

**STEPS TO SUCCESS FOR RURAL ENTREPRENEURS:
WRITING YOUR SMALL BUSINESS PLAN**

PREPARED FOR
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University of Alaska Center for Economic Development
3211 Providence Drive
Anchorage, AK 99508
907-786-5444
<http://ced.uaa.alaska.edu/>

Other titles in the *Steps To Success For Rural Entrepreneur* series

- Starting a Bed and Breakfast
- Starting an Ecotourism Business in Alaska
- Starting a Fish Processing Plant
- Starting a Rural Alaska Lodge
- Starting a Small Engine Repair Shop
- Starting a Small Rental Business
- Starting a Small Restaurant

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TABLE OF CONTENTS

INTRODUCTION	1
Welcome to this handbook.....	1
Entrepreneurial spirit.....	1
Success factors.....	2
Starting a business in rural Alaska	2
PERSONAL GOALS AND SKILLS	5
Why do you want to go into business?.....	5
Is starting your own business right for you?.....	5
What skills do you have and what will you need help with?.....	6
THE BUSINESS PLAN	8
Why should you write a business plan?.....	8
Why do you need this handbook?	9
Is your idea feasible?	9
Business plan outline	12
STEP 1 – EXECUTIVE SUMMARY	14
Preparing to write a strong executive summary	14
Writing the executive summary.....	16
STEP 2 – BUSINESS DESCRIPTION	17
Gathering information for the business description section.....	17
Writing the business description	18
STEP 3 – INDUSTRY OVERVIEW	21
Gathering information for the industry overview section.....	21
Writing the industry overview	22
STEP 4 – MARKET ANALYSIS	24
Gathering information for the market analysis section.....	24
Writing the market analysis.....	26
STEP 5 – COMPETITIVE ANALYSIS	28
Gathering information for the competitive analysis section.....	28
Writing the competitive analysis	30
SWOT analysis.....	32
STEP 6 – MARKETING STRATEGY	34
Gathering information for the marketing strategy section	34
Writing the marketing strategy.....	36

STEP 7 – OWNERSHIP, STAFFING, AND MANAGEMENT PLAN	38
Gathering information for the ownership, staffing, and management plan section	38
Writing the ownership, staffing, and management plan.....	40
STEP 8 – FINANCIAL PLAN	42
Gathering information on your business startup	42
Gathering information on your business operations.....	43
Writing the financial plan.....	48
Financial management of your business	49
STEP 9 – IMPLEMENTATION SUMMARY	51
STEP 10 – CONCLUDING COMMENTS	53
APPENDICES	
Estimated start-up costs worksheet	57
Estimated revenue worksheet	58
Estimated fixed costs worksheet	59
Estimated variable costs worksheet	60
Profit and loss statement.....	61
Balance sheet.....	62
Cash flow statement.....	63
GLOSSARY	64
ADDITIONAL SOURCES OF INFORMATION	
Free publications for Alaska small business owners.....	66
Other publications	66
Alaska Regional Development Organizations (ARDORs)	67
Other small business resources	68

INTRODUCTION

Welcome to this handbook

Economic development is all about people. People are the reason we seek economic growth. People introduce the ideas and innovations that drive our economies. For many years, entrepreneurship has been the driving force behind the U.S. economy. Where entrepreneurship is strong, you find self-sufficient people living in healthy communities.

In Alaska, the rural economy has been based mostly on large-scale resource production and government spending. Often, a big share of this money is spent outside the community and even the state. Entrepreneurship has an important role to play in the future of the rural Alaska economy, and your business can be a part of that.

Whether your goal in starting your own business is to stay and make a living in your own community or pursue an innovative idea with the potential for global commercialization, this handbook will take you through the process of developing your business idea into a business plan.

Entrepreneurial spirit

The indigenous ingenuity of the first Alaskans enabled them to survive and build communities in remote places with a harsh climate. They did this by mastering a variety of sciences to create practical objects – tools, containers, weapons, watercraft, and clothing – uniquely suited to their environment.

Alaska's communities continue to face challenges, but the challenges presented by today's changing world also bring new opportunities. Technology developments have introduced a new set of powerful business tools and greater access to global markets. The rising cost of fuel has caused hardship throughout rural areas, creating increased interest in alternative energy. Climate change is forcing Alaskans to adjust to a different reality, which creates opportunities for innovative and adaptive thinkers. The future is full of possibilities for Alaskan entrepreneurs like you.

