150	150	150	150	150	150	150	150	150	150	\$1,800
Product 6	7.50	90	90	90	90	90	90	90	90	90	90	90	\$1,080
Total Cash Sales		10,940	10,940	10,940	10,940	10,940	10,940	10,940	10,940	10,940	10,940	10,940	\$131,280
Owner's Investment	5,000												\$5,000
Loan	15,000												\$15,000
Other Loan (fill in name)	12,000												\$12,000
Total Other Cash Inflow		32,000	0	0	0	0	0	0	0	0	0	0	\$32,000
(A) TOTAL CASH INFLOW		\$42,940	\$10,940	\$10,940	\$10,940	\$10,940	\$10,940	\$10,940	\$10,940	\$10,940	\$10,940	\$10,940	\$163,280
Cash Outflow													
Direct Costs	Margin												
Product 1	40%	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	\$48,000
Product 2	70%	175	175	175	175	175	175	175	175	175	175	175	\$2,100
Product 3	75%	188	188	188	188	188	188	188	188	188	188	188	\$2,250
Product 4	40%	80	80	80	80	80	80	80	80	80	80	80	\$960
Product 5	10%	15	15	15	15	15	15	15	15	15	15	15	\$180
Product 6	5%	5	5	5	5	5	5	5	5	5	5	5	\$54
(B) TOTAL DIRECT COSTS		\$4,462	\$4,462	\$4,462	\$4,462	\$4,462	\$4,462	\$4,462	\$4,462	\$4,462	\$4,462	\$4,462	\$53,544
General Expenses													
Owner's salary	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	\$12,000
Employee	500	500	500	500	500	500	500	500	500	500	500	500	\$6,000
Legal	-	-	-	-	-	-	-	-	-	-	-	200	\$200
Accounting	-	-	200	-	-	200	-	-	200	-	-	300	\$900
Advertising and promotion	100	100	100	100	100	100	100	100	100	100	100	100	\$1,200
Rent	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	\$12,000
Property taxes	-	-	-	-	-	-	-	-	-	-	-	-	\$0
Utilities	120	120	120	120	120	120	120	120	120	120	120	120	\$1,440
Insurance	100	100	100	100	100	100	100	100	100	100	100	100	\$1,200
Bank Charges	150	150	150	150	150	150	150	150	150	150	150	150	\$1,800
Office supplies & postage	50	50	50	50	50	50	50	50	50	50	50	50	\$600
Telephone & Internet	300	300	300	300	300	300	300	300	300	300	300	300	\$3,600
Alarm System	100	100	100	100	100	100	100	100	100	100	100	100	\$1,200
Subscriptions & Memberships	-	-	500	-	-	500	-	-	500	-	-	500	\$2,000
Training	-	-	500	-	-	500	-	-	500	-	-	500	\$2,000
Miscellaneous	100	100	100	100	100	100	100	100	100	100	100	100	\$1,200
(C) TOTAL GENERAL EXPENSES		\$3,520	\$3,520	\$4,720	\$3,520	\$3,520	\$4,720	\$3,520	\$3,520	\$4,720	\$3,520	\$4,820	\$47,340
Other disbursements													
Start-up Costs		29,500											\$29,500
Income Tax	-	-	-	-	-	-	-	-	-	-	-	13,751	\$13,751

Projected Income Statement

	Year 1	Year 2
Revenues		
Sales		
Product 1	120,000	120,000
Product 2	3,000	3,000
Product 3	3,000	3,000
Product 4	2,400	2,400
Product 5	1,800	1,800
Product 6	1,080	1,080
(A) Total Sales	\$131,280	\$131,280
Cost of Goods Sold		
Product 1	48,000	48,000
Product 2	2,100	2,100
Product 3	2,250	2,250
Product 4	960	960
Product 5	180	180
Product 6	54	54
(F) Cost of Goods Sold	5,544	5,544
(G) GROSS MARGIN (A-F)	\$125,736	\$125,736
Expenses		
General Expenses		
Owner's salary	12,000	12,000
Employee	6,000	6,000
Legal	200	200
Accounting	900	900
Advertising and promotion	1,200	1,200
Rent	12,000	12,000
Property taxes	0	0
Utilities	1,440	1,440
Insurance	1,200	1,200
Bank Charges	1,800	1,800
Office supplies & postage	600	600
Telephone & Internet	3,600	3,600
Alarm System	1,200	1,200
Subscriptions & Memberships	2,000	2,000
Training	2,000	2,000
Miscellaneous	1,200	1,200
(I) TOTAL GENERAL EXPENSES	\$47,340	\$47,340
Other disbursements		
Start up Costs	29,500	0
CYBF Loan - Interest Payment	880	960
Other Loan - Interest Payment	600	600
(J) TOTAL OTHER EXPENSES	\$30,980	\$1,560
(K) TOTAL EXPENSES	\$78,320	\$48,900
NET PROFIT BEFORE TAX (G-K)	\$47,416	\$76,836
Income Tax (estimated at 29%)	(\$13,751)	(\$22,282)
NET PROFIT AFTER TAX	\$33,665	\$54,554

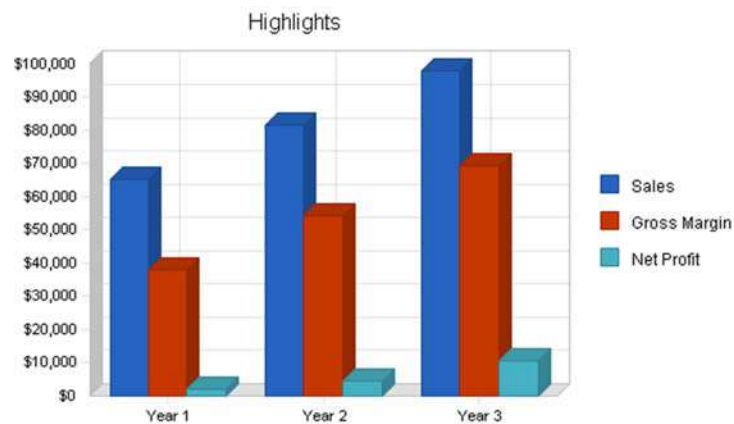
APPENDIX 3: EXAMPLE BUSINESS PLAN: RETAIL GIFT SHOP

Executive Summary

Bensai Halstadt and Kaethe Villanova are the principals of Regali Luxuri. Regali Luxuri is a specialty gift boutique located in the enterprising warehouse district of west midtown in Treschicburg. We specialize in an assortment of high-quality merchandise ranging from customized business cards and greeting cards to personalized apparel and home accents. Regali Luxuri caters to middle-to-upper class and affluent clientele. Our company image exemplifies what customers are seeking in home accents and gifts which is a "Modern & Urban Life Style" look and feel. What differentiates our company from other specialty retail shops are the printing services we offer, our "one-of-a-kind" product line and a number of exclusive, proprietary products we designed ourselves.

Before Regali Luxuri's Grand Opening we will have established a company website. In year one, Regali Luxuri plans to break-even and in year two, we plan to generate a moderate profit. Some future growth plans for Regali Luxuri include: physically expanding the location to include the 2nd level of our live/work unit; broadening our unique product line; hiring individuals to design for our proprietary merchandise; developing and implementing e-commerce to our existing website in year three; and establishing a mail order catalog.

We incorporated our business as an "S" corporation. Over several years, we, Bensai and Kaethe, have invested our time, innumerable personal finances and research in developing and expanding our home-based business into a retail location. For the opening of the retail location, we each contributed an equity investment. Even though we are not well versed in the retail industry, Kaethe does have five years of retail and accounting experience and we have both have taken entrepreneurial and managerial classes through the local University SBDC (small business development center). Our experience and continuous education aid our efforts in training future employees and managing daily operations.



1.1 Objectives

- Generate total sales revenue to establish a profit at the end of year one.
- Implement e-commerce capabilities to existing company website in year three.
- Establish an annual growth rate of approximately 20% in year three.
- Maintain a direct cost of sales of 45% or less.
- Establish 50% of our merchandise as proprietary products in year two.
- Establish our company as a premier "Brand Recognized" name throughout the community in year one.

