

# Planning Small Business

## Chapter 4

### The Business Plan

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**Figure 4.1(a): Cameo's Fine Jewelry and Timepieces: Executive Summary**

**Cameo's Fine Jewelry & Timepieces Executive Summary**

Cameo's Fine Jewelry & Timepieces is designed to be the Western Slope of Colorado's finest, most exquisite jewelry store available. Located in the heart of Grand Junction, Cameo's will offer jewelry and watches from world-renowned artists and designers from countries known for their quality such as Switzerland, Germany, Italy, and the U.S. Galleries will feature the work of Cartier, Rolex, Pippo Italia, Hearts on Fire, Paul Kecke, and many more.

The experience our customers receive through our atmosphere and customer service will be as fine as the jewelry itself. Our retail format will take on the elements of both a gallery and a lounge. Saltwater fish tanks will enhance the environment, and a wine and cocktail bar will be available to our customers. The sales staff and on-duty gemologist will be able to assist in finding that perfect piece of jewelry, and if it's not available, they will be able to order it or create a custom piece. Socials will invite the community to come enjoy the galleries and become more educated on the different qualities of jewelry.

**Location and Target Market:** Grand Junction serves as an ideal location, being that it is the largest city on the Western Slope of Colorado and acts as a retail hub for the surrounding communities. Since Cameo's will be the only jewelry store on the Western Slope that offers this level of quality, it will draw from a four-county region including Mesa, Garfield, Delta, and Montrose counties, which have a total population of 254,666. After taking into account age, percent of population who purchase jewelry, yearly weddings, and salary, there are 121,096 jewelry consumers within this geographic market. My goal is to obtain a 1 percent market share during the first year of business, which would provide 1,011 customers.

With this market penetration, and an average jewelry purchase of \$2,000, Cameo's would sell \$2,022,000 worth of products in the first fiscal year. The cash position at the end of the first fiscal year will equal \$460,052, making this a very attractive and profitable venture to pursue.

Source: Hatten, *Small Business Management*, 4th Edition

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**Figure 4.1(a): Cameo's Fine Jewelry and Timepieces: Executive Summary (contd)**

**Competitive Advantage:** Cameo's defining strengths will be that of location and facility as well as inventory. Cameo's will be housed in a 4,850 square foot renovated building on 4th and Main in Grand Junction. Being downtown means that Cameo's will fall under the guidance of the Downtown Partnership. The purpose of the Downtown Partnership is to oversee the promotion of the downtown area and provide community benefiting events. Some events held downtown include an October fest, a farmer's market, parade of lights, and an art fair.

Cameo's exclusive inventory will also set it apart from other jewelry stores. Many pieces in inventory will be one-of-a-kind and currently the only one available within this geographic market.

There are several things that make the jewelry industry as a whole very attractive, including strong growth, a stable position, and new product creation, innovation, and trends. Currently, the jewelry industry is growing annually at a rate of 9 percent, allowing for more retail outlets in one geographic region.

Jewelry is very stable because it never goes out of style. It is a fun item, jewelry is often considered a necessity in times of marriage and anniversary, and is often used as a gift. There are many new jewelry products entering the market at the time that are technologically, fashion, and trend driven, which creates an increase in demand.

**Management:** My passion for jewelry, and the jewelry industry, combined with previous work experience will enable me to make this business a success. Previous employment has provided me with experience in the numerous functions of this business, including management, marketing, event planning, and financial.

My skills in marketing and event planning will prove most beneficial to the startup of this business. The product costs in this industry are very high, and general knowledge is low, therefore, providing information and educating the consumer is crucial.

Special events will draw consumers into the store in order to show them what it has to offer.

**Finances:** Financial projections show that equipment, supplies, fixtures, and household improvements totaling \$111,000 are needed, along with a beginning inventory of \$513,500 and operating expenses of just over \$90,000, which all together will cover total initial capitalization costs of \$730,000. The owner brings \$73,000 of equity and seeks a bank loan of \$657,000 on competitive terms.

Cash-flow projections show positive cash flow in year 1, totaling approximately \$180,000.

Source: Hatten, *Small Business Management*, 4th Edition

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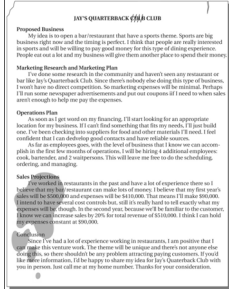
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Figure 4.1(b): A Sloppy Appearance Can Hurt Your Chances of Being Taken Seriously by Lenders and Investors.



Source: Hatten, Small Business Management, 4th Edition

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## Writing the Business Plan

- Create a plan tailored to fit your particular business.
- Write the plan yourself.
- Limit plan length to 40 or fewer pages.
- Present firm's strengths clearly and in a logical order.