People with entrepreneurial spirit are resilient, creative, and team-oriented. Rural Alaskans have already demonstrated entrepreneurial spirit with their tradition of creativity and adaptation. Alaska's people have unlimited capacity to invent a self-sufficient and healthy future for their communities.



Success factors

Success in business results from a combination of factors. If you want to increase your chance of success, focus on the following:

- **Identify a real business opportunity.** A good idea is not enough. You should have evidence that people want and will pay for what you are selling. Take time to investigate what your prospective customer is willing to buy and how much they will pay.
- **Stay focused.** If you concentrate your efforts on the real business opportunity, you will do better than a business that tries to do everything for everybody.
- **Build the right team.** Successful businesses are a team effort. Rarely can one person do it all. On your team you need someone with the right technical skills, someone with a flair for marketing, and someone who can competently manage the financial affairs of the business. An investor will always choose an average idea with a first-class team over a first-class idea with an average team.
- **Provide excellent customer service.** If you show your customers you care about them and put their needs first, they will keep coming back and also tell their friends about you.
- **Develop a solid business plan.** Learn from your experiences and plan some more. If you do so, you should be able to answer the three key questions¹:



1. *Are your goals well defined?* Do you know why you are going into business, how large you want it to be, and what your tolerance for risk is?
2. *Do you have the right strategy?* What will the profitability and growth potential of your business be? What is the likely rate of growth? Are you paying attention to the balance sheet rather than the profits?
3. *Can you carry out the strategy?* Do you have the human and financial resources you need? What will your role be? What professional or hired help will you require for success?

Starting a business in rural Alaska

While the above factors are important to business success in general, there are other factors specific to Alaska you should consider. A 2007 survey of small businesses in rural Alaska² found that businesses in small communities here face the same challenges as most businesses but under unique circumstances.

¹ The Questions Every Entrepreneur Must Answer, Amar Bhide, Harvard Business Review, November-December 1996

² Viable Business Enterprises for Rural Alaska (ViBEs), <http://ced.uaa.aslaka.edu/vibes/index.htm>.

Common challenges in starting a new business

- Finding training on business management
- Identifying a market and researching market demand
- Establishing in an appropriate location
- Setting up and obtaining licensing, permits and insurance
- Finding suppliers
- Obtaining and maintaining inventory
- Hiring employees
- Marketing the business, including product development and advertising
- Managing finances, especially with no prior experience
- Obtaining start-up capital

Common challenges in running a new business

- Obtaining the necessary licenses and permits
- Providing customer service
- Building a relationship with the community
- Hiring and supervising employees
- Competition from other businesses
- Obtaining or updating the needed technology
- Managing cash flow
- Growing the business

Unique circumstances that present challenges

- Small markets (usually family and friends)
- Remote location
- High costs
- Harsh climate

Advantages

Most of us have heard that business success is all about “location, location, location.” The 2007 study mentioned on page 2 also identified location as an important factor. In Alaska, your chances of success increase if your location:

- Is close to national parks
- Includes strong local commercial fisheries
- Has relatively low travel costs to Anchorage

Remember these are only advantages. If none of the above applies to your business, this does not mean you cannot be successful. You will ultimately need to identify the unique advantages that you can provide that apply to your business idea.



Lessons from case studies of rural businesses

The following is a summary of lessons learned by the 23 rural businesses profiled in the ViBEs report:

- **Investigate.** Take a hard look at whether there will be enough demand for what you plan to offer. Identify either a needed service or an opportunity in a growing industry.
- **Plan, plan, plan.** Draw up a detailed business plan that accounts for all aspects of the business, including expenses, estimated cash flow, management and training of employees, and marketing strategies.
- **Seek out professionals.** Get expert help whenever possible. Have experience in managing a business or get training.
- **Use your financials.** Be careful about how much debt you take on, and determine whether you can still make debt payments if your business slows down. Find out about grant programs.
- **Recognize your limitations.** Don't expand too fast.
- **Make the most of your resources,** and involve family members in the business.
- **Get community support,** hire local people whenever possible, and develop good relationships with other local businesses.
- **Be prepared** to deal with transportation, weather, communication, and other kinds of difficulties.
- **Work hard, love what you do, and always provide good customer service.**

PERSONAL GOALS AND SKILLS

Why do you want to go into business?