1.2 Mission

Regali Luxuri is a specialty cards, gifts and apparel boutique that specializes in "one-of-a-kind" merchandise not commonly found in the larger retail market. We are dedicated to providing customers exceptional customer service in a visibly relaxing and engaging shopping environment. Our mission is to provide customers with unique, high-quality merchandise at affordable prices.

1.3 Keys to Success

- Acquire and personally design a product line of "one-of-kind" handcrafted and unique products.
- Provide customized products and services that are "tailor-made" to each customer's personal style.
- Establish a loyal customer following by offering seasonal promotions / discounts, distributing direct mail postcards, offering quality merchandise at affordable prices, and providing a visibly inviting and comfortable shopping environment.
- Establish a "Brand Identity" that personifies high-quality, gift giving merchandise and outstanding customer service.

Company Summary

Regali Luxuri is a privately owned specialty gift boutique located in the community of Treschicburg. The principal owners are Bensai Halstadt and Kaethe Villanova. Regali Luxuri specializes in a variety of unique merchandise ranging from specialty cards and personalized printing services to specialty handcrafted gifts and customized apparel.

What started out as a hobby for us soon evolved into a promising business venture. After meeting through a mutual friend we realized that we shared interests and a similar hobby. When Kaethe Villanova purchased a personal computer we began designing greeting cards, custom T-shirts and business cards for loved ones, free of charge. We used our own money to produce these products. Family and friends soon became very interested in actually purchasing these items. After a while we had built a clientele base that eventually branched out to several cities by word-of-mouth.

Over the years, we have invested our time and money to conduct the necessary primary market research by marketing new merchandise to the public which resulted in tremendous interest and responses.

Three years ago we relocated to Treschicburg where another clientele base was established. By testing our products, we realized that our target market consisted primarily of women; of ages ranging from 25 to 55; Business Entrepreneurs and Business Professionals. Next we started visualizing the possibility of having more than just a home-based business but perhaps a store front. That possibility didn't culminate until Bensai Halstadt located and secured space in a newly developed Luxury Residential/Retail Community in west midtown in January of last year. Twelve of the residential lofts apartments are 2-level live/work space units where tenants who maintain home-based businesses could utilize the space as their store front. It was more than what they had imagined. Although both owners have diverse backgrounds, Bensai Halstadt, a design engineer, and Kaethe Villanova, a surgical technologist, both are very creative, crafty and ambitious.

Regali Luxuri is located at 1234 Greenfern Boulevard, in the warehouse district of west midtown in Treschicburg. The area is in its beginning stages of gentrification. The gift shop is located in a newly developed Residential/Retail Community named Wensleydale. There are approximately 12 live/work space units that are dedicated to tenants/entrepreneurs and two sizeable retail spaces available for more established businesses. The two-level unit that the owners occupy has a total square footage of 1,800 with the lower level store front space occupying 800 square feet. The owners are leasing the total space at \$1,610 per month.

Of the 12 live/work store fronts, over half have been occupied and are fully operating. These businesses include: a convenience/beer and wine store; a dry cleaners; a hospice; a children's story-book store; a music production company; and a spa. What is sure to increase visibility and business traffic to the area is the opening of an established upscale restaurant in early fall which will occupy one of the larger retail spaces.

Regali Luxuri is approximately 15 minutes from the Treschicburg Airport and is less than 10 minutes away from the intersection of the two Interstate Highways. Local street access is convenient. Ample parking is available to prospective customers along with other shopping conveniences. The shop is also within 5-10 miles of several universities.

2.1 Company Ownership

Regali Luxuri is owned and operated by Bensai Halstadt and Kaethe Villanova who are equally involved in the operation and management of the company. In August of last year, the business became incorporated and is structured as a privately owned "S" Corporation.

2.2 Start-up Summary

These figures are based on monthly and start-up expenses needed to open and functionally operate the gift store. The capital needed will come from both owner's personal finances. Purchase of an additional computer, POS system, additional high-quality printing equipment and software is allowed by the IRS as a Start-up Expense instead of as Long-term assets.

Long-term assets include a larger multi-function fabric press or use in customizing garments. Additional start-up inventory of gift items for stocking display shelves in the store are included as assets to be purchased.

Other Current Assets include the computer, supplies, and inventory the owners had accumulated while pursuing this business as a hobby.

Start-up Requirements	
Start-up Expenses	
Rent	\$1,600
Advertising	\$300
Delivery Costs	\$300
Telephone Landline	\$90
Cellular Phone	\$375
Utilities and Internet	\$375
Insurance	\$85
Legal	\$180
Computer/Printing Equipment/Software	\$4,000
Decorating and Remodeling	\$5,690
Office Supplies	\$400
Professional Fees	\$150
Licenses and Permits	\$200
Security Deposits	\$2,000
Grand Opening Ads and Promos	\$1,335
Total Start-up Expenses	\$17,080
Start-up Assets	
Cash Required	\$800
Start-up Inventory	\$4,000
Other Current Assets	\$3,000
Long-term Assets	\$2,000
Total Assets	\$9,800
Total Requirements	\$26,880

Products and Services

Regali Luxuri offers an eclectic ensemble of specialty cards, gifts, and home accents designed to fit the client's personal style. Our specialty shop also incorporates customized printing services as well as exclusive proprietary products. We have assembled an array of local and national vendors along with skillful craftsmen and business entrepreneurs who will showcase a unique product line that will embody Regali Luxuri's company image of a "Modern & Urban Lifestyle."

PRODUCT DESCRIPTION

The following is an overview of our product line by category:

Printing Products: The printing products are just an extension of Regali Luxuri's visually artistic and creative ideas that we offer clients to engage in. Price-points in this category range from \$5 - \$250+.

- Brochures
- Business cards
- 12-month calendars
- Special occasion cards: Greeting cards, wedding invitations, etc.
- Photo restoration/photo enlargements
- 2-year pocket planners
- Promotional materials

Customized Apparel: Our offering of personalizing a client's favorite garment to reflect a special occasion or individual style will surely enhance their wardrobe. We use graphic imagery along with decorative studs and rhinestones to create a personal style. Price-points in this category range from \$20 - \$150.

- T-shirts
- Sweat shirts
- Denim apparel: Jackets, slacks, jump suits, and shirts

Home Accessories: Our product line of home accessories is a collection of modern accents that customers can certainly connect with. Price-points in this category range from \$5 - \$100.

- Bamboo garden vase collection
- Decorative and scented candles
- Framed artwork
- Shadow boxes
- Wine accessories
- Tabletop Accents: Coffee mugs, place mats, platters and coasters

Personal Care Accents: This category is very popular with customers when it comes to gift giving or personal use. Price-points in this category range from \$6 - \$15.

- Scented body lotion
- Scented bath salt
- Facial and body soaps
- Body gel
- Aromatherapy products

Pet Products: This trendy category will be very popular with potential customers and convenient for 80% of residential tenants in the complex who own a pet. Price-points in this category range from \$5 - \$25.

- Gourmet snacks
- Overnight traveling bags
- Bathing products
- Name tags
- Toys

Specialty Gifts: This gift giving merchandise line will allow customers to express their personal sentiments for special occasions and the gift recipient. Price-points in this category range from \$10 - \$250.

- Organza sheer gift bags
- Handcrafted jewelry
- Designer cigar handbags
- Baby products
- Handcrafted Afro-centric dolls
- Customized men's and women's gift sets
- Children's interests books
- Housewarming gifts

SERVICE DESCRIPTION

To distinguish ourselves from surrounding specialty retailers, we provide numerous customized services that offer customers a satisfying and unique shopping experience.

Plastic Gift Cards: Gift cards are available to customers when purchasing for gift recipients may become a little difficult. We offer \$25 gift cards.

Customization Services: To further enhance the customer's shopping experience, we provide customers with the option of customizing almost any item of our product line. Whether it is printing products, specialty gifts, or home accessories customers can choose to have certain items customized to fit their individual decorating style or personal needs.

