

## **Business Plans**

### **The 3 Year Plan**

Why would I put a business plan so deep inside this book when most recommendations are to do a business plan before you even start. Over the years I would estimate that most business owner came into my office already having set up an LLC but never putting together a written formal business plan. They may have made a guess at breakeven but not much more. If you are going to seek a bank loan or other formal financing, you will need to prepare a formal business plan as part of the loan application process otherwise there is no requirement to do so.

I am not going to go into all the details of a formal business plans but address what you should have from a business budget approach. As I already stated, the business that sets targets, makes targets. You need to start with your breakeven figure and begin to set your financial goals. Our breakeven goal by the third quarter was \$37,500. Let's assume first year sales \$12,500 in quarter 1, \$25,000 in quarter 2, our breakeven \$37,500 in quarter 3, and \$50,000 in quarter 4. This totals \$125,000 in sales for year one. Continuing our previous example our variable shoe cost would be \$62,500, fixed expenses are \$15,000, and our owner salary and taxes is \$60,000. Our expenses for the

first year are \$137,500. We have a first year loss of \$12,500. We need to invest at least \$12,500 or explain how we will finance this short fall.

In year two we project quarterly sales to increase over each prior quarter by \$5,000. We will add a new \$30,000 employee commencing at the start of quarter three. We expect fixed expenses and owner salary and taxes to remain the same. Year two sales will be \$250,000. Year two variable expenses will be \$125,000. Employee salary will be \$15,000, fixed expenses \$15,000, and owner salary and taxes \$60,000. Total expenses in year two are \$215,000. Year two shows a profit of \$35,000.

In year three we expect quarterly sales to continue at the same \$5,000 per quarter increase, no additional employee needs, and no change in fixed expenses or owner salary and taxes. Sales in year three will total \$330,000. Variable expenses will be \$165,000, employee cost \$30,000, fixed expenses, \$15,000, and owner salary and taxes \$60,000. Expenses in year three will total \$270,000. Year three shows a profit of \$60,000.

If you at least set sales goals you have a budget, you have a target, you have something to strive for. If you stopped at the target sales point you would probably be ahead of 75% of the new business owners who never took the time to set any target budgets. If you took it to the above level, you would probably put yourself in the top 10% of businesses.

There are many additional factors to a full business plan.

What will you contribute to the business when you start.?

What is the value of those assets or liabilities?

What business assets will you have to buy?

Will you pay cash for these or take out installment loans?

Will you need to buy up front inventory?

What will first year monthly sales be?

What is the total monthly cash loss before positive cash flow?

How will negative cash be covered?

Will you carry accounts receivable from customers?

Will you carry accounts payable from vendors?

The list can get very long. In addition, for every income and expense period, you also need to prepare a balance sheet and cash flow statement.

The next question is whether the target levels are realistic. If you say no, rethink what you are doing. If yes, adopt the budget and commit to the effort needed to reach the budget levels.

## **Budget Versus Actual**

Each month you should compare your actual results to the target budget. You should review the reason for both positive and negative variances. Continue this same procedure for the next two months. At the end of the first quarter compare actual versus budget quarterly results and make some decisions. Revise the budget as needed. Roll the budget process forward. Take the next quarter and break it into months, revise the following three quarters, and revise the projected following two years. Run this same process every quarter and your budgeting process will become more and more efficient.

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