Before starting to write a business plan, you should know what your goals are, what skills you bring to the business, and what resources are readily available.

It's important to understand your reason for starting your own business, because this affects the decisions you will make. Most people go into business for one of the following reasons:

- To make money
- To live a certain lifestyle
- To help the community

What is your primary motivation for starting your business?



Is starting your own business right for you?

Starting a business is not for everyone. You should give some thought to whether or not this is the right path for you.

- **Are you passionate about your idea?** Do you really care about the product or service you want to sell? Do you have the drive and ambition to make it a reality?
- **Are you willing to take calculated risks?** And can you look at your mistakes as learning experiences – not failure, but feedback?
- **Are you able to work hard for long hours?** Starting and running your own business is not a 40-hour-a-week job with regular hours. You'll spend much of your time out in your community selling your product or service and then going home to take care of all that paperwork. While you are establishing your business, you may not get any time off or draw a regular salary.
- **Are you self-confident?** Do you have prior experience? Confidence and experience will help you weather the difficult times and overcome mistakes you will make. Experience – both good and bad – is what makes you a better business person.
- **Do you have self-discipline?** Can you make decisions and act on them quickly? Can you stay on top of the critical details?
- **Is stability important to you?** If you need a steady paycheck, insurance, etc., you might be better off working in somebody else's business.

Consider whether the following statements apply to you and circle Yes or No:

I'm a self-starter.	Y	N
I can make good decisions quickly.	Y	N
I have experience in my field of business.	Y	N
I enjoy my chosen business.	Y	N
I'm willing to sacrifice a steady income to run my own business.	Y	N
I'm ready for a year-round commitment to my new business.	Y	N
I can get along with different personalities.	Y	N
I'm prepared to work 12 hours a day, 6 or 7 days a week.	Y	N
I enjoy taking charge.	Y	N
I can find people with the skills I don't have.	Y	N
I'm strongly motivated to run my own business.	Y	N
I'm patient.	Y	N
I'm confident in my ability to succeed.	Y	N
I have good organizational skills.	Y	N
I'm independent, creative, innovative, and competitive.	Y	N

If most or all of your responses were "Yes," you probably have what it takes to run your own business. Even then, there is no guarantee your business will succeed. However, the more you plan and the harder you work, the greater your chance of success.



What skills do you have and what will you need help with?

One of the key success factors is having the right business team. Good management skills are critical. Consider whether you know how to do the following tasks, need some training, or need somebody else to do them for you:

- *General* – Manage your time; hire, supervise, and train employees; delegate tasks; build and motivate a team; and make appropriate changes to keep the business successful.
- *Operational* – Buy and manage inventory; schedule production work; negotiate agreements or contracts; and comply with regulations governing employees and other aspects of the business.
- *Market* – Price, promote and advertise your product or service to ensure sufficient sales; and address customer service needs.

- *Financial* – Set up and keep records; develop operating budgets; compile financial statements; project and monitor cash flow; prepare a loan proposal; analyze financial performance; and comply with payroll and tax requirements.

Going through this exercise will not only prepare you to write sections of your business plan, but will also assist you in determining in which areas you want to seek employee or professional support.

THE BUSINESS PLAN

A business plan describes your business goals and how you plan to reach them. It is the roadmap to the successful operation of your business, laying out – step by step – the details of how you will start and run your business. It shows where you should be and when, so you can see if you are meeting your sales and financial targets.

The business plan also communicates to interested parties outside the business that your business is well-planned and feasible. A business plan is a working document that changes as your business changes.

Why should you write a business plan?

A strong business plan is essential to the launch of a successful business. It serves four main purposes:

1. **Idea Development:** It disciplines you to write your thoughts down in a clear and organized manner, so you can see what you still need to do to get your business started. It also helps you determine the feasibility of your idea and estimate your revenue and expenses.
2. **Strategic Planning Tool:** It maps out your short-term and long-term goals and marketing strategy, and describes how you will leverage your strengths and reduce your risks. The business plan identifies targets that help you monitor and measure the success of your business.
3. **Internal/External Communication:** It tells you and others how the business is run. Internal readers might be business partners and employees. External readers might include suppliers, consultants, accounting and legal services, or other sources of outside assistance. If they understand your business, they can help you more effectively.
4. **Sales Document:** It is an invaluable tool for securing money from investors. It sells your business idea to bankers, state agencies, and private backers. A clear, concise, and compelling business plan will convince people to invest in you.

