Business Plan Template

Complete Fill in the Blanks Sample Business Plan Proposal (With MS Word Version and Excel Spreadsheets)

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1. Complete Fill In The Blanks Business Plan Template

1.0 Executive Summary

Introduction

[BUSINESS NAME] is a start-up coffee and bakery retail establishment located in southwest Washington. [BUSINESS NAME] expects to catch the interest of a regular loyal customer base with its broad variety of coffee and pastry products. The company plans to build a strong market position in the town, due to the partners' industry experience and mild competitive climate in the area.

[BUSINESS NAME] aims to offer its products at a competitive price to meet the demand of the middle-to higher-income local market area residents and tourists.

The Company

[BUSINESS NAME] is incorporated in the state of Washington. It is equally owned and managed by its two partners.

Mr. [BUSINESS OWNER] has extensive experience in sales, marketing, and management, and was vice president of marketing with both Jansonne & Jansonne and Burper Foods. Mr. [BUSINESS OWNER] brings experience in the area of finance and administration, including a stint as chief financial officer with both Flaxfield Roasters and the national coffee store chain, BuzzCups.

The company intends to hire two full-time pastry bakers and six part-time baristas to handle customer service and day to day operations.

Products and Services

[BUSINESS NAME] offers a broad range of coffee and espresso products, all from high quality Columbian grown imported coffee beans. [BUSINESS NAME] caters to all of its customers by providing each customer coffee and espresso products made to suit the customer, down to the smallest detail.

The bakery provides freshly prepared bakery and pastry products at all times during business operations. Six to eight moderate batches of bakery and pastry products are prepared during the day to assure fresh baked goods are always available.

The Market

The retail coffee industry in the U.S. has recently experienced rapid growth. The cool marine climate in southwest Washington stimulates consumption of hot beverages throughout the year.

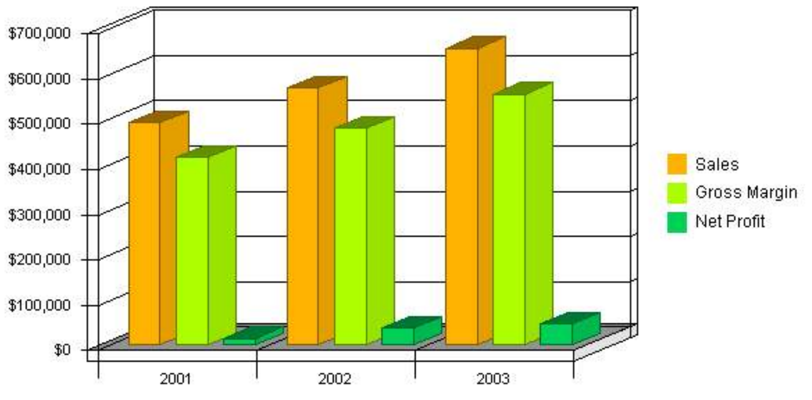
[BUSINESS NAME] wants to establish a large regular customer base, and will therefore concentrate its business and marketing on local residents, which will be the dominant target market. This will establish a healthy, consistent revenue base to ensure stability of the business. In addition, tourist traffic is expected to comprise approximately 35% of the revenues. High visibility and competitive products and service are critical to capture this segment of the market.

Financial Considerations

[BUSINESS NAME] expects to raise $110,000 of its own capital, and to borrow $100,000 guaranteed by the SBA as a ten-year loan. This provides the bulk of the current financing required.

[BUSINESS NAME] anticipates sales of about $491,000 in the first year, $567,000 in the second year, and $655,000 in the third year of the plan. [BUSINESS NAME] should break even by the fourth month of its operation as it steadily increases its sales. Profits for this time period are expected to be approximately $13,000 in year 1, $36,000 by year 2, and $46,000 by year 3. The company does not anticipate any cash flow problems.

Highlights



1.1 Mission

[BUSINESS NAME] aims to offer high quality coffee, espresso, and pastry products at a competitive price to meet the demand of the middle- to higher-income local market area residents and tourists.

1.2 Keys to Success

Keys to success for [BUSINESS NAME] will include:

1. Providing the highest quality product with personal customer service.
2. Competitive pricing.

Company Summary

2.0 Company Summary

[BUSINESS NAME] is a bakery and coffee shop managed by two partners. These partners represent sales/management and finance/administration areas, respectively. The partners will provide funding from their own savings, which will cover start-up expenses and provide a financial cushion for the first months of operation. A ten-year Small Business Administration (SBA) loan will cover the rest of the required financing. The company plans to build a strong market position in the town, due to the partners' industry experience and mild competitive climate in the area.

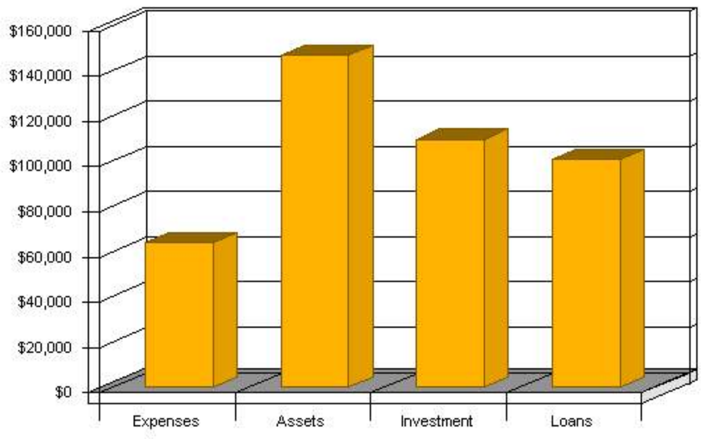
2.1 Company Ownership

[BUSINESS NAME] is incorporated in the state of Washington. It is equally owned by its two partners.

2.2 Company History

[BUSINESS NAME] is a start-up company. Financing will come from the partners' capital and a ten-year SBA loan. The following chart and table illustrate the company's projected initial start-up costs.

Start-up



Products

3.0 Products

[BUSINESS NAME] offers a broad range of coffee and espresso products, all from high quality Columbian grown imported coffee beans. [BUSINESS

NAME] caters to all of its customers by providing each customer coffee and espresso products made to suit the customer, down to the smallest detail.

The bakery provides freshly prepared bakery and pastry products at all times during business operations. Six to eight moderate batches of bakery and pastry products are prepared during the day to assure fresh baked goods are always available.

Market Analysis

4.0 Market Analysis

[BUSINESS NAME]'s focus is on meeting the demand of a regular local resident customer base, as well as a significant level of tourist traffic from nearby highways.

4.1 Market Segmentation

[BUSINESS NAME] focuses on the middle- and upper-income markets. These market segments consume the majority of coffee and espresso products.

Local Residents

[BUSINESS NAME] wants to establish a large regular customer base. This will establish a healthy, consistent revenue base to ensure stability of the business.

Tourists

Tourist traffic comprises approximately 35% of the revenues. High visibility and competitive products and service are critical to capture this segment of the market.

4.1.1 Market Analysis

The chart and table below outline the total market potential of the above described customer segments.

4.2 Target Market Segment Strategy

The dominant target market for [BUSINESS NAME] is a regular stream of local residents. Personal and expedient customer service at a competitive price is key to maintaining the local market share of this target market.

4.2.1 Market Needs

Because Washington has a cool climate for eight months out of the year, hot coffee products are very much in demand. During the remaining warmer four months of the year, iced coffee products are in significantly high demand, along with a slower but consistent demand for hot coffee products. Much of the day's activity occurs in the morning hours before ten a.m., with a relatively steady flow for the remainder of the day.

4.3 Service Business Analysis

The retail coffee industry in the U.S. has recently experienced rapid growth. The cool marine climate in southwest Washington stimulates consumption of hot beverages throughout the year. Coffee drinkers in the Pacific Northwest are finicky about the quality of beverages offered at the numerous coffee bars across the region. Despite low competition in the immediate area, [BUSINESS NAME] will position itself as a place where customers can enjoy a cup of delicious coffee with a fresh pastry in a relaxing environment.

4.3.1 Competition and Buying Patterns

Competition in the local area is somewhat sparse and does not provide nearly the level of product quality and customer service as [BUSINESS NAME]. Local customers are looking for a high quality product in a relaxing atmosphere. They desire a unique, classy experience.