V.I.P. Customer Appreciation: In recognition of our "loyal" customers, we will provide them with V.I.P. cards. V.I.P. card holders will receive a special discount on all merchandise for a specified time period.

Graphic Design/Photography Services: These services are provided to complement the personalization of our printing services and products. Equipment available to support these services includes:

<u>Hardware</u>	<u>Software</u>
1 Dell Personal Computer	ArcSoft Photo Impression 2000
1 Dell Notebook	MGI Photo Suite 3 (Graphics)
2 Scanners: HP & Microtek	Adobe Photo Deluxe 4 (Graphics)
2 Printers: HP & Epson	Epson Kai's Photo SE (Graphics)
2 Kodak Digital Cameras	Microsoft Publisher XP

Corporate Gift Program: Regali Luxuri would like to branch out and explore business-to-business ventures. We will offer a 15% discount to businesses that purchase for their employees.

ADVERTISING LITERATURE

This will be distributed to existing clients via direct mail and available to new customers as they browse through the boutique. Regali Luxuri will utilize our own printing capabilities to publish business cards, brochures and promotional postcards. Bensai Halstadt is a graphic design enthusiast who is proficient in desktop publishing and printing professional advertisements. This approach will definitely reduce our monthly advertising costs.

PRICING

Product pricing structures will be based on cost-plus and competitive pricing. Cost-plus pricing is basing the price on the basis of all costs plus a mark-up to cover overhead costs. Our mark-up cost is 33%. All orders will require a 50% deposit upon receiving final shipment. For bulk orders, a 50% deposit is required and a 15% discount will be given to customers. There will be seasonal and periodic sales on merchandise due to the possible overstock of inventory.

Design and Photography Service Fee Structures will be determined by the particular requirements of individual projects. Typically, compensation to Regali Luxuri includes a retainer design fee in addition to the cost plus system of billing for supplies and materials. This structure accounts for research, design time and consulting.

Future Plans

We seek to broaden Regali Luxuri's product line by expanding the retail location to the 2nd level and show casing:

- **Home Accessories:** Mirrors, framed artwork, picture frames, glassware, dinnerware, flatware, throw pillows, throw blankets, and plush rugs.
- **Gift Wrapping Services:** This signature service will strengthen Regali Luxuri's "brand identity" and company image.
- **Men's Gifts**

Regali Luxuri also seeks to hire individuals to design exclusively for our proprietary products.

- **Apparel:** Crochet hats and scarves for toddlers to adults
- **Baby Products:** Crochet hats, booties, and throw blankets
- **Soft Goods:** Crochet throw pillows and throw blankets
- **Printing Products:** Greeting cards, calendars, obituaries

Plans of developing a mail order catalog will increase sales for Regali Luxuri.

Market Analysis Summary

Many skeptics wouldn't think in these economic times that a small business would be capable of successfully launching their business. However, the following research findings will prove that small businesses in the gift industry have a distinct advantage. While the U.S. economy has been in a recession since 2000, consumers have continuously been focused on enhancing their homes with the purchase of home accent pieces. Total sales in the gift and decorative accessories industry for 2002 were \$54.3 billion, resulting in just a drop of 1 % from \$54.6 billion in 2001.

"When it comes to dealing with change, small firms are at a distinct advantage. Not having the large corporate hierarchy, they can be flexible, react quickly, and readily respond. When you make a change in a big company, it's like turning an aircraft carrier. In a small company, you're turning a jet ski." --Source: *The Kenmarc Company, Common Sense Management, Thriving in a Recession 2002*

"Although cost cutting is inevitable, marketing and product promotion are absolutely essential. The question is, how can you effectively promote your products on a smaller budget?"

"The answer is the Internet. It is an extremely powerful, yet cost-effective, communication tool that effectively utilized can stimulate significant sales growth, even in a recession."

--Source: *The Kenmarc Company, Common Sense Management, Thriving in a Recession 2002*

4.1 Market Segmentation

Regali Luxuri target markets will consist of the following groups:

BABY BOOM GENERATION (age 35-59) is married with children; college educated; homeowner; tend to stay in their home rather than multi-family properties; household income \$50,000-\$75,000; and seeks spacious living.

AFFLUENT (age 30-45) are married; college educated; household income \$100,000+; growing at a much faster rate than the total number of U.S. households; and currently represents more women and minorities than ever before.

GENERATION X (age 24-37) well educated; married and raising children; buying our first homes; climbing up the corporate or entrepreneurial ladder.

GENERATION Y (age 10-24, born 1977-1995) is more ethnically diverse and is experiencing tremendous growth in spending power. "They will have careers and enough disposable income to afford luxuries for themselves and our homes."

--Source: *Home Accents report 2002, The Consumer Counts: Generation Y.*

Market Segmentation Demographics

Regali Luxuri's retail boutique is located in the community of Treschicburg. It encompasses a wide area of 28.7 square miles and experienced a population growth rate of 6.0% through 2005. The following demographic information will concentrate primarily within a five mile radius of our retail location.

The population (age 0-59) contained within a 5 mile radius of Regali Luxuri target market segments totals 214,675 in 2000.

Women are the primary consumers of Regali Luxuri products representing 60%. The growth rate of 6.0% is expected to continue.

By market segments, Regali Luxuri's customer base is represented by the following:

- 33% Baby Boomers

- 26% Affluent
- 24% Generation X
- 17% Generation Y

By ethnicity, Regali Luxuri's market segments are represented by the following groups :

- 45% White
- 30% African American
- 10% Hispanic
- 5% Asian
- 10% Other

The total number of households from 2000 through 2005 was projected to increase at a 7.5% growth rate for our area.

--Source: CACI Marketing Systems for 2000 Information Systems, Ourstate University

Who is Regali Luxuri's customer?

- Primarily Female
- Educated
- Homeowner
- Middle-to-upper class
- 25-59 years of age
- Favorites splurges are traveling and redecorating
- Enjoys spending time with family and friends
- Finds "word-of-mouth" and referrals from friends and colleagues extremely significant when making decisions
- Influenced by a brand and reputation of the product and its seller

Market Analysis							
		Year 1	Year 2	Year 3	Year 4	Year 5	
Potential Customers	Growth						CAGR
Baby Boomers	3%	70,842	73,180	75,595	78,090	80,667	3.30%
Affluent	3%	55,816	57,267	58,756	60,284	61,851	2.60%
Generation X	2%	51,522	52,759	54,025	55,322	56,650	2.40%
Generation Y	2%	36,495	37,115	37,746	38,388	39,041	1.70%
Total	2.63%	214,675	220,321	226,122	232,084	238,209	2.63%

4.2 Service Business Analysis

The "Gift Industry" is primarily engaged in the retail sale of combined lines of gifts and novelty merchandise, souvenirs, greeting cards, holiday decorations, and miscellaneous small arts goods. These establishments are characterized by small, single unit specialty shops, each retailing a narrow line of full-priced, high-quality merchandise. The gift

industry's five product categories along with its total sales and market share are represented by the following:

<u>Product Category</u>	<u>Total Sales (billions)</u>	<u>Market Share</u>
1. Home Decorative Accents	\$16.89	31.0%
2. Stationery & Paper Products	\$14.07	26.0%
3. General Gifts	\$13.51	25.0%
4. Collectibles	\$6.40	12.0%
5. Seasonal Decorations	\$3.66	7.0%

--Source: 2004 Market Share Reporter (Research Alert, Dec. 6, 2002, p.5 from Unity Marketing)

The market for gifts and decorations hit \$54.6 billion in 2001, only a 1% drop of \$55.2 billion for 2000. In the Home Decorative Accents segment, Candles commanded the largest sales of \$2 billion, while Baby and Children gifts were the top sellers in the General Gifts category with \$1.8 billion.

Snap Shots of the Industry

"While the traditional furniture industry is struggling with the new fashion focus in home, the gifts industry is benefiting greatly from this trend. In the past two years, consumers spent more money on home furnishings than on clothes."