If you are looking for private investors to put money into the business, write your business plan as a sales document – focus on the financials and mention any contracts you have with larger businesses that investors would know and respect. If you have just hired new managers for your company and want them to know what is happening in the business, write the business plan in the form of an internal communication tool – focus more on day-to-day operational details.

Why do you need this handbook?

The purpose of this handbook is to help you write a business plan to sell any product or service. It is intended as a practical guide for the entrepreneur who has already been researching an idea and finding out what needs to be done to turn it into a business, rather than someone who has only been thinking about going into business. While this handbook focuses on starting up a business, it should also be useful to those writing a first-time business plan for an existing business.

To help you use this guide and write your business plan, the following resources are included:

- Glossary (page 64) – Explanation of common business terms;
- Additional Resources (page 66) – Free publications for Alaska small business owners and other small business resources.

Is your idea feasible?

There are plenty of possible ideas out there. Before you start your business plan, you should know whether or not your idea is a real opportunity. A feasibility analysis helps you make this determination before you invest time, energy, and money in the business planning process.

A simple feasibility analysis consists of an industry and market assessment and financial projections. This analysis can consist of educated guesses based on your own research or, if you have the resources, you can hire a professional to do the analysis for you.

Industry and Market Assessment

For your business to succeed, you must have enough customers buying your product or service to make your business profitable. An industry and market assessment describes your business environment, including location, industry, customers, and competition. It compares your product or service to what is already there and explains what differentiates you from your competitors and why the customer will buy your product or service.



Some questions you should consider and be prepared to answer are:

- What are the local, regional and national trends and changes occurring in this industry or line of business?
- Are there raw materials (such as fish) or supplies (such as hides) on which your business will depend to be successful, that may not always be in ready supply?

- Where will your business be located and, based on this location, how many potential customers are there?
- Who will buy your product or service? What are they like? What are they willing to pay for this product or service?
- How many businesses already provide this product or service?
- How does each compete? Do any have expertise or relationships that give them an advantage? What do they charge?
- How successful are they? Are they growing, declining, closing, leaving the area?
- What is required to succeed in this business?
- What is special about what you are proposing? Efficiency? Quality? Pricing?

Look at how competing businesses run and compare your intended approach to theirs. If there are few or no businesses providing the service you want to offer and you have many potential customers, you stand a greater chance of success.

Financial Projections

This part of the feasibility analysis involves projecting the sales and revenue you think your business will generate. Estimate what your sales will be in a best-case, mid-point, conservative, and worst-case scenario. Remember, in order for your business to survive, you must collect more money from customers than it costs to deliver your product or service. You only hurt yourself if your projections aren't based in reality, so don't exaggerate when you estimate sales and savings.



There are several steps to take in developing your financial projections:

1. **Start-up costs:** These are the one-time expenditures necessary to operate your business. Examples include equipment (commercial oven, computer, etc.), furnishings, space improvements, and legal and incorporation fees. Typically, these costs are covered through an initial "owner" investment in the business.
2. **Fixed costs and overhead:** These are the expenses your business will incur day in and day out, regardless of the number of customers you see. Fixed costs typically include rent, utilities, property and liability insurance, and employee salaries. Fixed costs also include the depreciation of start-up assets – eventually you will need to replace start-up items.
3. **Variable costs:** These are costs that increase as you produce more goods or provide more services. Variable costs also include inventory, if you run a general store selling pre-packaged products, for example. If you are in the business of repairing homes, the more clients you drive to see, the greater your fuel expenditure will be, making fuel one of your variable costs.

4. Price: The price for your product or service should be determined by a combination of factors including the costs of providing your product or service (raw materials, labor, overhead, and desired profit) and the price your potential customers are willing to pay or have been paying your competitors.
5. Sales: Do research and make an estimate of how much of your product or your service you will sell. Carefully study any existing competitors to try to determine their sales. Talk to any of their customers you can. You may want to find a similar business that won't be a direct competitor and discuss your business idea and community characteristics. This will help you understand whether or not your community can support two similar businesses.
6. Cash flow and break-even determination: This step is critical – you must understand the business well enough so you not only know if revenues will be more than expenses but so you also understand the flow of revenues. This shows you what expenses you will need to cover until your revenues can be collected. Many business owners obtain loans to cover their cash flow needs as they establish their business.