Leading competitors purchase and roast high quality, whole-bean coffees and, along with Italian-style espresso beverages, cold-blended beverages, a variety of pastries and confections, coffee-related accessories and equipment, and a line of premium teas, sell these items primarily through company-operated retail stores. In addition to sales through company-operated retail stores, leading competitors sell coffee and tea products through other channels of distribution (specialty operations).

Larger chains vary their product mix depending upon the size of each store and its location. Larger stores carry a broad selection of whole bean coffees in various sizes and types of packaging, as well as an assortment of coffee- and espresso-making equipment and accessories such as coffee grinders, coffee makers, espresso machines, coffee filters, storage containers, travel tumblers and mugs. Smaller stores and kiosks typically sell a full line of coffee beverages, a more limited selection of whole-bean coffees, and a few accessories such as travel tumblers and logo mugs. During fiscal year 2000, industry retail sales mix by product type was approximately 73% beverages, 14% food items, eight percent whole-bean coffees, and five percent coffee-making equipment and accessories.

Technologically savvy competitors make fresh coffee and coffee-related products conveniently available via mail order and online. Additionally, mail order catalogs offering coffees, certain food items, and select coffee-making equipment and accessories, have been made available by a few larger competitors. Websites offering online stores that allow customers to browse for and purchase coffee, gifts, and other items via the Internet have become more commonplace as well.

5.0 Strategy and Implementation

[BUSINESS NAME] will succeed by offering consumers high quality coffee, espresso, and bakery products with personal service at a competitive price.

5.1 Competitive Edge

[BUSINESS NAME]'s competitive edge is the relatively low level of competition in the local area in this particular niche.

5.2 Sales Strategy

As the chart and table show, [BUSINESS NAME] anticipates sales of about $491,000 in the first year, $567,000 in the second year, and $655,000 in the third year of the plan.

Sales Forecast

Sales Forecast			
	2001	2002	2003
Unit Sales			
Espresso Drinks	135,000	148,500	163,350
Pastry Items	86,000	94,600	104,060
Other	0	0	0
Total Unit Sales	221,000	243,100	267,410

Unit Prices	2001	2002	2003
Espresso Drinks	$3.00	$3.15	$3.31
Pastry Items	$1.00	$1.05	$1.10
Other	$0.00	$0.00	$0.00

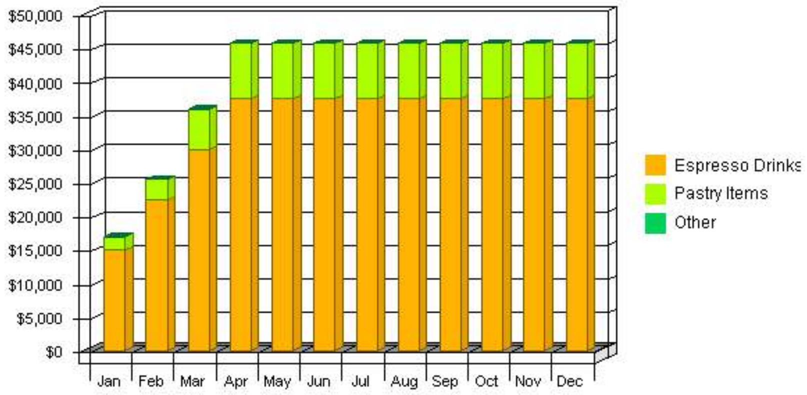
Sales			
Espresso Drinks	$405,000	$467,775	$540,280
Pastry Items	$86,000	$99,330	$114,726

Other	$0	$0	$0
Total Sales	$491,000	$567,105	$655,006

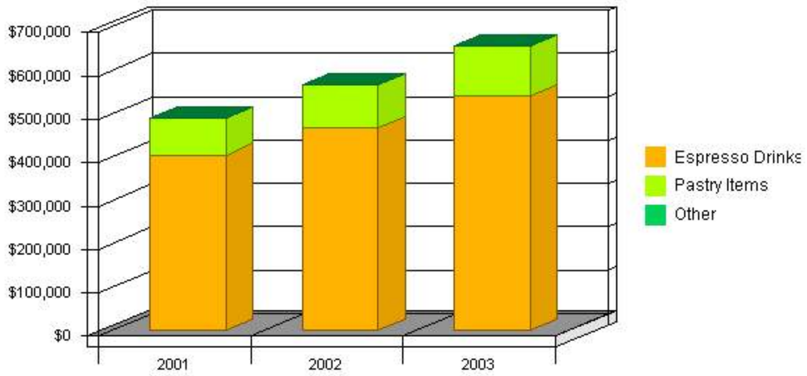
Direct Unit Costs	2001	2002	2003
Espresso Drinks	$0.25	$0.26	$0.28
Pastry Items	$0.50	$0.53	$0.55
Other	$0.00	$0.00	$0.00

Direct Cost of Sales			
Espresso Drinks	$33,750	$38,981	$45,023
Pastry Items	$43,000	$49,665	$57,363
Other	$0	$0	$0
Subtotal Direct Cost of Sales	$76,750	$88,646	$102,386

Sales Monthly



Sales by Year



Management Team

6.0 Management Team

[BUSINESS OWNER] has extensive experience in sales, marketing, and management, and was vice president of marketing with both Jansonne & Jansonne and Burper Foods. [BUSINESS OWNER] brings experience in the area of finance and administration, including a stint as chief financial officer with both Flaxfield Roasters and the national coffee store chain, BuzzCups.

6.1 Personnel Plan

As the personnel plan shows, [BUSINESS NAME] expects to make significant investments in sales, sales support, and product development personnel.

Personnel

Personnel Plan			
	2001	2002	2003
Managers	$100,000	$105,000	$110,250
Pastry Bakers	$40,800	$42,840	$44,982
Baristas	$120,000	$126,000	$132,300
Other	$0	$0	$0
Total People	10	10	10

Total Payroll	$260,800	$273,840	$287,532

Financial Plan

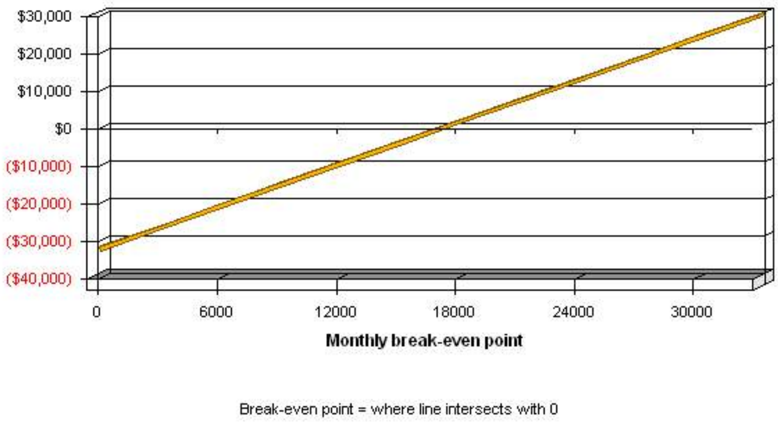
7.0 Financial Plan

[BUSINESS NAME] expects to raise $110,000 of its own capital, and to borrow $100,000 guaranteed by the SBA as a ten-year loan. This provides the bulk of the current financing required.

7.1 Break-even Analysis

[BUSINESS NAME]'s Break-even Analysis is based on the average of the first-year figures for total sales by units, and by operating expenses. These are presented as per-unit revenue, per-unit cost, and fixed costs. These conservative assumptions make for a more accurate estimate of real risk. [BUSINESS NAME] should break even by the fourth month of its operation as it steadily increases its sales.

Break-even Analysis



Break-even Analysis

Break-even Analysis	
Monthly Units Break-even	17,255
Monthly Revenue Break-even	$38,336

Assumptions:	

Average Per-Unit Revenue	$2.22
Average Per-Unit Variable Cost	$0.35
Estimated Monthly Fixed Cost	$32,343

7.2 Projected Profit and Loss

As the Profit and Loss table shows, [BUSINESS NAME] expects to continue its steady growth in profitability over the next three years of operations.