Source: Hatten, Small Business Management, 4th Edition

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## Business Plan Contents

- Cover Page
  - Name of the business
  - Address and phone number
  - Issue date of plan
- Table of Contents
  - Allows the reader to turn directly to the sections desired
- Executive Summary
  - Company information
  - Market opportunity
  - Financial data

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Source: Hatten, Small Business Management, 4th Edition

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### Business Plan Contents (cont'd)

- Company
  - Background
  - Business form
  - Reason for firm's establishment
- Environmental Analysis
  - Economic
  - Competitive
  - Legal
  - Political
  - Cultural
  - Technological

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Source: Hatten, Small Business Management, 4th Edition

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### Business Plan Contents (cont'd)

- Industry Analysis
  - Industry demand?
  - Competitive reactions and industrywide trends? Major competitors?
  - Businesses recently entered or exited? Why?
  - Industry growing or declining?
  - Who are the new competitors?

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Source: Hatten, Small Business Management, 4th Edition

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### Business Plan Contents (cont'd)

- Products or Services
  - Different from those currently on the market
  - Other uses for the product
  - Drawings or photos if appropriate
  - Patents or trademarks
  - Competitive advantage
  - Potential for growth
  - Manage the product or service through the product life cycle
  - Expand the product line or develop related products

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Source: Hatten, Small Business Management, 4th Edition

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## Business Plan Contents (cont'd)

- Management Team
  - Technical skills
  - Business skills
  - Experience
  - Compensation
  - Training
  - Professional assistance
- Timeline
  - Outline the interrelationship and timing of the major events planned for your venture.
  - Timing objectives need to be realistic and attainable.

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Source: Hatten, Small Business Management, 4th Edition

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## Business Plan Contents (cont'd)

- Critical Risks and Assumptions
  - Possible Contingencies
    - Unreliable sales forecasts
    - Competitors' ability to underprice or to make firm's products obsolete
    - Unfavorable industrywide trends
    - Appropriately trained workers not as available as predicted
    - Erratic supply of products or raw materials

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Source: Hatten, Small Business Management, 4th Edition

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## Business Plan Contents (cont'd)

- Benefits to the Community
  - Economic development
  - Community development
  - Human development
- Exit Strategy
  - How and how long before you (and your investors) will exit the business and get back your investments?
    - Who will succeed you in the business?
    - Will the business be sold?

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Source: Hatten, Small Business Management, 4th Edition

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## Business Plan Contents (cont'd)

- Financial Plan
  - Sources and uses of capital (initial and projected)
  - Three-year projections of:
    - Cash flow statements
    - Balance sheets
    - Profit and loss statements
  - Breakeven analysis
  - Conclusions and important points:
    - How much equity and how much debt are included
    - The highest amount of cash needed
    - Expected pay-back period for loans

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Source: Hatten, Small Business Management, 4th Edition

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## Figure 4.2: The Sources and Uses of Funds Worksheet

Sources of Funds:	
<b>Debt:</b>	
Term loans	\$ _____
Refinancing of old debt	_____
Lines of credit	_____
Line 1	_____
Line 2	_____
Mortgage	_____
<b>Equity:</b>	
Investments	_____
<b>Total Sources:</b>	\$ _____
<b>Uses of Funds:</b>	
Property	\$ _____
Inventory	_____
Equipment (itemize)	_____
Working capital	_____
Cash reserve	_____
<b>Total Uses:</b>	\$ _____

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Source: Hatten, Small Business Management, 4th Edition

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## The Financial Plan (cont'd)

- Cash Flow Statement
  - Shows:
    - Funds on hand at the beginning of a time period
    - Receipts into the business over time
    - Money flowing out of the business during the period
  - Pro Forma Cash Flow Statement:
    - By month for the first year of operations
    - By quarter for the second and third years

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Source: Hatten, Small Business Management, 4th Edition

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Figure 4.3: Sample Components of a Cash-Flow Statement

<b>Opening cash balance</b>	
Add:	Cash receipts Collection of accounts receivable New loans or investment Other sources of cash
	Total receipts
Less:	Utilities Salaries Office supplies Accounts payable Leased equipment Sales expenses Loan payments General expenses Total disbursements
	Cash increase (or decrease)
<b>Closing cash balance</b>	

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Source: Hatten, Small Business Management, 4th Edition

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The Financial Plan (cont'd)

- Balance Sheet
  - Shows assets, liabilities, and owner's equity
  - Shows net worth or "capital" of the business—the difference between its assets and liabilities
  - Is used to calculate key financial ratios to determine the financial health of the business:
    - Debt to equity
    - Current ratio

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Source: Hatten, Small Business Management, 4th Edition

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Figure 4.4: Balance Sheet

	For year ended (month) (day), (year)		
	Year 1	Year 2	Year 3
<b>Current Assets</b>			
Cash	\$ _____	\$ _____	\$ _____
Accounts Receivable	_____	_____	_____
Inventory	_____	_____	_____
Supplies	_____	_____	_____
Prepaid Expenses	_____	_____	_____
<b>Fixed Assets</b>			
Real Estate	_____	_____	_____
Equipment	_____	_____	_____
Fixtures and Leasehold Improvements	_____	_____	_____
Vehicles	_____	_____	_____
<b>Other Assets</b>			
License	_____	_____	_____
Goodwill	_____	_____	_____
<b>TOTAL ASSETS</b>	\$ _____	\$ _____	\$ _____
<b>Current Liabilities</b>			
Accounts Payable	_____	_____	_____
Notes Payable (due within 1 year)	_____	_____	_____
Accrued Expenses	_____	_____	_____
Taxes Owed	_____	_____	_____
<b>Long-Term Liabilities</b>			
Notes Payable (due after 1 year)	_____	_____	_____
Bank Loans	_____	_____	_____
<b>TOTAL LIABILITIES</b>	\$ _____	\$ _____	\$ _____
<b>NET WORTH (assets minus liabilities)</b>	\$ _____	\$ _____	\$ _____