Once you have assessed your market and projected your revenue, you are well on the way to learning if your business is feasible. Once you calculate your anticipated costs, you should know if your idea is feasible. Even if you know sales will be good, you may not have a viable business if the cost of making the product or operating the service is greater than your sales revenue. Ultimately, you may need the assistance of a professional to make a feasibility determination and to offer unbiased opinions.

When you know your business might be feasible, you can move on to writing the business plan. Be sure to devote the necessary time and energy to this important process. A well-thought-out business plan increases your chance of success significantly. Start by writing a rough draft, and keep working on it until it meets your current needs.

Business Plan Outline

The following outline lists the key sections of a typical business plan. If you are seeking money to start up your business, ask potential funders if they have a preferred outline and use that.

This handbook will walk you through the plan with questions, a list of points to address, and examples. Answering the questions asked in each section will help you compile solid information for your business plan. If you find it difficult to answer a question, this usually means you have not thought out this aspect of your business thoroughly enough. If this is the case – stop, so you can research and answer the question fully before continuing.

The bullet list includes the points that you should address in that section. Not every section may apply to your business. For example, if you are the only employee and already have the necessary skills, you will not need an employee training plan. You should still review each section closely, as it may raise important questions to consider. Make sure the information flows logically and can be easily understood by any reader.

1. Executive Summary

2. Business Description

- Type of Business – Merchandising, manufacturing, service
- Status – Start-up, expansion, takeover
- Product/Service Description
- Key Production Factors – Raw materials, labor, technical or equipment requirements
- Location and Facilities – Regional, local, and site-specific facilities

3. Industry Analysis

- Industry Structure
- Major Players – At the local, regional, state, and national levels
- Industry Trends and Anticipated Changes

4. Market Analysis

- Market Description – Key market factors: price, quality, on-time delivery
- Market Trends – Overall economic activity for product or service
- Marketing Strategy – Specific activities to be undertaken
- Market Projections – Provide estimate or projection of revenues

5. Competitive Analysis

- Competitive Edge – Setting your business apart
- Competitor Profiles – Size, location, management, years in business
- Product/Service Comparison
- Strengths, Weaknesses, Opportunities and Threats

6. Ownership, Management and Staffing

- Business form – Sole proprietorship, partnership, corporation
- Management Plan – Key personnel and availability of needed skills
- Training Plan – How employees will be trained, if necessary

7. Financial Analysis

- Key Assumptions – Production costs, product pricing, and sales volume
- Project budget – Pre-operational, construction, start-up, final operational revenue, cost analysis, break-even estimate, profit and loss statement, balance sheet
- Supporting Statements – Owner/manager resumes, articles of incorporation, legal contracts and lease agreements, letters of reference)
- Sources of Funds – Equity, savings, grants, in-kind.

8. Implementation Plan

Although there is a suggested length for each section, each can be longer or shorter. This depends on the length of the whole business plan and what makes sense for your business. Be sure to provide all the relevant information.

Step 1 – Executive Summary

The executive summary presents the key facts of your business and should be no longer than two to three pages. When you are seeking money or other support for your business, the executive summary is critical. A funder will read this part first. If you don't engage your reader's interest in the first paragraph, he or she is unlikely to read the whole plan. Make it clear, concise, and compelling.

Even though it comes first in the business plan document, this section is usually written last, as it is a summary of the whole business plan. **Work on the other sections first and then return to this section to write your executive summary.**



Preparing to write a strong executive summary:

What type of business are you developing?

- Manufacturing/processing
- Merchandising
- Distribution
- Services
- Other: _____

What is the current status of your business?

- Planning stage
- Development
- Operational
- Planned takeover
- Expansion

What products and/or services will your business offer?

Why will customers buy these products/services?

Where is your business located? What are the advantages of this location?

Who is your target market? How will you enter the market?

Who will manage the business? What is his or her background and strengths and weaknesses?

How much money is needed for start-up/expansion, and where will it come from?