"With this new emphasis on home decorating, consumers are not just striving to make our homes more 'beautiful,' rather they are seeking decorative items that can positively impact the mood and emotional climate of our home."

"Products which have a personal, emotional link to the consumer, such as collectibles or gifts based upon licensed properties or which appeal to multiple senses, including sight, sound, scent, are in demand as consumers seek to make our homes more comfortable and comforting."

"The future of the gifts and home accents market is positive for the next several years. A significant consumer trend that will play out in the gifts and home decorative market, as well as many other consumer product categories, will be a reaction against our increasingly technology-driven culture."

"As our lives become more 'virtual' and dependent upon computers and technology, consumers will seek out gifts and decorative accents which will help ground them in the 'real' world."

--Source: Unity Marketing, *The Gifts and Decorative Accents Report 2002: The Market, The Competitors, The Trends*

4.2.1 Competition and Buying Patterns

Main Competitors

Specialty gift retailers have the ability to distinguish themselves merely by the types of products and/or services that they offer and Regali Luxuri is no exception. We have identified and conducted an in-depth analysis of three of our competitors located within a 5 mile radius. To aide in a more effective analysis, one of the owners visited all three retail stores to observe pricing structures, company image, traffic-flow, location and range of service. The analysis proved to be valuable to Regali Luxuri in identifying our competitive edge, areas of uniqueness, and marketing "niche."

BELLA AZUL

Bella Azul is an ultra-chic, cutting-edge, funky fashion and lifestyle boutique that recently opened its doors in February 2003. A large percentage of their merchandise is designer fashion followed by a distinctive but narrow line of home accessories, candles, bath/body accents and jewelry. They have a personal shopping staff available to repeat customers who are interested in this service. Their target market is primarily affluent women and prices range from \$20 - \$1600. While walking through the store, customers become captivated by the lofty space, eclectic ambiance and hand-painted floors. Since Bella Azul is located just blocks away from Regali Luxuri, they too are experiencing slow traffic-flow due to the developing residential/commercial area. The boutique occasionally hosts special events like Wine Tasting and Fashion Shows. Hours of operation are Tuesday through Friday 11 a.m. — 7 p.m., Saturday 10 a.m. — 6 p.m. and Sunday/Monday by appointment only. Their first-year estimated annual sales were approximately \$200,000.

SWOOZIES

Swoozies is a more established gift shop located in the metro Treshichburg area with four retail locations. The shop closest to Regali Luxuri is located in a shopping center so there is a substantial amount of traffic-flow. The two owners of this establishment have at least 25 years of retail experience between them. They too target affluent women with an eclectic wide range of products and services. Products range from dinnerware, picture frames and journals to doll collections, pet products and custom printing. The store environment is very festive, engaging, bright and celebratory which have been effective in establishing the store's name and image. The products are creatively displayed and showcased throughout the store to distinguish who the gifts are for, e.g. "a girl" section and "a boy" section. Swoozies is looking to expand nationally to the southeast cities like Raleigh, Huntsville, and Memphis. Their estimated annual sales for 2003 were \$8 million. Hours of operation are

Monday through Friday 10 a.m. — 7 p.m., Saturday 10 a.m. — 6 a.m. and Sunday 12 p.m. — 6 p.m.

BROOKSTONE, INC.

And lastly Brookstone, Inc., the most recognized company of the three local competitors is a nationwide specialty retailer whose strategy is to develop unique, proprietary branded products. Their merchandise is offered to customers through several distribution channels including 240 retail stores, catalogs and the Internet. Brookstone's closest retail store is located in the very popular and frequented Rhomboid Square mall. Customers are encouraged to try out products for true, hands-on shopping. Their product range is vast in comparison to the other competitors. Their "brand identity" is well established and customers identify their products as personifying exceptional quality and high-value. There is of course a "corporate gifts program" available where personalized services like silk-screening, engraving, stitching or embossing are offered. Brookstone products range from \$5 - \$3,000 and estimated annual sales were over \$325 million. Their target market is women who purchase for their husbands, fiancés, boyfriends.

Strategy and Implementation Summary

Regali Luxuri will develop effective marketing & sales strategies by focusing on the following key areas:

- Prices
- Promotions
- Distribution channels
- Customer relations
- Products

These keys areas will reflect our existing and potential target market segments previously mentioned.

5.1 Competitive Edge

KEY COMPETITIVE STRENGTHS

- **Customized Services** — These "tailor-made" services offer the customer a personal connection to the product that he/she is purchasing. This type of service is not commonly offered in today's retail marketplace.
- **Printing Services** — The added printing products service within the gift shop is unique for a gift shop. This will enable customers to bring in personal photographs and mementos or email digital images to create greeting cards, 12-month calendars or business cards. These types of items then become personal keep-sakes and one-of-a-kind type merchandise.
- **Handmade/Handcrafted Products** — The handcrafted products will be designed by owners Bensai and Kaethe as well as outside entrepreneurs. We will showcase their crafts on consignment. This will also broaden our own product line.
- **Brand Identity** — The proprietary products that we design will be distinguished from other products by brand labels. Our brand name merchandise makes up 50% of our present product line. Promoting "brand recognized" merchandise connects the customers to products that represent high-quality and dedicated customer service.

KEY COMPETITIVE WEAKNESSES

- **Range of Product Line** — Although Regali Luxuri's present product line is unique and high-end merchandise, the range of our products is considered small in relation to more established businesses. Yet these items are engaging and personable.
- **Location of the Gift Shop** — Because the area is in its developing stages of residential and commercial enterprise zones, business traffic is relatively slow. However with time, west midtown will undoubtedly generate a traffic-flow of curious residents and outside customers.

5.2 Marketing Strategy

PRICING STRATEGY

Although Regali Luxuri products are high-end and stylish, our pricing structure remains affordable and in-line with other specialty gift retailers. Our pricing structure is also based on the value the customers place on these products.

PROMOTION STRATEGY

Regali Luxuri will host several seasonal open houses offering special discounts. This promotional strategy will showcase new products and liquidate slow moving merchandise. The following illustrate the seasonal open houses:

- Spring: 15-20% discounts
- Fall: 15-20% discounts
- Summer: 15-20% discounts
- Annual Anniversary: 25% discounts

MARKETING CHANNELS

Existing customers as well as potential customers will be informed about new merchandise and savings utilizing the following marketing communications channels:

- **Direct-Mail Postcards:** Advertising postcards will be mailed to various local ZIP codes and to existing clientele located out of state.
- **Word-of-Mouth:** Networking through friends, family, and business associates is an inexpensive and effective marketing tool which Regali Luxuri utilizes to broaden our clientele base.
- **Advertising Literature:** Regali Luxuri will distribute our literature to various local community businesses and establishments such as restaurants, coffee shops, book stores, and universities.

5.3 Sales Strategy

CUSTOMERS

Establishing a rapport and connection with the customer directly affects a business' sales. The following methods will establish such a connection:

- **Training and Customer Needs:** While training sales associates, we will emphasize the importance of the customer's needs and inform associates to be helpful and personable.
- **Suggestion/Comment Box:** A suggestion/comment box will be available to customers near the boutique's entrance. This provides Regali Luxuri with direct customer feedback concerning areas of improvement or enhancements.

PRODUCTS AND MERCHANDISING

Staying abreast of product and market trends is also essential to increased sales for a business. Regali Luxuri will utilize the following methods to increase our sales:

- **Gift Industry Trade Shows:** Frequenting local and national trade shows will provide Regali Luxuri with most up-to-date gifting products and the customer's buying trends.
- **Subscribing to Trade Publications:** This resource will also ensure that Regali Luxuri product selections are current and satisfying the customer's needs.
- **Proprietary Products:** Regali Luxuri will continue to develop creative and stylish products that will continue to strengthen our brand positioning and company image.

5.3.1 Sales Forecast

For this first year we have chosen to average our cost of goods across all product lines at 42%. As we track our real costs our forecasts for subsequent years' COGS will be adjusted. Sales forecasts show the cyclical trends of seasonal/holiday spending and post-holiday frugality. Current forecasts show declining sales in the summer months, but as the neighborhood economic/residential development continues, there is the possibility of more visitors/vacationers/guests/residents shopping the area, and our sales would then improve.