Profit and Loss

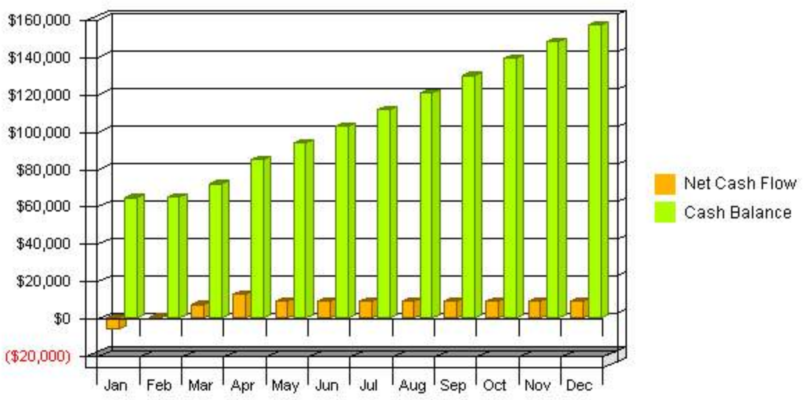
Pro Forma Profit and Loss			
	2001	2002	2003
Sales	$491,000	$567,105	$655,006
Direct Costs of Goods	$76,750	$88,646	$102,386
Other	$0	$0	$0
	------------	------------	------------
Cost of Goods Sold	$76,750	$88,646	$102,386
Gross Margin	$414,250	$478,459	$552,620
Gross Margin %	84.37%	84.37%	84.37%
Expenses			
Payroll	$260,800	$273,840	$287,532
Sales and Marketing and Other Expenses	$27,000	$35,200	$71,460
Depreciation	$60,000	$69,000	$79,350

Utilities	$1,200	$1,260	$1,323
Payroll Taxes	$39,120	$41,076	$43,130
Other	$0	$0	$0
	------------	------------	------------
Total Operating Expenses	$388,120	$420,376	$482,795
Profit Before Interest and Taxes	$26,130	$58,083	$69,825
EBITDA	$86,130	$127,083	$149,175
Interest Expense	$10,000	$9,500	$8,250
Taxes Incurred	$3,111	$12,146	$15,650
Net Profit	$13,019	$36,437	$45,925
Net Profit/Sales	2.65%	6.43%	7.01%

7.3 Projected Cash Flow

The cash flow projection shows that provisions for ongoing expenses are adequate to meet [BUSINESS NAME]'s needs as the business generates cash flow sufficient to support operations.

Cash



Cash Flow

Pro Forma Cash Flow			
	2001	2002	2003
Cash Received			
Cash from Operations			
Cash Sales	$491,000	$567,105	$655,006
Subtotal Cash from Operations	$491,000	$567,105	$655,006
Additional Cash Received			
Sales Tax, VAT, HST/GST Received	$0	$0	$0
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	$491,000	$567,105	$655,006

Expenditures	2001	2002	2003

Expenditures from Operations			
Cash Spending	$260,800	$273,840	$287,532
Bill Payments	$143,607	$186,964	$237,731
Subtotal Spent on Operations	$404,407	$460,804	$525,263

Additional Cash Spent			
Sales Tax, VAT, HST/GST Paid Out	$0	$0	$0
Principal Repayment of Current Borrowing	$0	$0	$0
Other Liabilities Principal Repayment	$0	$0	$0
Long-term Liabilities Principal Repayment	$0	$10,000	$15,000
Purchase Other Current Assets	$0	$0	$0
Purchase Long-term Assets	$0	$20,000	$20,000
Dividends	$0	$0	$0
Subtotal Cash Spent	$404,407	$490,804	$560,263

Net Cash Flow	$86,593	$76,301	$94,744
Cash Balance	$156,593	$232,894	$327,637

7.4 Balance Sheet

The following is a projected Balance Sheet for [BUSINESS NAME].

Balance Sheet

Pro Forma Balance Sheet			
	2001	2002	2003
Assets			

Current Assets			
Cash	$156,593	$232,894	$327,637
Other Current Assets	$12,000	$12,000	$12,000
Total Current Assets	$168,593	$244,894	$339,637

Long-term Assets			
Long-term Assets	$65,000	$85,000	$105,000
Accumulated Depreciation	$60,000	$129,000	$208,350
Total Long-term Assets	$5,000	($44,000)	($103,350)
Total Assets	$173,593	$200,894	$236,287

Liabilities and Capital	2001	2002	2003

Current Liabilities			
Accounts Payable	$14,574	$15,438	$19,907
Current Borrowing	$0	$0	$0
Other Current Liabilities	$0	$0	$0
Subtotal Current Liabilities	$14,574	$15,438	$19,907
Long-term Liabilities	$100,000	$90,000	$75,000
Total Liabilities	$114,574	$105,438	$94,907
Paid-in Capital	$110,000	$110,000	$110,000
Retained Earnings	($64,000)	($50,981)	($14,544)
Earnings	$13,019	$36,437	$45,925
Total Capital	$59,019	$95,456	$141,381
Total Liabilities and Capital	$173,593	$200,894	$236,287
Net Worth	$59,019	$95,456	$141,381

7.5 Business Ratios

The following table represents key ratios for the retail bakery and coffee shop industry. These ratios are determined by the Standard Industry Classification (SIC) Index code 5812, Eating Places.

Ratios

Ratio Analysis				
	2001	2002	2003	Industry Profile

Sales Growth	0.00%	15.50%	15.50%	7.60%
Percent of Total Assets				
Other Current Assets	6.91%	5.97%	5.08%	35.60%
Total Current Assets	97.12%	121.90%	143.74%	43.70%
Long-term Assets	2.88%	-21.90%	-43.74%	56.30%
Total Assets	100.00%	100.00%	100.00%	100.00%
Current Liabilities	8.40%	7.68%	8.42%	32.70%
Long-term Liabilities	57.61%	44.80%	31.74%	28.50%
Total Liabilities	66.00%	52.48%	40.17%	61.20%
Net Worth	34.00%	47.52%	59.83%	38.80%
Percent of Sales				
Sales	100.00%	100.00%	100.00%	100.00%
Gross Margin	84.37%	84.37%	84.37%	60.50%
Selling, General & Administrative Expenses	74.74%	71.43%	71.39%	39.80%
Advertising Expenses	0.49%	1.76%	6.87%	3.20%
Profit Before Interest and Taxes	5.32%	10.24%	10.66%	0.70%

Main Ratios				
Current	11.57	15.86	17.06	0.98
Quick	11.57	15.86	17.06	0.65
Total Debt to Total Assets	66.00%	52.48%	40.17%	61.20%
Pre-tax Return on Net Worth	27.33%	50.90%	43.55%	1.70%
Pre-tax Return on Assets	9.29%	24.18%	26.06%	4.30%

Additional Ratios	2001	2002	2003	
Net Profit Margin	2.65%	6.43%	7.01%	n.a
Return on Equity	22.06%	38.17%	32.48%	n.a

Activity Ratios				
Accounts Payable Turnover	10.79	12.17	12.17	n.a
Payment Days	27	29	27	n.a
Total Asset Turnover	2.83	2.82	2.77	n.a

Debt Ratios				
Debt to Net Worth	1.94	1.10	0.67	n.a
Current Liab. to Liab.	0.13	0.15	0.21	n.a

Liquidity Ratios				
Net Working Capital	$154,019	$229,456	$319,731	n.a
Interest Coverage	2.61	6.11	8.46	n.a

Additional Ratios				
Assets to Sales	0.35	0.35	0.36	n.a
Current Debt/Total Assets	8%	8%	8%	n.a
Acid Test	11.57	15.86	17.06	n.a
Sales/Net Worth	8.32	5.94	4.63	n.a
Dividend Payout	0.00	0.00	0.00	n.a

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2. Sample Business Plan

Here is an abbreviated example of a serious sample business plan template proposal. It is provided to give you a feeling for the style of writing that is used in a business plan, and is not intended to be a comprehensive guide of what should be covered in a good plan.

The humorous content of this business plan example is supplied only for the readers interest. For optimum effectiveness, care should be taken to minimize the humorous content in an actual proposal.

Free Sample Business Plan Examples
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Statement Of Funding Proceeds

Children's World has developed a line of toys that are superior to all other products that exist on the market today. In order to service our identified target markets with these superior toys, significant capital infusion is required.