What is your overall business vision – your definition of success?

What are your short-term goals?



Writing the executive summary

Incorporate the information from your answers to the above questions and make each point in a logical order to make a compelling case for your business. The following is an example of how you might organize your responses in a concise summary:

- *Broad overview:* The opening statement should address the basics of location, business form, and stage of your operation. It should also catch the reader's interest to encourage further reading.
- *Product/service:* Briefly explain what you are selling and why you believe there is a market for it. Use this section to sell your product or service and convince the reader of the probability for success.
- *Market:* Describe which market segment you will capture and the size of your initial and long-term market share. Discuss your product rollout plan, marketing strategy, and advantages over the competition.
- *Management:* Describe how your business will be managed and by whom. Describe the skills and experience possessed by you or your manager and how these skills will contribute to the success of the business.
- *Funding:* Describe funds and resources invested to date and what funds you are looking for.
- *Time frame:* Summarize the current state of your business and the time frame for start-up or expansion.
- *Goals and objectives:* Provide a concise list of specific and tangible goals by which you can measure successes later. Provide a brief overview of the desired scope of your business. Describe how you plan to achieve success.
- *Keys to Success:* Why will your business succeed in attracting customers? Make short, direct statements about how your business will operate for success. Make a bulleted list of the key points of your business strategy, such as:
 - Low pricing and convenient location
 - Aggressive advertising for value-added products
 - Customer service for a loyal customer base.

Step 2 – Business Description

This section tells readers who you are, what you offer, which market needs you address, and why your business is viable. It is usually three to five pages long.



Gathering information for the business description section

What is the current status of the business?

- Planning stages
- Development
- Operational
- Planned takeover
- Expansion

Why do you want to start this business or why did you start this business? When and where will you start or did you start this business? (Date and location of start)

Where is your business located? What are its physical attributes? (Size, building description, etc.)

What are the benefits and challenges of this location? (Locally, regionally, nationally)

Who are the key people involved and what experience do they bring to the business?

What products and/or services will you sell?

Why will you succeed at selling these products/services?

What are your key production factors? (What do you need to produce your goods or services, such as raw materials, labor, space, etc.?)

What is the relationship to the local and/or regional economy? (Will you be supporting existing businesses or starting something that may be controversial? How will the business affect major economic, social, technological or regulatory trends?)



Writing the business description

Remember you are telling the story of your business to the reader. Keep the information in this section simple; you will go into more detail in later sections. Incorporate your answers to the above questions into the following information:

- *Introductory paragraph:* This is where you share your vision for the business: what you want to do and how you will do it. In the first paragraph, provide an overview of the business without going into too much detail. Describe your business location, the products or services you provide, and your target customers.

- *Business type and status:* Tell the reader what type of business you are operating or planning to operate. A simple description of the business type and structure will do. Say whether this plan is for a new business, a business you are already running, or an existing business you wish to buy.
- *Future plans for the business:* What are your goals for the next two to five years? How are you going to accomplish them? What will you need to achieve this?
- *Business ownership:* Explain who owns your business, identifying all parties. The simplest and most common form for a small business is sole proprietorship, but all forms should be considered. Final decisions often require input from a lawyer and/or accountant before moving forward.
- *Business location:* Evaluating your proposed business location tells the reader if this is the best site and if your community can support your business. You need to think about this on three levels:
 1. Regional overview: What is the region's economy based on? How is it doing? What competition is there on a regional level? How does your business fit into this picture?
 2. Local overview: What businesses already exist in the community? What is the community's economy based on? Have other recent businesses been successful here? Does your business complement what already exists in the community?
 3. Site specific location overview: Where will your business be located? Are there facilities at this location already? Do you need to add anything to this location to run your business? Is this a good site for your kind of business? Where is your business located in relation to other key places in the community? Have other businesses at this site failed? If so, why?
- *Products and services:* This is where you talk about what your new business will offer. Provide a detailed description of your products and services. Make sure you describe them step-by-step. Start with your first contact with a customer and finish with your follow-up with the customer after the sale or service. Spend time on this section, so you are clear on each step of the business process. This reduces the risk of unforeseen costs or problems. If you don't yet understand the process well enough to write this section, do more research and planning and then come back to complete the business plan. Consider illustrating this section with a flow chart.