Sales Forecast			
	Year 1	Year 2	Year 3
Sales			
Personal Care Accents	\$10,875	\$13,594	\$16,313
Candle Products	\$7,800	\$9,750	\$11,700
Bamboo Garden Vase Collection	\$12,390	\$15,488	\$18,585
Home Accessories	\$11,190	\$13,988	\$16,785
Pet Products	\$7,770	\$9,713	\$11,655
Printing Products	\$8,960	\$11,200	\$13,440
Customized Apparel	\$6,370	\$7,963	\$9,555
Total Sales	\$65,355	\$81,694	\$98,033
Direct Cost of Sales	Year 1	Year 2	Year 3
Personal Care Accents	\$4,567	\$4,567	\$4,795
Candle Products	\$3,278	\$3,278	\$3,442
Bamboo Garden Vase Collection	\$5,203	\$5,203	\$5,463
Home Accessories	\$4,700	\$4,700	\$4,935
Pet Products	\$3,264	\$3,264	\$3,427
Printing Products	\$3,763	\$3,763	\$3,951
Customized Apparel	\$2,674	\$2,674	\$2,808
Subtotal Direct Cost of Sales	\$27,449	\$27,449	\$28,821

5.4 Milestones

The following lists important milestones for Regali Luxuri along with dates and person(s) responsible for each task.

Milestones					
Milestone	Start Date	End Date	Budget	Manager	Department
Store Location Confirmed	1/1/2003	1/15/2003	\$0	Bensai	Department
Lease Agreement Negotiated/Signed	1/15/2003	3/1/2003	\$0	Bensai/Kaethe	Department
Utilities, Internet Service Confirmed	3/1/2003	3/6/2003	\$0	Selma	Department
Vendor List Selection	5/1/2003	2/1/2004	\$0	Bensai/Kaethe	Department
Product Selection Confirmed	5/1/2003	2/1/2004	\$0	Bensai/Kaethe	Department
Business Account Opened	7/1/2003	7/1/2003	\$0	Bensai/Kaethe	Department
Licensing/Business Entity	7/18/2003	8/18/2003	\$0	Bensai/Kudana	Department
Business Plan Completed	10/1/2003	2/20/2004	\$0	Bensai/Shantu	Department
Grand Opening Advertisement	12/1/2003	1/1/2004	\$0	Bensai	Department
Business Cards & Stationery Printed	1/1/2004	2/1/2004	\$0	Kaethe	Department
Totals			\$0		

Management Summary

Owners, Bensai Halstadt and Kaethe Villanova will initially manage the day-to-day operations of the boutique. Kaethe Villanova has five-years of retail and accounting experience that she has applied to the business. Both owners have also taken entrepreneurial classes through the local University SBDC (small business development center). our experience and continuous education has aided our efforts in training sales associates and managing daily operations.

Due to the area being in its beginning stages of gentrification resulting in slow business traffic, the owners have decided to initially open its doors Thursday-Saturday, 10a.m. - 7p.m. and Sunday, 10a.m. - 6p.m. They have also decided to take a minimal salary for the first year 2005, and increasing their salary each of the next two years, commensurate with their expanded operating hours. Both will continue to work to finance our business venture. Our work schedule allows us the flexibility to manage the store on the days previously mentioned. We will eventually expand our days of operation according to increased population of residential and retail establishments and increased business traffic.

The following is a structural breakdown of responsibility and decision-making:

<u>Bensai Halstadt</u>	<u>Kaethe Villanova</u>	<u>Bensai & Kaethe</u>
Printing Services	Purchasing/Inventory Tracking	Sales/Marketing
Promotions/Advertising	Merchandising/Store Planning	Hiring/Employee Policies
Shipping/Delivery	Operations/Accounting	Customer Service
Web Maintenance	Training	Customization Services
		Proprietary Product Development
		General Product Selection

In addition Regali Luxuri has a professional and advisory support team.

- Board of Directors - Bensai Halstadt & Kaethe Villanova
- Attorney - Grening Starke Roffman P.C.
- Accountant - Cleona Giraude
- Insurance Agent - State Farm Agency
- Banker - Riane Schmidt, Wachovia Bank
- Consultant(s) - Kudana Elderberry
- Mentors & Key Advisors - Kudana Ederberry and Shantu Mobuko

6.1 Personnel Plan

Owners Bensai and Kaethe have decided to take a minimal salary for the first year 2005, and increasing their salary each of the next two years, commensurate with their expanded operating hours. Both will continue to work to finance our business venture. If the extended hours and volume of business warrants we may hire part-time employees for the year two holiday season, or maybe not until year three.

Personnel Plan			
	Year 1	Year 2	Year 3
Owners	\$18,000	\$30,000	\$36,000
Name or Title or Group	\$0	\$0	\$0
Name or Title or Group	\$0	\$0	\$0
Total People	0	0	0
Total Payroll	\$18,000	\$30,000	\$36,000

Financial Plan

The following topics present the financials for Regali Luxuri.

7.1 Start-up Funding

Kaethe Villanova and Bensai Halstadt will each invest in Regali Luxuri. Additional start-up funding includes existing computer and printing equipment, some short-term debt in the form of credit card purchases, and a small amount of Accounts Payables owed to suppliers for inventory purchased while this operation was a hobby.

Start-up Funding	
Start-up Expenses to Fund	\$17,080
Start-up Assets to Fund	\$9,800
Total Funding Required	\$26,880
Assets	
Non-cash Assets from Start-up	\$9,000
Cash Requirements from Start-up	\$800
Additional Cash Raised	\$0
Cash Balance on Starting Date	\$800
Total Assets	\$9,800
Liabilities and Capital	
Liabilities	
Current Borrowing	\$2,160
Long-term Liabilities	\$0
Accounts Payable (Outstanding Bills)	\$720
Other Current Liabilities (interest-free)	\$0
Total Liabilities	\$2,880
Capital	
Planned Investment	
Bensai Halstadt	\$12,000
Kaethe Villanova	\$12,000
Other	\$0
Additional Investment Requirement	\$0
Total Planned Investment	\$24,000
Loss at Start-up (Start-up Expenses)	(\$17,080)
Total Capital	\$6,920
Total Capital and Liabilities	\$9,800
Total Funding	\$26,880

7.2 Break-even Analysis

Current projections of average monthly expenses, and an admittedly high estimated cost of goods, Regali Luxuri will need to sell merchandise and services each month, as shown below, to break even.

Break-even Analysis	
Monthly Revenue Break-even	\$5,048
Assumptions:	
Average Percent Variable Cost	42%
Estimated Monthly Fixed Cost	\$2,928

7.3 Projected Profit and Loss

The profit and loss figures show Regali Luxuri balances on the knife edge of profitability. The owners are aware that they may forego salaries in any given month to insure profitability and positive cash balance.

Pro Forma Profit and Loss			
	Year 1	Year 2	Year 3
Sales	\$65,355	\$81,694	\$98,033
Direct Cost of Sales	\$27,449	\$27,449	\$28,821
Other Costs of Goods	\$0	\$0	\$0
Total Cost of Sales	\$27,449	\$27,449	\$28,821
Gross Margin	\$37,906	\$54,245	\$69,211
Gross Margin %	58.00%	66.40%	70.60%
Expenses			
Payroll	\$18,000	\$30,000	\$36,000
Marketing/Promotion	\$1,200	\$1,600	\$2,000
Depreciation	\$396	\$400	\$400
Delivery & Shipping Cost	\$1,200	\$1,200	\$1,200
Legal Expenses	\$720	\$720	\$720
Payroll Taxes	\$0	\$0	\$0
Rent	\$9,600	\$9,600	\$9,600
Utilities & Internet	\$1,500	\$1,500	\$1,500
Business Insurance	\$1,020	\$1,020	\$1,020
Telephones-Landline/Cell	\$1,500	\$1,500	\$1,500
Total Operating Expenses	\$35,136	\$47,540	\$53,940
Profit Before Interest and Taxes	\$2,770	\$6,705	\$15,271
EBITDA	\$3,166	\$7,105	\$15,671
Interest Expense	\$40	\$0	\$0
Taxes Incurred	\$819	\$2,011	\$4,581
Net Profit	\$1,911	\$4,693	\$10,690
Net Profit/Sales	2.92%	5.75%	10.90%

7.4 Projected Cash Flow

The following includes Regali Luxuri Projected Cash Flow through 2007.