Specifically, the required $15,000,000 will be allocated appropriately to:

Marketing and Advertising $ 1,500,000

Salaries -0-

Facilities 50,000

Capital Equipment 450,000

Research and Development 1,000,000

Operational Expenses 2,000,000

Inventory 10,000,000

Total $15,000,000

Â Executive Summary

Children's World is the major player in the global gift giving industry. Originally founded as a sole proprietorship in 1930, the marketing tactics employed by Children's World had grown to the level of being a family legend by 1940. Annual toy production of Children's World exceeded 86,000,000 units at this time, and major expansion plans were developed. However, due to a slight downturn in the global economy, these plans have been shelved as projected profit levels have fallen to a near breakeven point in 1993.

To revitalize the company, a rigorous program of research and development was undertaken in the early 1950's. The first major breakthrough of which is ready for production. To be able to make maximum use of our proprietary breakthrough technology, Children's World needs to upgrade its existing facilities, as well as reevaluate the company's sleigh delivery system It is anticipated that a late model Cessna Citation could be modified to meet the operating requirements of Children's World. In addition, several used cargo planes will need to be acquired to facilitate the development of large stockpiles of toys at strategic global locations. A central hub system is being considered.

Additional manufacturing upgrades are planned to facilitate the projected increases in manufacturing output. Some of the upgrades include the replacement of manual lathes with automated CNC machines, the installation of spray booths using the latest in electrostatic technology, computerized conveyor and sorting systems, and an upgrade in the Statistical Process Control (SPC) area of the Quality Assurance Department.

As can be seen, Children's World is now at a point where they need to seek outside funding to refurbish/renovate their production facilities, upgrade their global navigational equipment, establish a more visible image, and to establish an extensive line of credit to cover seasonal inventory expenses.

This loan will be backed by the full assets and inventory of the Children's World company. As the attached Balance Sheet indicates, these assets have a current valuation of $5,000,000. In addition, of the $15,000,000 requested, $10,450,000 will be spent on inventory and capital equipment which will also be used as collateral for the note. As the attached cash flows indicate, Children's World should be able to service the debt incurred by this loan application. It is anticipated that the Return On Investment (ROI) thrown off from this loan will be 200% adjusted on a yearly basis. Timing of the loan and the market entry of the product will be critical, however, with the maximum value occurring from a November entry.

Description Of The business

Our Mission at Children's World is: "To provide toys and games of exceptional quality, in a timely manner, priced at or below our competition, to enhance the profits of our company."

Background

Children's World is a sole proprietorship that was founded in 1930. It is wholly owned by Mr. and Mrs. Sanford Theodore Clause. For the past 50 years, Children's World has experienced an increase in the public awareness of our year end close-out (where we give away surplus inventory). Because of this practice, the public has begun to think of us on a seasonal basis as a philanthropic organization.

To alleviate this problem, we have just completed the development phase of a novel and proprietary product line that will once again place Children's World in the minds of the public on a daily basis. By 1940, our operation had produced 86,000,000 toys, and has operated profitably ever since. However, revenue projections for fiscal year xxxx, without external funding for the introduction of this new product line, is expected to be down to a break even level ($1,100). With the funding for the renovations, advertising, and new product line our profits are expected to reach $30,000,000. Annual growth is projected to be 21% per year through the year 2100.

Concept

The "state of the art" of the industry today dictates that toys are produced without ever being touched by human hands. Our new revolutionary product line capitalizes on the fact that our toys have traditionally been hand built by our local elf community. Although our production methods are slow in comparison to other manufacturers, our quality levels are high while our costs are kept very modest.

This new product line incorporates a rare, refined essence (known only to our advanced Research And Development Dept.) that causes a strong attraction to be formed between the toy and the customer who first sees the toy. This essence is well known in the animal community. For instance, it is the reason why ducklings bond to the first animal they see after emerging from their shell (commonly called "imprinting"). These ducklings will not physically allow themselves to be separated, to any significant distance, from the "parent" animal for approximately six months.

After lengthy collaboration with the local duck community, and extensive field testing (test population will not be disclosed), our top notch R&D staff has been able to identify and synthesize the essence and increase its strength. When incorporated into our line of toys, this essence will create a bond between the recipient and the toy that will last for one full year! During this time, like the ducklings, the recipient who first sees the toy will not want to be separated from the toy to any significant distance (typically less than fifteen feet).

This instant "imprinting" at the time of viewing the toy had initially placed our R&D staff in a considerable quandary. To be effective and "imprint" on only the intended recipient, the entire channel of distribution must not be able to see the product. This enigma was eventually resolved by the decision to place the product in an opaque wrapper, bag, etc. that could be given to the intended recipient to be "opened". To prevent the early opening of the wrapper/bag, we have developed several colorful prints that can be placed on the opaque wrapper thereby lending it an attractive external appearance.

Compared to competitors products, the use of the "essence" will dramatically increase the recipients enjoyment of, and involvement with, our product line. Other significant refinements that our R&D staff has been able to develop are:

1. Gender Specific Essences. Using this innovation, a toy incorporating a female gender essence will bond most strongly with female recipients, and vice versa. This will help reduce the demand for pink and lavender trucks, baseball mitts, etc., and will dramatically reduce our internal manufacturing problems and inventory requirements.

2. Variable Time Factor Essences. This innovation will allow us to produce toys that have a "short" imprint time (30 - 90 days) for use when we need to spur sales, or a longer imprint time (up to 365 days) for a moderated sales level. We have found through extensive research that 330 days is optimal in that it allows for approximately one month of "de-imprinting" and subsequent anticipation build up among the recipients. Naturally, this will cause some friction among the family sub-units, but that can not be avoided if we are to develop a maximum market penetration.

Business plan example - The Market

The Children's World target market includes the pre-adolescent to young adult groups on a global scale. Using data supplied by the Bureau of the Census the total population of the world is estimated at 5,700,000,000. Of this basis group, we have conservatively placed our estimate of our total target market at slightly over 300 million customers. At the present time our sales are hovering at the 250,000,000 unit mark (up from 86,000,000 in 1940) giving us an 83.3% market share. We believe that the requested funding will allow us to increase this market share to roughly 95% over the next two years. This would increase our sales by an additional 35,000,000 units per year (see Appendix A for source information and calculations).

Our primary focus (and most of our extensive field testing) is on the 1-5 year old individual. Our products are gender specific, with male vs. female sales forecasts mirroring the population demographics. As our products gain acceptance within this market, we will move to expand into the teenage markets as this time frame is known for its friction between family sub-units. This will mask the effects of the "de-imprinting" irritations, and will aid us in minimizing any public disclosure (and competitor espionage) during the early phase of our market introduction.

All Children's World products are protected by the trademark and copyright laws, however we will not seek patent protection for the "essence" lines. Instead, we will keep these lines as a trade secret, thus preventing public disclosure and the subsequent possibility of legal entanglements from disgruntled parents, consumer activists, etc.

Initial responses from our market test customers indicate that our new lines are enjoying an excellent reaction. Inquiries from prospective customers suggest that there is considerable demand for these toys. Relationships with leading retailers, major accounts, and distributors substantiate the fitness of Children's World for considerable growth and accomplishment.

Competition

Although Children's World is a broad based manufacturing and transportation company, competitive threats today come primarily from other toy manufacturers. However, with 83.3% of the overall market, the competition does not play a significant role on company pricing/credit policies.

The major competitors that are facing Children's World are as follows:

Mattel, Inc. (Hawthorne, CA) Primarily a game manufacturer/marketer with sales of over $50,000,000/year.

Roadmaster Corp. (Olney, IL) Manufacturer of juvenile riding toys with sales of over $100,000,000/year.

Parker Brothers (Beverly, MA) Primarily a game manufacturer/marketer with sales of over $250,000,000/year.

Flexible Flyer Co. (West Point, MS) Manufacturer of juvenile riding toys with sales of over $50,000,000/year.

Tyco Toys, Inc. (Mount Laurel, NJ) Manufacturer of trucks/cars with sales of over $100,000,000/year.

Hasbro, Inc. (Pawtucket, RI) Primarily a game manufacturer/marketer with sales of over $50,000,000/year.