- *Key Production Factors:* These are the elements essential to your business. This section addresses what they are, where they come from, and how you will get them. Describe the research you have done and your understanding of the product from development to market.

If your business is going to make a product, explain where you will get the materials, what tools you will use in the production process, and where you will sell the product.

Alaska Tribal Cache in Seldovia produces jams and jellies manufactured from locally picked berries. To establish their business, they needed a commercial kitchen and freezers as well as jars and labels for their products, which they sell to summer visitors and through their website.

Chevak Bird & Culture Tours guides guests from a camp in the Yukon-Kuskokwim Delta, or “Yup’ik Country.” Key production factors were tents, cots, sleeping mats, chairs, food, and a stove, as well as fuel for the motorized boat transporting visitors to the campsite.

If your business is going to provide a service, describe what the service is, what products you require to provide the service, how you will attract customers, and if you will follow up with customers after they leave.

Wild Iris Bed & Breakfast in Ruby provides accommodation and healthy meals to visitors and construction workers. Key production factors in this type of business are bed linen, soaps, and cleaning products. To feed her hungry guests, the owner plans meals around their dietary needs and buys food from large stores in Fairbanks.

In addition to what you need to make your products or provide your services, think about your workplace. Is your facility in a location with access to public water, electricity, and sewage? Will your business put a strain on the public generator? Will you need key employees, and are any local people interested and trained in this type of employment? These can all be key production factors, depending on your type of business and its location.

- *Facilities Description:* If the facility is integral to the business – such as a hotel or fish processing plant – provide a complete description, photos, and, as appropriate, engineering studies and architectural drawings.

Step 3 – Industry Overview

This section talks about the industry you will be working in and any external factors that affect your business. It describes how you fit into your industry and explains your unique selling proposition. Depending on the industry and the amount of analysis needed, it can be as brief as one to two pages or as long as five to 10 pages.



Gathering information for the industry overview section

What industry are you in? (E.g. tourism, fisheries, services)

What is the current state of your industry? (Provide a summary of relevant data.)

Who are the major industry players? (competitors, suppliers, customers)

How will current trends affect your business? (E.g. the economy, technology, environmental regulations, consumer habits or patterns.)

If needed, can you compete on an industry-wide level? How?

Why will customers choose your business over leading industry competitors?

Describe the state of the industry. (Growing, stable, declining)

What are current and projected industry trends?

How likely is it that new competitors will enter your industry?



Writing the industry overview

Assume your readers are unfamiliar with the industry. Your job is to provide a narrative that will introduce them to key industry factors and address questions that are commonly asked about the industry.

- *Introduction:* In three-to-five sentences, provide a general summary of your business industry. Cover the industry's profile (size, geographical dispersion, history), significant events in the last few years, and the industry's national growth and/or national trends. Even if national trends do not affect rural Alaska directly, they may affect your partners or suppliers. If you show a good understanding of your industry, investors will feel more comfortable lending your business money.
- *Industry structure:* Describe the industry players. Are there several thousand small companies nationwide with little competition between them or a few large-scale corporate players? What does the industry look like in Alaska and in your local community?

- *Major players:* Mention any major national or regional players. This includes not only major competitors but also large suppliers and other companies that provide support services. Make it clear to readers that you have examined the industry and understand how the major players could potentially help or hurt your business.
- *Industry trends:* How is the industry currently changing? Do some research and summarize the industry-wide view of its future. Trends might include large national growth, large companies buying out smaller ones, or businesses becoming more specialized.
- *Impact from industry changes:* How will expected industry changes affect your business in the next three to five years? Mention how your business might be helped or hurt by these changes and how you would adjust.

Step 4 – Market Analysis

This section is about defining and providing a detailed description of your target market – the people who will buy your product or service. Start by defining your customers – their age, their gender, where they live, their income, their work, what they do, what they like, and how many they are. Then make it clear you understand your market and any trends influencing the market or industry. A market analysis is typically three to five pages in length.



Gathering information for the market analysis section

Who is your target market?

- Individuals
- Companies – what size? _____
- Government agencies or nongovernmental organizations
- Other: _____

Is your target market:

- Based in your community?
- Based in your region?
- Based inside the state of Alaska?
- Based on tourism or some other industry segment?
- Other: _____

What is the estimated size of your market? (Review statistical data and interview suppliers, your potential customers, and your competition’s customers.)