Pro Forma Cash Flow			
	Year 1	Year 2	Year 3
Cash Received			
Cash from Operations			
Cash Sales	\$65,355	\$81,694	\$98,033
Subtotal Cash from Operations	\$65,355	\$81,694	\$98,033
Additional Cash Received			
Sales Tax, VAT, HST/GST Received	\$4,575	\$5,159	\$5,828
New Current Borrowing	\$0	\$0	\$0
New Other Liabilities (interest-free)	\$0	\$0	\$0
New Long-term Liabilities	\$0	\$0	\$0
Sales of Other Current Assets	\$0	\$0	\$0
Sales of Long-term Assets	\$0	\$0	\$0
New Investment Received	\$0	\$0	\$0
Subtotal Cash Received	\$69,930	\$86,853	\$103,861
Expenditures			
Expenditures from Operations			
Cash Spending	\$18,000	\$30,000	\$36,000
Bill Payments	\$42,017	\$44,813	\$50,691
Subtotal Spent on Operations	\$60,017	\$74,813	\$86,691
Additional Cash Spent			
Sales Tax, VAT, HST/GST Paid Out	\$4,575	\$5,159	\$5,828
Principal Repayment of Current Borrowing	\$2,160	\$0	\$0
Other Liabilities Principal Repayment	\$0	\$0	\$0
Long-term Liabilities Principal Repayment	\$0	\$0	\$0
Purchase Other Current Assets	\$0	\$0	\$0
Purchase Long-term Assets	\$0	\$0	\$0
Dividends	\$0	\$0	\$0
Subtotal Cash Spent	\$66,752	\$79,972	\$92,519
Net Cash Flow	\$3,178	\$6,881	\$11,341
Cash Balance	\$3,978	\$10,859	\$22,201

7.5 Projected Balance Sheet

The balance sheet for Regali Luxuri is somewhat typical of a shoe-string startup company, relying upon the passion and dedication of the founding owners. The company displays steady growth, based on conservative forecasting. Earnings and Net Worth grow and show improvement each year of the plan.

Pro Forma Balance Sheet			
	Year 1	Year 2	Year 3
Assets			
Current Assets			
Cash	\$3,978	\$10,859	\$22,201
Inventory	\$2,291	\$2,291	\$2,406
Other Current Assets	\$3,000	\$3,000	\$3,000
Total Current Assets	\$9,270	\$16,150	\$27,607
Long-term Assets			
Long-term Assets	\$2,000	\$2,000	\$2,000
Accumulated Depreciation	\$396	\$796	\$1,196
Total Long-term Assets	\$1,604	\$1,204	\$804
Total Assets	\$10,874	\$17,354	\$28,411
Liabilities and Capital			
Current Liabilities			
Accounts Payable	\$2,043	\$3,830	\$4,196
Current Borrowing	\$0	\$0	\$0
Other Current Liabilities	\$0	\$0	\$0
Subtotal Current Liabilities	\$2,043	\$3,830	\$4,196
Long-term Liabilities	\$0	\$0	\$0
Total Liabilities	\$2,043	\$3,830	\$4,196
Paid-in Capital	\$24,000	\$24,000	\$24,000
Retained Earnings	(\$17,080)	(\$15,169)	(\$10,476)
Earnings	\$1,911	\$4,693	\$10,690
Total Capital	\$8,831	\$13,524	\$24,214
Total Liabilities and Capital	\$10,874	\$17,354	\$28,411
Net Worth	\$8,831	\$13,524	\$24,214

APPENDIX 4: EXAMPLE BUSINESS PLAN: RETAIL CLOTHING

Executive Summary

Clothes As Art Inc. will be a wearable art retail store. Clothes As Art Inc. enables people, male or female, young or old, to design their own clothing whether they have any artistic abilities or not. It will be fashion art that's unique and original. Most of all they will be entertained while creating their own fashion art.

Clothes As Art will begin conservatively by offering T-shirts and sweatshirts as in-store inventory from which the customer can choose. In addition to blanks for the customers to design, Clothes As Art Inc. will have a moderate inventory (30% of projected sales) of pre-painted shirts and sweatshirts. This will tap into the market of those who like the clothing but are more spontaneous buyers. Any customer will be allowed to bring in pieces from their own wardrobe to paint. In addition, at the end of the day the spin drum is coated with a strip of the paint around the edge. This dries over night and becomes a durable, pliable material. This can be fashioned into belts, cut into earrings and other jewelry that will match all clothing produced by the artist. These will be offered as accessories at Clothes As Art.

Clothes As Art's products have two target markets. The first being female, 21 to 35 years of age, with household income of \$35,000 per year or higher. The second target market is 50% male, 50% female, 5 to 16 years of age, with household income of \$35,000 per year or higher. The only location that would be conducive to the sale of these products is in a small or similar location with very high walk-by traffic. Therefore, the location requirements are a high traffic, indoor mall.

Clothes As Art will have no true direct competition by another store in the area. Clothes As Art's edge will be its price. Of the existing indirect competition, there are few companies that will be able to compete with Clothes As Art's price.

Clothes As Art's financial statements have been compiled with the greatest degree of conservatism. Clothes As Art will require a loan of \$179,077. The loan will comprise 31% up-front expenses and 69% working capital needs. Close analysis will show that Clothes As Art's gross profit margin is 77% before tax, return on investment is 20%, and time interest earned is 2.0 for the first year. According to Robert Morris and Associates' most recent studies, these ratios are at or above average for this type of company.

Name of the Business

Clothes As Art Inc.

This is not the legal name as of yet. I wish to incorporate and trademark, which will give rise to legal costs.

Ownership

Owner: Cathy Wood

Form of Ownership to Be: Corporation

Description of the Business

(Pictures are available for a more visual demonstration of the product.)

Clothes as Art will be a wearable art and accessory retail store. Whether you consider the 1990's as the "me" generation or the "I" generation, consumers today want to do their own thing. Clothes As Art enables people, male or female, young or old, to design their own clothing whether they have any artistic abilities or not. It's fun, it's exciting, and it will be inexpensive for them. It will be fashion art that is unique and original. The consumer will be able to design any number of pieces to go with any other articles of clothing they own. Most of all they will be entertained while creating their own fashion art. In addition, accessories will be fabricated from the by-product of the artwork. Therefore, the accessories will complement any article sold in the store.

The service procedure of the store is quite simple. The customer enters the store and picks out an article of clothing they wish to paint on or they may bring in a piece of their own wardrobe (I will use "shirt" to identify the clothing article). The customer then takes a number to await a free work table at which they will paint. The customer then chooses 4 colors that they will paint with. The paints are applied with squeeze bottles full of bright colors. While they are choosing their colors their shirt will be clipped and stretched on a cardboard board the same size as the shirt. This prepares the shirt to be a canvas for the artist. The attendant will then give the customer brief instructions on how and where to paint on the shirt. The customer then paints on the shirt in any way they believe will look good when it is spun. When the customer is done he/she hands the shirt to the attendant who spins it. This is where the excitement begins. Spinning at about 450 RPM, the paint that was applied to the shirt quickly evolves into original art right before the eyes of the customer. (Pictures are available for a more visual demonstration of the product.) The centrifugal force caused by the spinning causes the paint to be drawn from the center of the shirt to the edges resulting in a star-burst (spin art) look to the design. The colors swirl together but don't blend into new colors. The original colors remain separate colors, while

this is happening crowds gather to watch the artist and they quickly form a line to do their own thing. The shirt is then sent through a large belt drier that adheres the paint permanently to the shirt, when the shirt is done drying, the customer's number is called at the cash register and another happy artist is born. The finished product is a self-made piece of artwork that can be machine washed and dried for years along with the customer's regular clothing. The entire services process takes an average of only 20 minutes, so the turnover is great. This includes average time to paint 5 minutes, to spin 30 seconds, and to dry 15 minutes. There will be several tables at which to work. The drier can dry up to six shirts on a continuously moving conveyor belt.