In spite of the competition in the toy industry, Children's World has continued to deliver a high quality, low cost product that is unique to this industry. In addition, our research indicates that our performance is superior to any other company on the market today.

The gift market is heavily seasonal, with the preponderance of sales coming late in the year. As stated in the "Background" section of the Business Description above, Children's World has experienced an increase in the public awareness of our year end close-out (where we give away surplus inventory). Because of this practice, the public has begun to think of us on a seasonal basis as a philanthropic organization.

It is our belief that we will be able to turn this mistaken perception around with the funds that we are seeking via this proposal. After all, in all comparisons Children's World's products provide more features and have superior performance than competitive products. In most cases, the difference in the number of features is substantial. A complete technical comparison is available upon request.

Marketing Strategy

The "state of the art" of the industry today dictates that toys are produced without ever being touched by human hands. Our new revolutionary product line capitalizes on the fact that our toys have traditionally been hand built by our local elf community. Although our production methods are slow in comparison to other manufacturers, our quality levels are high while our costs are kept very modest. In addition, the exciting new breakthroughs that we have achieved in our R&D department (see the Description of the Business section above) will further increase the sales and usage of our products.

To get the most out of our marketing dollars, we have developed the following strategy for promoting our products:

Pricing and Profitability. Our pricing is tied to our philosophy of operating at a break even basis. However, because of both the past losses incurred in the toy giveaways, and to pay for the capital improvements outlined in this plan, we will increase our pricing in order to retire the newly incurred debt. We are projecting a first year net profit of $30,000,000 as the result of this project.

Selling Tactics. Consistent with previous years, preseason publicity outlining new merchandising concepts is utilized extensively to generate paid advertising participation from retailers and shopping centers world wide. This has worked well, and we have no plans to alter this strategy.

Distribution. Central pre-distribution hubs have now been established in each country. This concept permits faster delivery, without the need to return to the North Pole each time the sleigh needs restocking. This is the most cost effective procedure implemented by Children's World in the last 50 years.

Advertising and Promotion. Cooperative advertising funds are available to all participating retailers which leverages our national advertising exposure 400%. Proof of advertising activity from the participating merchant in the form of a paid invoice from the merchant and a tear sheet from the print media is required for final payment.

Public Relations. This activity has outgrown our in-house capabilities. Therefore, we have retained the services of an international public relations firm, Good, Better and Best, Inc., to coordinate those activities. The firm provides us their services at cost, as they benefit measurably through their visibility and association with Children's World .

Business Relationships. Children's World participates heavily in trade shows during the Summer months. This activity permits us to maximize our efforts and focus on the major retailers and buyers. Promotional activity by retailers may need to be reviewed in the near future, as seasonal promotion once targeted exclusively for December, has been pushed backward to Thanksgiving, and on occasion is now occurring as early as Halloween. This is a concern we are reviewing with our public relations firm.

Credit Terms. Standard credit terms will be offered to wholesalers/retailers (2% 10 net 30), while cash and checks will be accepted on the retail level.

Business Plan Examples - Business Location

The Children's World production facilities wholly owned and are located at 101 North Pole Lane, Arctic Circle, Earth. Due to the nature of the toy industry, and its propensity for industrial espionage, Children's World decided at an early stage that steps must be taken to isolate and camouflage their facilities. To date, their efforts have been largely successful, although a few close calls have been noted.

The facilities are debt free and are kept in good repair by the local elf community. To accommodate the planned product line expansion, only minor renovations (approximately $50,000) will be necessary as stated in the "Statement of Funding Proceeds" section above.

To safeguard both their new and existing product lines, Children's World respectfully declines to provide detailed information on this subject heading.

Licenses/Permits/Registrations

All licenses, and permits required for the continued operation of the company have been either secured, or renewed. Due to our location, our company is not affected by zoning regulations.

All Children's World products are already protected by the appropriate trademark and copyright filings. Children's World will not seek patent protection for the "essence" lines, however. Instead, we will keep these lines as a trade secret, thus preventing public disclosure and the subsequent possibility of legal entanglements from disgruntled parents, consumer activists, etc.

FAA certification and flight tests of all pilots and craft are both current and comprehensive, and are on file with the proper authorities.

Insurance/Employee Benefits

Due to the unique nature of their work force and the isolation of the environment, Children's World does not have to provide insurance for their employees. However, Children's World does have full property insurance as well as a general liability insurance policy for $1,000,000 per the requirements of most retailers.

Employee benefits include unlimited supplies of aspirin, nasal decongestants, as well as other cold related medicines. Regarding vacation leave, Children's World provides two weeks of paid vacation each year. The company also their employees with equipment, lift passes, etc. free of charge for skiing, snowmobiling, snowshoeing, etc. However, no vacations are permitted during the months of October through December due to production demands.

Management

How we started

Children's World was founded in 1930 by Sanford Theodore Clause who recognized the entrepreneurial opportunities presented by the establishment of a charitable society. Through his efforts gift giving became more fashionable, particularly around the time of the Christian celebration of Christmas.

Management team

Our key management team consists of Mr. and Mrs. Clause whose backgrounds consist of almost 60 years of manufacturing and marketing experience. Our manufacturing team consists of over 300 well trained elf volunteers, each with at least 200 years of manufacturing, engineering and design experience.

A listing of our corporate organization is as follows:

Sanford T. Clause, President

Elizabeth M. Clause, Vice President, Henry J. Ticklebone, Director of Finance, Abagail B. Greenleaf, Director of Marketing Princely J. Rockafellow, Director of Sales, James A. Bronson, Director of Engineering, Jillaney P. Quackenmeyer, Director Research & Development' Jeremy C. McDougal, Director of Operations, Thistle P. Stickler, Corporate Attorney.

As stated above, the strength of Children's World management team stems from the combined expertise in both management and technical areas. This has produced outstanding results over the past 60 years.

The time honored leadership characteristics of Children's World's management team have resulted in broad and flexible goal setting -to meet the ever changing demands of the quickly moving marketplace requiring our products. This is evident when the team responds to situations requiring new and innovative capabilities.

Personnel

The following are the summary job descriptions for the key officers of the Children's World organization:

Abagail B. Greenleaf, Director of Marketing ($100,000/year salary) Manage market planning, advertising, public relations, sales promotion, merchandising and facilitate staff services. Identifying new markets and corporate scope and market research. Identify foreign markets.

Princely J. Rockafellow, Director of Sales ($100,000/year salary) Manage field sales organization, territories and quotas. Manage sales office activities including customer/product support/service.

Henry J. Ticklebone, Director of Finance ($150,000/year salary) Management of working capital including receivables, inventory cash and marketable securities. Financial forecasting, including capital budget, cash budget, proforma financial statements, external financing requirements, financial condition requirements.

James A. Bronson, Director of Engineering ($85,000/year salary) Oversees product development including quality control, physical distribution, product and packaging design, new product development improvement, and improvements on existing products. Research and development.

Jeremy C. McDougal, Director of Operations ($175,000/year salary) Service, manufacturing, raw materials management and allocation.

Outside support

An outside Board of Advisors, including highly qualified business and industry professionals/experts from the elfin community, will assist our management team to make appropriate decisions and take the most effective action; however, they will not be responsible for management decisions.

At this time we do not forecast any need for extensive restructuring, and/or large scale hiring campaigns. Our expansion campaign will be able to be handled by our current staff of highly skilled employees.

Financial Data

Please see the attached financial projections including five years of historical financials, as well as a three year cash flow and income statement projection.

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3. How to Develop a Results Driven Business Plan

There are many reasons why a business plan should be prepared. Each is sufficient by itself for why one must go through the exercise of preparing the actual business plan. This guide discusses free small business plans, business plan outline. Regardless of the specific reason, the underlying goal of preparing a business plan is to insure the success of the business. Here are the main reasons why a business plan should be prepared:

Provides you with the road map that you need in order to run your business. It allows you to make detours, change directions, and alter the pace that you set in starting or running the business.

To assist in financing. Whether one is starting up a small business or is an entrepreneur, banks and financial institutions want to see that you know where you are, where you are going, and how you are going to get there.

The plan will tell you how much money you need, when you will need it, and how you are going to get it. In other words, how you will do your financing?

Helps you to clearly think through what type of business you are starting, and allows you to consider every aspect of that business.