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Source: Hatten, Small Business Management, 4th Edition

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## The Financial Plan (cont'd)

- Profit and Loss Statement
  - Shows sales revenues, expenses; net profit or loss
  - Shows an approximation of sales revenues and expenses
  - Is useful when breaking sales down by product line (or services) to determine:
    - A best-case scenario
    - A worst-case scenario
    - A most likely scenario

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Source: Hatten, *Small Business Management*, 4th Edition

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Figure 4.5: Profit-and-Loss Statement

	Low	Most Likely	High
<b>SALES:</b>			
Product/service line 1	\$ _____	\$ _____	\$ _____
Product/service line 2	_____	_____	_____
Product/service line 3	_____	_____	_____
Product/service line 4	_____	_____	_____
<b>TOTAL SALES REVENUE</b>	_____	_____	_____
<b>COST OF GOODS SOLD:</b>			
Product/service line 1	_____	_____	_____
Product/service line 2	_____	_____	_____
Product/service line 3	_____	_____	_____
Product/service line 4	_____	_____	_____
<b>TOTAL COST OF GOODS SOLD</b>	\$ _____	\$ _____	\$ _____
<b>GROSS PROFIT</b>	\$ _____	\$ _____	\$ _____
<b>EXPENSES:</b>			
<b>Variable:</b>			
Variable	\$ _____	\$ _____	\$ _____
Sales commission	_____	_____	_____
Freight and delivery	_____	_____	_____
Travel and entertainment	_____	_____	_____
<b>Fixed:</b>			
Advertising/promotion	_____	_____	_____
Office/rent	_____	_____	_____
Supplies	_____	_____	_____
Utilities	_____	_____	_____
Insurance	_____	_____	_____
Property taxes	_____	_____	_____
Debt and subscriptions	_____	_____	_____
<b>TOTAL EXPENSES</b>	_____	_____	_____
Profit before depreciation	_____	_____	_____
Depreciation	_____	_____	_____
<b>NET PROFIT</b>	\$ _____	\$ _____	\$ _____

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Source: Hatten, *Small Business Management*, 4th Edition

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## The Financial Plan (cont'd)

- Breakeven Analysis
  - Shows the point at which sales and costs are equal—when a firm is neither making nor losing money.
  - Reinforces financial projections by comparing them to industry averages for a chosen industry.
  - Is used to compare a firm's projected financial ratios to industry averages to establish benchmarks.

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Source: Hatten, *Small Business Management*, 4th Edition

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Figure 4.6: Breakeven Analysis

1. Total sales	\$	_____
2. Fixed costs	\$	_____
3. Gross margin	\$	_____
4. Gross margin as percentage of sales (line 3/line 1)		_____ %
5. Breakeven sales (line 2/line 4)	\$	_____
6. Profit goal	\$	_____
7. Sales required to achieve profit goal [(line 2 + line 6)/line 4]	\$	_____

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Source: Hatten, *Small Business Management*,  
4th Edition

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### Business Plan Contents (cont'd)

- Appendix
  - Supplemental information and documents not critical to the plan, but of potential interest to the reader.
  - Résumés of owners and principal managers, advertising samples, brochures, organization charts, floor plans, and any related information can be included.
  - Different types of information should be given a separate appendix labeled with successive letters of the alphabet.

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Source: Hatten, *Small Business Management*,  
4th Edition

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### The Review Process

- After the Business Plan Is Written...
  - The plan should be carefully reviewed and revised before being presented to a potential investor
  - Evaluate the plan as you think lenders and investor might do so.

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Source: Hatten, *Small Business Management*,  
4th Edition

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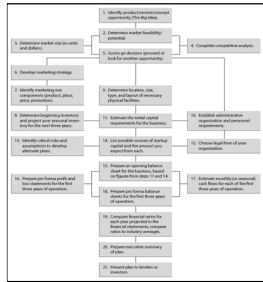
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Figure 4.7: Business Plan



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Source: Hatten, Small Business Management, 4th Edition

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## Business Plan Mistakes

- Submitting a “rough copy”
- Depending on outdated financial information or industry comparisons
- Trying to impress financiers with technojargon
- Lack of marketing strategies
- Making unsubstantiated assumptions
- Being overly optimistic
- Misunderstanding financial information
- Ignoring the macroenvironment
- Avoiding or disguising potential negative aspects
- Having no personal equity in the company

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Source: Hatten, Small Business Management, 4th Edition

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