Clothes As Art will begin conservatively by offering T-shirts and sweatshirts as in-store inventory. In addition to blanks for the customers to design, Clothes as Art will have moderate inventory (30% of projected sales) of pre-painted shirts and sweats. This will tap into the markets who like the clothing but are more spontaneous buyers. Any customer will be allowed to bring in pieces from their own wardrobe to paint. A caution will be given that the shop won't guarantee the results and no flammable materials will be allowed. When in-house inventory expansion is warranted, Clothes As Art will expand into jeans, jackets, women's casual suit coats, jean jackets, leggings, leather jackets, collared shirts, canvasses, placemats, more jewelry, sweatpants, ties, belts, and shoes. With respect to canvasses, Clothes As Art will have blank canvasses on which the customer can paint. Many people decorate their homes with certain color schemes. This will give the decorator the ability to create their own piece of artwork that the end of the day the spin drum is coated with a strip of the paint around the edge. This dries overnight and becomes durable rubber type material. This can be fashioned into the accessories such as belts, cut into earrings and other jewelry type articles that will match all clothing produced by the artist.

MARKET

Target Market

In accordance with the manufacturer and my own experience, Clothes As Art will be tapping primarily in to two separate markets.

☐ Target Market A:

Sex: Female

Type: Working woman who is fashion Conscious

Age: 21-35

Education: Some College or Degree Holders

Household Income: \$35,000+

☐ Target Market B:

Sex: 50% male, 50% female

Age: 5-16

Education: Grade School

Household Income: \$35,000+

As you will see in my biography (available upon request) I will have previously worked for a retail store of this nature. It has been my experience that this product's market is both sexless as well as ageless (age 5 to 50). I have also spoken with another shop owner who agrees that the product has this type of wide appeal. For analysis I will deal with these two target markets. My choice for location is the Shelby Corners Mall, which offers no traffic studies for their mall. According to their "Primary Trade Market, Neighborhood/Lifestyle Composition Target Market A fits into those categories called Blue Blood Estates, Money and Brains, Urban Gold Coast and Young Influentials. This accounts for 81.8% of the 1.1 million in this mall trade market. Target Market B fits into the category called Furs and Station Wagons. This accounts for 2% of the 1.1 million in the trade market of the mall. With respect to Target Market B showing such a low market share of the trade area, please keep in mind that the mall offers no traffic studies. If you visit the mall you will see quite a few more children and teenagers than the mall market study shows. Therefore, the overall market with respect to children is very healthy.

Total Market

According to the Standard Industrial Classification Manual, Clothes As Art's Industry Group Number is 565 and the Industry Number is 5699, under which "Tee Shirts, Custom Printed - Retail" is listed.

According to the 1991 U.S. Industrial Outlook published by the U.S. Department of Commerce, the forecast for total retail sales increase is 6.5% in 1990. This is an increase of .8% over 1989's increase of 5.7%. According to most recent information (1989) apparel and accessory stores showed the largest gains of 7.1%.

In addition, Standard and Poor's Industry Surveys (1991) suggest that specialty retailing is the way to go. Their research indicates the general merchandiser is suffering by trying to meet everyone's needs at the same time. This publication states that by meeting the more specialized needs of people, a retailer will be in a better position to grow. Given Clothes As Art's ability to customize to any person's needs, it fits with this analysis very well.

COMPETITION**Direct Competition**

According to Spin and Dry Inc., the manufacturers of the spinning and drying equipment, there is no other equipment-based store of this kind in the metropolitan area. Therefore, Clothes As Art would have no direct competition in the Los Angeles area.

Clothes As Art's toughest competition is Artwear, Custom Designs, and Clothes Etc. This is due mainly to the fact that their capital strength is greater than Clothes As Art, their prices will be competitive, and their lines will be fuller.

Clothes As Art's main drawback will be a lack of capital necessary to compete with these stores. Clothes As Art can handle this drawback in one of two ways: either avoid them altogether or have a location that has a large enough market to handle all of the shops. The only way to avoid them is to choose another location; this would greatly affect our chances for success. Clothes As Art's location in the mall will have a large enough market for all of the shops. Currently the mall houses only two of our competitors. The expansion has added mainly high-end, high priced shops to the roster. Clothes As Art's main marketing device will be the low price of the goods; therefore, the new expansion has had little effect on the competition but it has increased the number of potential customers. Clothes As Art will bring a product to the market that each of these shops either do not carry or carry in small quantities. Most, with the exception of Clothes Etc., have prices that are quite a bit higher than Clothes As Art. We may not have the capital strength, but we also don't have the expenses that the other stores have to cover. We will be highly competitive with our prices.

Indirect Competition

The remaining T-shirt retailers are men's and women's sportswear stores and little shops that sell small proportions of T-shirts. Clothes As Art will be competing with them by giving the customer something that they don't offer. We will meet a market niche that is not being filled by the current stores.

Other T-shirt retailers are generally custom silk screeners. Clothes As Art is not going to directly compete with them by doing silk screening per se. We will be competing with them in that a proportion of Clothes As Art's sales will be to fraternities, sororities, church groups, etc. to supply their baseball jerseys, event T-shirts, etc.

MARKETING STRATEGY

Based on experience in this market, with respect to T-shirts, price sells. This will be the same case with Clothes As Art's sweats. The cost of a finished T-shirt at our store will be \$14 and a sweatshirt will be \$17.50. This will be the store's major selling point. Even with this low price the goal of profit and positive cash flow can be achieved. This price may even be able to be raised given the superiority of the location and relative price flexibility of the patrons of that mall.

In addition to my own advertising the mall does quite a bit of advertising itself and will be augmenting other advertising.

The greater proportion of Clothes As Art's advertising will be in give-a-ways to local groups such as high schools, fraternities, and church groups. This will be the best way to build local support in both target markets given that the product is relatively difficult to describe on the radio. In addition, this is a community-oriented advertising device that will help the respect of the store. In contacting local fund raising organizations, such as fraternities and church groups, they will be very apt to be return customers when their next fund raising drive comes around.

Another shop owner has commented that birthday parties are a very effective means of advertising. By bringing in a group of children (Target Market B) to paint, they will either return themselves or show others our product. This is achieved by advertising in small local newspapers and church leaflets.

Another marketing avenue we will explore is contacting the local art clubs at high schools and colleges. The object of an art club promotion will be to teach people how to use the process efficiently. That would in turn help to make repeat customers out of them. Once they have mastered the techniques they would now be in a position to create wearable art gifts or garments for themselves. They will also bring in their friends which they will attempt to teach. In addition, this would be a great method of getting artistically done pre-painted inventory for Clothes As Art for their work. This would be done with the understanding that all designs must be pre-approved. This could also give rise to a special "gallery" section of the store for local artist's work thus adding to the stature of Clothes As Art.

Clothes As Art will be advertising toward local schools. The store will bring in local art classes and charge a nominal fee if they bring their own shirts. The object will be to derive repeat customers out of the class and new customers out of the school. This is another avenue to exploit target market B.

Logo identification will be another advertising method. Garments can be manufactured for the local bowling groups, fraternities, restaurants, and companies. The logo can be screen printed and brought in for establishment or hand painted with the Clothes As Art system.

Clothes As Art will attempt to exploit the local professional sports team's logos. The need for licensing agreements will be explored. It is my impression that as long Clothes As Art is not doing the initial screen printing, Clothes As Art will not have to incur the large costs of acquiring a licensing agreement. Clothes As Art can create shirts for special events such as Valentine's Day, Mother's Day, and Father's Day.