Raises the questions that you need to have answered in order to succeed in your business.

Establishes a system of checks and balances for your business so that you avoid mistakes.

Sets up bench marks to keep your business under control.

Helps you develop the competitive spirit to make you keenly prepared and ready to operate.

Makes you think through the entire business process so that you do not open the business blindly or lack vital information in opening and maintaining your business.

Forces you to analyze competition.

Will give you a "go" or "no go" answer about starting the business.

Small Business Plans Business Plan Outline Guide

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Confidentiality Agreement

The undersigned reader acknowledges that the information provided in this business plan is confidential; therefore, the reader agrees not to disclose it without the express written permission of <<*Company/Promoter*>>.

It is acknowledged by the reader that information to be furnished in this business plan is in all respects confidential in nature, other than information that is in the public domain through other means, and that any disclosure or use of this confidential information by the reader may cause serious harm or damage to <<*Company*>>.

Upon request, this document is to be immediately returned to <<*Company/Promoter*>>.

____
Signature

____
Name (printed)

____
Date

This is a business plan. It does not imply offering of securities.

1. Executive Summary

<< Introduce promoters here, and the reason you are now preparing this Business Plan.

This section should not be completed until the business plan is written. It will highlight all milestones in the company's development over the next five years. It should sum up the following areas:

- Purpose of the plan
- Product or service and its advantages
- Market opportunity
- Management team
- Track record, if any
- Financial projections
- Funding requirements

Financial projections should be summarized and highlighted. The following format is suggested as a guide:

	Year 1	**Year 2**	**Year 3**
Sales			
Exports			
Net Profit before Tax			
Investment			
Employment			

Remember that potential investors often make a provisional judgement based on the executive summary, and that their decision to read the main body of the business plan will depend on the information presented here. The appendices at the back of the plan contain more detailed information to support the main text of the business plan. >>

2. Company Description

Promoters and Shareholders

<< Description of the people involved in starting the business:

- Promoters
- Management structure and areas of responsibility

- Shareholders names, no. of shares, % shareholding and cash investment to date

Advisors

<< Financial, legal, and other advisors should be listed, with names, addresses and contact details. >>

Products and services

<< Explain clearly what your product or service is and what it does.

- Background to its development
- Benefits and Features
- Unique selling points
- Advantages to customers
- Disadvantages or weak points
- Future developments >>

Long Term Aim of the Business

<< State the long-term aim of the new business. >>

Objectives

<< State the specific milestones to be achieved by the company over the next five years (sales, exports, employment, product development, etc). >>

SWOT Analysis

<< Analyze the strengths and weaknesses of the business and product or service, the opportunities that exist in the marketplace, and the threats to the viability of the project. This is best done in a matrix diagram as follows:

Strengths	**Weaknesses**
Opportunities	**Threats**

3. Market Analysis

<< This section covers market research and competitor analysis. You must show that you have done the market research to justify the projections made in your business plan. It must demonstrate that there is a viable market and that you can beat the competition in the market for sales. >>

Target Market

<< The market to which you are planning to sell the product or service. Analyze the segments of this market as follows:

- Size of each market segment
- Is the segment growing or declining?
- Characteristics of potential customers in each segment >>

Total Market Valuation

<< Show the total potential value of the market for this type of product or service, in all the targeted markets, domestic and international. >>

Target Company revenue

<< These figures are the basis for the sales figures in your financial projections and must be based on realistic assessments. Include average deal size, length of sales cycle, recurring revenues>>

Market Trends

<< Analyze what is happening in the market:

- Recent changes
- Future predictions
- Drivers such as demographic changes, economic and legislative factors
- Implications for your product or service
- Your plans to meet future demands and changes in the market >>

Profile of Competitors

<<Analysis of your competitors in the market:

- What are the competing products and services?
- Profile of key players (company size, turnover, profitability etc) and their market share
- Advantages and disadvantages of the competitors' offerings >>

Competitive Advantage

<< This is your assessment of why potential customers will choose to buy your product in place of those profiled above. Advantages may include:

- Unique features
- Price
- New technologies or systems
- Better value to customers in terms of efficiency or ROI or cost/benefit ratios
- Greater compatibility with existing systems
- Include any independent validation or case studies >>

Benefits to Clients

<< This is what your product or service provides to potential customers in terms of their own business goals. Does your product or service enable them to:

- Increase sales
- Increase efficiencies
- Save money?
- Save time?
- Maximise resources?
- Reduce errors?
- Reduce downtime?
- Improve Customer Service, reduce churn, increase loyalty

What will buying your product or service actually do for the customer? >>

4. Marketing/Sales Strategy

<< This section sets out your strategies for reaching your target market, arousing their interest in your product or service, and actually delivering the product or service to them in sales. >>

Marketing Strategy

<< How you will position your product or service in the market and differentiate it from its competitors:

- Which segments of the market will be targeted first and why?
- How will this be developed to reach the full target market?
- How will you differentiate your product or service?
- What key benefits will be highlighted?
- What potential customers have you already targeted?
- Have you a test site in operation, and what feedback is coming from this?

- What contacts can be used to generate market awareness and sales?
- Who will do the marketing: staff, agency, reps? >>

Revenue Sources

<< What contributions to revenue and profit will your business have?

	Irl	EU	US	Rest of World
Products				
Services				
Licenses				
After sales				
Upgrades				

Sales Strategy

<< How you will sell your product or service to the target market.

- Directly
- Retail
- Distributor
- Agent
- Sales rep
- Website
- Revenue Sharing Partners

Analyze for each method the costs involved, whether it will reach the intended market efficiently, the control you would retain over the pricing and positioning, the logistics, and the overall integration with your marketing strategy. State the advantages of the methods you have chosen to sell your product or service. >>

Pricing

<< How you will set the price charged for your product or service. Considerations include:

- Competitors' prices
- Level of competition in the market
- Perception of quality-price relationship by customers
- Production costs and overheads
- Chain of distribution and the added-value at each stage
- The extent to which the buyer can control the price

State how each product or service will be priced, referring to the income sources above. >>

Marketing and Communications Strategy

<< How you will promote your product or service in the marketplace.

- Advertising – where, when, how, to whom
- Public relations
- Direct marketing
- Website and internet marketing
- Exhibitions and conferences
- Word of mouth >>

5. Research and Development

Technology Roadmap

<< Show the intended future development of your product or service, i.e., changes to meet future market demands, adaptations to international markets, or upgrades. Also detail plans for new products or services to add to the range.

Include
- Team/Department structure
- Methodology
- Platforms used
- Milestones to be achieved
- System Overview Diagram>>

Research and Development

<< Indicate whether you will have ongoing R&D as an activity of the company, what areas this will be exploring and what future contributions to the company you expect from this research. >>

Technical Partners

<< List all partners and indicate nature of involvement >>

IP, Patents, Copyrights, Brands

<< Indicate any protection available for your product or service: whether the technology can be or has been patented, whether you can avail of copyright or trademark registration, and the brand image you intend to build up as a protection against competition. >>

6. Staffing and Operations

<< This is where you will outline the intended structure of the company in terms of management, number of employees, and the physical operational requirements to produce or supply the product or service. >>

Management (including Board) Organisation Chart

<< Include a diagram of the way in which the management of the new venture will be organized. This should show the areas of responsibility of each manager and the employees to be taken on over the next three years. >>

Staffing

<< State what employees will be taken on over the next three years, with which skills, in which areas of the business. >>

Training Plans

<< Outline the planned employee and management development to be undertaken in order to maintain a skilled workforce. This should also tie in with the future market developments and any new product or service developments. >>

Operations

<< State the physical requirements of the business:

- Premises
- Equipment
- Production facilities
- Infrastructure
- Communications facilities
- Costs involved
- Suppliers >>

7. Financial Projections

I Key Assumptions
II Profit and Loss Accounts
III Balance Sheets
IV Cashflow

Requirements for Preparation of Projections

1. Opening figures included based on latest Mgmt/Audited accounts

2. Shareholders Fund analyzed into Share Capital, Share Premium and Retained Profits

3. Sales Assumptions provided by unit, price segment & geography and reconciled to pipeline

4. Expenditure categorized into R&D, Admin and Overheads and Promoters / key managers salaries

5. Identification of monthly and cumulative company operational deficits

6. Sensitivity analysis may be required, detailing strategies to be implemented if sales or expenditure targets are not met.