LOCATION

Clothes As Art will require very little space. The space needed is only 850 square feet so the rent will be lower than a regular retail store. T-shirts and sweatshirts can be stored in stacked cubicles which take up very little space while storing large amounts of inventory. The pre-painted inventory will constitute 30% of sales and will therefore require a small amount of space also. In using cubicles there will be a very little space needed in a storeroom to store other inventory.

Through my experience with this product, Clothes As Art must be located in a very high walk-by traffic mall with high visibility through a glass store front. A large selling point of this product is entertainment. Therefore, in addition to the above-mentioned marketing techniques, it is sold by one person watching another spin their shirt and then wanting to paint one themselves.

The mall affords the greatest visibility for Clothes As Art product. As mentioned earlier, the mall has no traffic studies but it is known as the most successful mall in the metro area. It also affords the greatest means of reaching Clothes As Art's two target markets. A simple trip through the mall shows overwhelming evidence that Clothes As Art's two target markets will be very effectively reached.

The costs associated with the mall are quite steep. The track record of the mall owners who own several plazas in the area of delivering a fruitful market to their renters has been shown conclusively by the longevity of and need for expansion of both the malls and plazas.

Clothes As Art's first choice would be a pre-built space where another was operating and is in a good location.

This would lower the store construction costs. The pre-constructed space would have to be in a good location. It is the experience of the owners of the mall that the shops that fail were in the worst positions; therefore, the chance of Clothes As Art finding an adequate, pre-constructed space is very remote. To be as conservative as possible, financial statements are based on a few, not yet built, store site in the expanded section of the mall. The average cost per square foot is \$25.

Analysis of the completion indicates that the Shelby Corners Mall is the best location to access our target markets, while avoiding locations that house direct competition.

MANAGEMENT

Owner: Cathy Wood earned a Master of Business Administration from St. Louis University in May of 1991. She completed her Bachelor of Science in Business Administration/Finance at St. Louis University in December of 1990.

Throughout her life she has been very involved in entrepreneurship. She has owned her own house cleaning business since she was in grade eight. During the summer of 1988 she completed an entrepreneurial internship in North Carolina with a retail store specializing in Clothes As Art's product. There she learned many aspects of the business from inventory control to cash management.

In addition, during the summer of 1989 she was an original partner in a car part retailing business registered in the State of California as Core Enterprises. She has done work for the Small Business Institute as a small business counselor for Bellini Baby and Children's Furniture in Glenwood, California. She was also commissioned by South County Landscaping and Construction Company in Sacramento, California as a small business counselor. During her last year of her undergraduate work she was the founding Vice President of the Association of Collegiate Entrepreneurs (ACE). The Association was begun on campus to help students who aspire to become entrepreneurs get needed information and meet the necessary people. In this association she was responsible for promotion and scheduling of speakers and events.

This plan received an Honorable Mention from the Kennesaw State business plan competition. This competition is international in nature and highly competitive.

Currently Ms. Wood is employed as a business planner for Fox Associates. Fox Associates is an entertainment business in Los Angeles, which owns and operates the Bijou Theater (a local landmark) as one of its lines of business.

Manager

Clothes As Art will not have a manager in the first year of operation. The owner will perform the duties of a manager. When the time comes for the company to acquire a manager he or she will have to have two outstanding abilities. She or he will have to perform all the normal managerial duties such as scheduling, employee guidance and sales computing, and she or he will have to have adequate artistic abilities to lend in the sales process by giving advice to prospective customers.

Directors

The directors will include the owner Cathy Wood. Other directors will include people currently involved in local small business, the local artist community and the local financial community.

PERSONNEL

General Hiring Philosophy: Each employee of Clothes As Art will have to possess enough artistic ability to aid and advise the customers. We already know that Clothes As Art requires almost no artistic abilities to produce a shirt. Therefore, with respect to customer aid the employee's ability to give advice will need to be the strongest. They will have to be pleasant and sales-oriented. They will have to be able to emphasize the ease of the painting process and therefore sell the product effectively. In addition, to their duties to the customer, they will have to be able to design shirts for the pre-painted in-store inventory. With respect to pre-painted inventory their artistic abilities will need to be strong. They must be able to excel in design beyond the average customer.

FINANCIAL SECTION

Analyses and financial statements for projections and information concerning competition and location have been prepared and are available upon request.

The loan will be collateralized with inventory, equipment, and leasehold improvement. Clothes As Art will always have 8 weeks' worth of inventory in the shop at all times. T-shirts and sweatshirts are a staple item for screen printers and will therefore have a high resale value in the event of default. In addition, the dryer is commonly used by screen printers; therefore, it is not considered specialized equipment like the spinner and has a high resale price. I will attempt to persuade the mall to take a subordinated position on the leasehold improvements as another form of collateral. It is my intention to use all available net cash flow to pay down the outstanding long term liabilities of Clothes As Art. In addition, the unused portion of the loan will be held in short-term certificates of deposit at the loaning bank.

Financial statements for year 1, as well as supporting documents have been prepared. Financial statements for years 2-5 consist of monthly income statements and yearend balance sheet.

I have assumed a 20% growth in sales for years 2 and 3. This is due to the time it takes the product to take hold of its market. The sales then level off at a 15% growth rate for years 4 and 5. This is due to the fact that the store will be becoming an established business in the mall. I have assumed a 5% increase in the cost of my inventory. This is closely tied with the national inflation rate.

APPENDIX 5: BUSINESS PLAN ELEMENTS CHECKLIST

BUSINESS PLAN ELEMENTS	
EXECUTIVE SUMMARY • Introduction To Your Business Opportunity • Marketing Highlights ○ Product/service distinctive features ○ Target market summary ○ Competitive analysis summary ○ Key marketing strategies • Operational Highlights ○ Legal issues ○ Supplier summary ○ Management team overview – critical roles and pertinent skills • Financial Highlights ○ Summary of financial requirements and projections ○ Equity investment of owners	
COMPANY PROFILE • Form Of Business (I.E. Proprietorship, Partnership, Corporation) • Owners/Principals • Name Of Business • Start Date • Business Operation • Business Description • Location • Contact Information • Business Advisors (Lawyer, Accountant)	
INDUSTRY OVERVIEW • Social, Economic, Demographic, Environmental, Technological, Political Changes That Affect The Business Opportunity • Past, Present, Future Trends Affecting The Industry • Key Success Factors In The Industry • Barriers To Entry • Size Of Industry	
SERVICE OR PRODUCT DESCRIPTION	

BUSINESS PLAN ELEMENTS
• Unique Features • Value Added Features • Benefits Of Features • Positioning Of Product/Service In Relation To Competition • History Of The Product/Service In The Marketplace
TARGET MARKET • Consumer Demographics (I.E. Age Range, Income Range, Gender, Etc.) • Consumer Psychographics (I.E. Lifestyle) • Business Demographics (If A Business To Business Solution)
COMPETITIVE ANALYSIS FOR EACH COMPETITOR INCLUDE: • Hours Of Operation • Years In Business • Product/Service Description • Product/Service Differentiation • Customer Profile • Pricing • Marketing/Advertising • Strengths/Weaknesses – Why Do Customers Buy From Them? • Opportunities Or Threats To Your Business
MARKETING ANALYSIS • Promotional Strategy (Type Of Advertising And Promotion To Be Used) • Place (Your Location And Its Marketing Importance) • Residential Vs Commercial Location • Potential For Future Growth • Importance Of Traffic Flow • Pricing (Labour Costs, Overhead, Profit Margin) • Customer's Perception Of Value • Discounting (On What Basis? Volume?) • Break Even Analysis
OPERATIONAL ANALYSIS • Details About Suppliers (Name, Location, Terms And Conditions,

BUSINESS PLAN ELEMENTS	
	Products Or Services Supplied, Pricing) • Regulations (Legal Requirements Affecting Your Business Operations) • Human Resources (Who Is Involved In Running Your Business) – Organizational Structure And Staffing Plan, Salaries And Benefits, Job Descriptions
FINANCIAL ANALYSIS	• Balance Sheet • Income Statement • Cash Flow Statement
APPENDICES (OPTIONAL)	