7. Projections should identify separately Operational Cash Flow and external Cash Injections

I Key Assumptions

<< This section reviews the key assumptions used in the financial projections. It is a guide to explain how key figures in the financial projections were arrived at. Included here should be items such as:

- Income sources
- Number of employees projected for each year and their intended salaries
- Projected investment in equipment and materials
- Projected R&D costs
- Depreciation allowed for
- Expected rent and rates charges
- Creditor days expected and debtor days allowed
- Expense calculations

This section should be brief and to the point. Further detail regarding these items can be placed in the Appendices. >>

II Profit & Loss Accounts

<< Attach here projected profit and loss accounts for the first three years of the company's operations. >>

III Balance Sheets

<< Attach here projected balance sheets for the first three years of the company's operations. >>

IV Cashflow

<< Attach here a monthly cashflow prediction for the first two years of the company's operations. >>

8. Sales Pipeline

Table as follows:

Name of Customer	Size of Deal	Date PO expected	Probability % of Getting Sale

9. Funding Requirements

<< State here the total funding requirements of the business, and how those are intended to be provided. You will also need to state the approximate breakdown of how these funds are to be spent.

Sources:

- Promoters' funds
- Bank lending
- Grants or loans from agencies
- Investment already received
- Investment sought

Required for:

- Equipment
- R&D
- Marketing
- Staffing >>

10. Appendices

<< This section is used to provide the detailed data on which the main text of the business plan is based, and to provide extra information of interest to the readers of the business plan. Items for inclusion in appendices vary from business to business, but normally include some of the following:

- Promoters' CVs
- Detailed financial assumptions
- Most recent Company Audited Accounts
- Share Cap table and Investment history
- Term Sheet from Potential Investors
- Detailed market research findings
- Promotional literature
- Product or service information
- Details of company website
- Testimonials or letters of intent from customers >>

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4. How to Attract Investors

Venture capital financing is a method used for Raising Cash For Business and Getting Investments for Business, but less popular than borrowing. Venture capital firms, like banks, supply you with the funds necessary to operate your business, but they do it differently. Banks are creditors; they expect you to repay the borrowed money. Venture capital firms are owners; they hold stock in the company, adding their invested capital to its equity base. While banks may concentrate on cash flow, venture capital firms invest for long-term capital. Commonly, these firms look for their investment to appreciate three to five times in five or seven years.

One way of explaining the different ways in which banks and venture capital firms evaluate a small business seeking funds is: Banks look at its immediate future, but are most heavily influenced by its past; venture capitalists look to its longer run future.

To be sure, venture capital firms and individuals are interested in many of the same factors that influence bankers in their analysis of loan applications from smaller companies. All financial people want to know the results and ratios of past operations, the amount and intended use of the needed funds, and the earnings and financial condition of future projections.

But venture capitalists look much more closely at the features of the product and the size of the market than do commercial banks.

What Venture Capital Firms Look For (Raising Cash For Business)

Banks are creditors. They're interested in the product/market position of the company for assurance that this product or service can provide steady sales and generate sufficient cash flow to repay the loan. They look at projections to be certain that owners/managers have done their homework.

Venture capital firms are owners. They hold stock in the company, adding their invested capital to its equity base. Therefore, they examine existing or planned products or services and the potential markets for them with extreme care. They invest only in firms they believe can rapidly increase sales and generate substantial profits. The reason for this is that venture capital firms invest for long-term capital, not for interest income. A common estimate is that they look for three to five times their investment in five or seven years.

Of course, venture capitalists don't realize capital gains on all their investments. Certainly they don't make capital gains of 300 to 500% except on a very limited portion of their total investments. But their intent is to find venture projects with this appreciation potential to make up for investments that aren't successful.

Venture capital is risky due to the difficulty of judging the worth of a business in its early stages. Therefore, most venture capital firms set rigorous policies for venture proposal size, maturity of the seeking company, management of the seeking company, and "something special" in the plan that is submitted. They also have rigorous evaluation procedures to reduce risks, since their investments are unprotected in the event of failure.

Size of the Venture Proposal

Most venture capital firms are interested in investment projects requiring an investment of $250,000 to $1,500,000. Projects requiring under $250,000 are of limited interest because of the high cost of investigation and administration; however, some venture capital firms will consider smaller proposals if the investment is intriguing enough.

The typical venture capital firm receives over 400 proposals a year. Probably 90% of these will be rejected quickly because they don't fit the established geographical, technical or market area policies of the firm - or because they have been poorly prepared.

The remaining 10% are carefully investigated. These investigations are expensive. Firms may hire consultants to evaluate the product, particularly when it is the result of innovation or is technologically complex. The market size and competitive position of the company are analyzed by contacts with present and potential customers, suppliers, and others. Production costs are reviewed. The financial condition of the company is confirmed by an auditor. The legal form and registration of the business are checked. Most importantly, the character and competence of the management are evaluated by the venture capital firm, normally via a thorough background check.

These preliminary investigations may cost a venture firm between $2,000 and $3,000 per company investigated. They result in perhaps ten to fifteen proposals of interest. Then, second investigations, more thorough and more expensive than the first, reduce the number of proposals under consideration to only three or four. Eventually, the firm invests in one or two of these.

Most venture capital firms' investment interest is limited to projects proposed by companies with some operating history, even though they may not yet have shown a profit. Companies that can expand into a new product line or a new market with additional funds are particularly interesting. The venture capital firm can provide funds to enable such companies to grow in a spurt rather than gradually as they would on retained earnings. Raising Money From Investors.

Companies that are just starting or that have serious financial difficulties may interest some venture capitalists, if the potential for significant gain over the long run can be identified and assessed. If the venture firm has already extended its portfolio to a large risk concentration, they may be reluctant to invest in these areas because of increased risk of loss. Getting Investments for Business.

Although most venture capital firms will not consider a great many proposals from start-up companies, there are a small number of venture firms that will do "start-up" financing. The small firm that has a well thought-out plan and can demonstrate that its management group has an outstanding record (even if it is with other companies) has a decided edge in acquiring this kind of seed capital.

Most venture capital firms concentrate primarily on the competence and character of the management. They feel that even mediocre products can be successfully manufactured, promoted, and distributed by an experienced, energetic management group.

They look for a group that is able to work together easily and productively, especially under conditions of stress from temporary reversals and competition problems. Obviously, analysis of managerial skill is difficult. A partner or senior executive of a venture capital firm normally spends at least a week at the offices of a company being considered, talking with and observing the management to estimate their competence and character.

Venture capital firms usually require that the company under consideration have a complete management group. Each of the important functional areas product design, marketing, production, finance, and control - must be under the direction of a trained, experienced member of the group. Responsibilities must be clearly assigned. And, in addition to a thorough understanding of the industry, each member of the management team must be firmly committed to the company and its future. Raising Money From Investors.

Next in importance to the excellence of the management group, most venture capital firms seek a distinctive element in the strategy or product/market/process position of the company. This distinctive element may be a new feature of the product or process or a particular skill or technical competence of the management. But it must exist. It must provide a competitive advantage.

Elements of a Venture Proposal - Getting Investments for Business

Purpose and Objectives

Include a summary of the what and why of the project.

Proposed Financing: You must state the amount of money you will need from the beginning to the maturity of the project proposed, how the proceeds will be used, how you plan to structure the financing, and why the amount designated is required.

Marketing: Describe the market segment you've got or plan to get, the competition, the characteristics of the market, and your plans (with costs) for getting or holding the market segment you're aiming at.

History of the Firm: Summarize the significant financial and organizational milestones,

description of employees and employee relations, explanations of banking relationships, recounting of major services or products your firm has offered during its existence, and the like.

Description of the Product or Service: Include a full description of the product (process) or service offered by the firm and the costs associated with it in detail.

Financial Statements: Include statements for both the past few years and pro forma projections (balance sheets, income statements, and cash flows) for the next three to five years, showing the effect anticipated if the project is undertaken and if the financing is secured. (This should include an analysis of key variables affecting financial performance, showing what could happen if the projected level of revenue is not attained.)

Capitalization: Provide a list of shareholders, how much is invested to date, and in what form (equity/debt).

Biographical Sketches: Describe the work histories and qualifications of key owners and employees.

Principal Suppliers and Customers, Problems Anticipated and Other Pertinent Information

Provide a candid discussion of any contingent liabilities, pending litigation, tax or patent difficulties, and any other contingencies that might affect the project you're proposing. List the names, addresses and the

telephone numbers of suppliers and customers; they will be contacted to verify your statement about payments (suppliers) and products (customers).

Provisions of the Investment Proposal

What happens when, after the exhaustive investigation and analysis, the venture capital firms decides to invest in a company? Most venture firms prepare an equity financing proposal that details the amount of money to be provided, the percentage of common stock to be surrendered in exchange for these funds, the interim financing method to be used and the protective covenants to be included.

This proposal will be discussed with the management of the company. The final financing agreement will be negotiated and generally represents a compromise between the management of the company and the partners or senior executives of the venture capital firm. The important elements of this compromise are: ownership, control, annual charges, and final objectives.

Ownership

Venture capital financing is not inexpensive for the owners of a small business. The partners of the venture firm buy a portion of the business' equity in exchange for their investment.

This percentage of equity varies, of course, and depends on the amount of money provided, the success and worth of the business, and the anticipated investment return. It can range from perhaps 10% in the case of an established, profitable company to as much as 80 or 90% for beginning or financially troubled firms.

Most venture capital firms, at least initially, don't want a position of more than 30 to 40% because they want the owner to have the incentive to keep building the business. If additional financing is required to support

business growth, the outsiders' stake may exceed 50% but investors realize that small business owner/managers can lose their entrepreneurial zeal under those circumstances. In the final analysis, however, the venture firm, regardless of its percentage of ownership, really wants to leave control in the hands of the company's managers because it is really investing in that management team in the first place.

Most venture firms determine the ratio of funds provided to equity requested by a comparison of the present financial worth of the contributions made by each of the parties to the agreement. The present value of the contribution by the owner of a starting or financially troubled company is obviously rated low. Often it is estimated as just the existing value of his or her idea and the competitive costs of the owner's time. The contribution by the owners of a thriving business is valued much higher. Generally, it is capitalized at a multiple of the current earnings and/or net worth.

Financial valuation is not an exact science. The final compromise on the worth of the owner's contribution in the equity financing agreement is likely to be much lower than the owner thinks it should be and considerably higher than the partners of the capital firm think it might be. In the ideal situation, of course, the two parties to the agreement are able to do together what neither could do separately: 1) the company is able to grow fast enough with the additional funds to do more than overcome the owner's loss of equity; and 2) the investment grows at a sufficient rate to compensate the venture capitalists for assuming the risk.

An equity financing agreement with an outcome in five to seven years which pleases both parties is ideal. Since the parties cannot see this outcome in the present, neither will be perfectly satisfied with the compromise reached.

It is important, though, for the business owner to look at the future. He or she should carefully consider the impact of the ratio of funds invested to the ownership given up, not only for the present, but for the years to come.

Control

Control is a much simpler issue to resolve. Unlike the division of ownership over which the venture firm and management are likely to disagree, control is an issue in which they have a common interest. While it is understandable that the management of a small company will have some anxiety in this area, the partners of a venture firm have little interest in assuming control of the business. They have neither the technical nor the managerial personnel to run a number of small companies in diverse industries. They much prefer to leave operating control to the existing management.

The venture capital firm does, however, want to participate in any strategic decisions that might change the basic product/market character of the company and in any major investment decisions that might divert or deplete the financial resources of the company. They will, therefore, generally ask that at least one partner be made a director of the company.

They also want to be able to assume control and attempt to rescue their investment if severe financial, operating or marketing problems

develop. Thus, they will usually include protective covenants in their equity financing agreements to permit them to take control and appoint new officers if financial performance is very poor.

Annual Charges

The investment of the venture capital firm may be in the final form of direct stock ownership which does not impose fixed charges. More likely, it will be in an interim form - convertible subordinated debentures or preferred stock. Financings may also be straight loans with options or warrants that can be converted to a future equity position at a pre-established price.

The convertible debenture form of financing is like a loan. The debentures can be converted at an established ratio to the common stock of the company within a given period, so that the venture capital firm can prepare to realize their capital gains at their option in the future. These instruments are often subordinated to existing and planned debt to permit the company invested in to obtain additional bank financing.

Debentures also provide additional security and control for the venture firm and impose a fixed charge for interest (and possibly principal) on the company. The owner/manager of a small company seeking equity financing should consider the burden of any fixed annual charges resulting from the financing agreement.

Final Objectives

Venture capital firms generally intend to realize capital gains on their investments by providing for a stock buy-back by the small firm, by arranging a public offering of stock of the company invested in or by providing for a merger with a larger firm that has publicly traded stock. They usually hope to do this within five to seven years of their initial investment. (It should be noted that several additional stages of financing may be required over this period of time.)

Most equity financing agreements include provisions guaranteeing that the venture capital firm may participate in any stock sale or approve any merger, regardless of their percentage of stock ownership. Sometimes the agreement will require that the management work toward an eventual stock sale or merger. Clearly, the owner/manager of a small company seeking equity financing must consider the future impact upon his or her own stock holdings and personal ambition of the venture firm's aims, since taking in a venture capitalist as a partner may be virtually a commitment to eventually sell out or go public.

Types of Venture Capital Firms

Traditional Partnerships are often established by wealthy families to aggressively manage a portion of their funds by investing in small companies.

Professionally Managed Pools are made up of institutional money and which operate like the traditional partnerships.

Investment Banking Firms usually trade in more established securities, but occasionally form investor syndicates for venture proposals.

Insurance Companies often have required a portion of equity as a condition of their loans to smaller companies as protection against inflation.

Manufacturing Companies have sometimes looked upon investing in smaller companies as a means of supplementing their research and development programs.

In addition to these venture capital firms, there are individual private investors and finders. Finders, which can be firms or individuals, often know the capital industry and may be able to help the small company seeking capital to locate it, though they are generally not sources of capital themselves. Care should be exercised so that a small business owner deals with reputable, professional finders whose fees are in line with industry practice. Further, it should be noted that venture capitalists generally prefer working directly with principals in making investments, though finders may provide useful introductions.

The Importance of Formal Financial Planning

In case there is any doubt about the implications of the previous sections, it should be noted that it is extremely difficult for any small firm especially the starting or struggling company - to get venture capital.

There is one thing, however, that owner/managers of small businesses can do to improve the chances of their venture proposals at least escaping the 90% which are almost immediately rejected. In a word - plan.

Having financial plans demonstrates to venture capital firms that you are a competent manager, that you may have that special managerial edge over other small business owners looking for equity money. You may gain a decided advantage through well-prepared plans and projections that include: cash budgets, pro forma statements, and capital investment analysis and capital source studies.

Cash budgets should be projected for one year and prepared monthly.

They should combine expected sales revenues, cash receipts, material, labor and overhead expenses, and cash disbursements on a monthly basis. This permits anticipation of fluctuations in the level of cash and planning for short term borrowing and investment.

Pro forma statements should be prepared for planning up to three years ahead. They should include both income statements and balance sheets.

Again, these should be prepared quarterly to combine expected sales revenues; production, marketing and administrative expenses; profits; product, market or process investments; and supplier, bank or investment company borrowings. Pro forma statements permit you to anticipate the financial results of your operations and to plan intermediate term borrowings and investments.

Capital investment analyses and capital source studies should be prepared for planning up to five years ahead. The investment analyses should compare rate of return for product, market, or process investment, while the source alternatives should compare the cost and availability of debt and equity and the expected level of retained earnings, which together will support the selected investments. These analyses and source studies should be prepared quarterly so you may anticipate the financial consequences of changes in your company's strategy. They will allow you to plan long term borrowings, equity placements, and major investments.

There is a bonus in making such projections. They force you to consider the results of your actions. Your estimates must be explicit; you have to examine and evaluate your managerial records; disagreements must be resolved - or at least discussed and understood. Financial planning may be burdensome but it is one of the keys to business success.

Now, making these financial plans will not guarantee that you'll be able to get venture capital. Not making them will virtually assure that you won't receive favorable consideration from venture capitalists.

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