Describe your target customer? (Profession, age, gender, income, location, product interest)

Why is this your target market?

Why would your target customer choose your product or service?

What are current market trends? Is the size of your market projected to grow?

Is the market seasonal? Does this fit with your business growth goals?

What trends, government regulations, new technology, etc. will influence sales?

How will you distribute your product or service?

Have you already spoken to potential customers? What did you learn?



Writing the market analysis

You will want to make your reader feel comfortable with your level of knowledge about the market you are in and how you envision your business achieving success. Be sure to cite sources of information, facts you have gathered, and the process you have gone through to learn and obtain experience.

This is a suggested sequence of topics to cover:

- *Market description and characteristics:* This section describes your market in detail. Research and quote relevant facts, figures and trends reported about the market you are targeting by reputable sources. Describe the characteristics of your potential customers and how they have needs that you will address with your particular product or service. After describing your market, separate your customers into different segments – groups of people with similar needs. Segmentation is important because it lets you focus your marketing efforts. You can segment by age, location, special interests, and other variables. Whichever way you do this, it should be a logical method of dividing up your customer base.
- *Target market:* Now that you have a better understanding of your market and its segmentation, describe your target market, including its size. Give a complete description of your target customer and say why you have chosen them over other market segments. Tell the reader why your target customer is not only ready to buy but why they are likely to buy from you.

The example below gives an example of how a business markets itself to appeal to a target market.

Coupchiak Aviation in Togiak flies customers “on demand” between Dillingham and Bethel and nearby villages. No reservations are required, which differentiates the business from the local commercial air service and fills an open market niche.

- *Market trends:* Describe the market's growth potential. Discuss any changes or trends in other businesses targeting the same market segment as you. Say whether you believe demand in your segment is going to rise or fall. Mention any business similar to yours that has recently opened or failed in your area or market segment.

The example below shows how a business has taken advantage of evolving fashions.

Alaska Glacial Mud Co. in Cordova has responded to the trend for natural ingredients and the demand in the day spa industry for high quality products by developing a facial mask derived from mineral-rich Copper River mud and traditional native botanicals.

Step 5 – Competitive Analysis

This section focuses on why or how you are going to succeed in attracting business over your competition and should include a detailed analysis of your direct and indirect competition. You should be able to name and provide a full description of your local, regional and even national competitors if relevant.

Your product should then be compared to your competitor's, based on price, performance, quality, service, and other important features. Describe the strengths that give you an advantage over the competition. Identify your weaknesses and say how you plan to overcome them. (Refer to SWOT Analysis on page 32.) Your competitive analysis will be approximately three to six pages, but can be any length, as long as you address your competition adequately.



Gathering information for the competitive analysis section

Who is your most serious competitor?

Why? (Proximity, size, years in business, etc.)

How is their business doing? (Growing, declining, adding new products, etc.)

Who are your other direct competitors and what are their strengths and weaknesses?

Who are your indirect competitors? (E.g. substitute products or services)

How does your product compare to your competitors'? (Price, quality, special features)

What are the similarities and differences between you and your competition?

How are your target market segments different from the competition's?

What do you do better than your competition?

Can you and your competition both survive in your marketplace?

How do your products or services compare to those of your competition?

If you have no competitors, what is your projection for the future? (Who might enter the market later?)



Writing the competitive analysis

The purpose of your write-up is to identify for your reader all your current and potential competitors. You should be able to name your competitors and briefly describe the relevant aspects of their business: who their target customer is, what benefits they offer, what product or service customers buy from them, and information on their pricing, goods/services, and promotion efforts. This provides some basis for comparison. If there are no competitors, you should discuss the possible development of competitors. It is suggested you cover the following areas:

- *Competitor's profile:* Take the major competitors you analyzed above and create an individual profile for each one. The profile should include:
 - Size of business and sales volume
 - Location(s)
 - Management and staff experience
 - Years in business
 - Market niche

- *Competitive edge:* This is an opportunity to discuss the similarities and differences between your product or service and that of your competitors. Highlight those attributes that you believe set your business apart or how you will meet your customers' needs in a better way.

The example below shows how one business keeps a competitive edge.

Morris Trading Post in Noorvik is one of two general stores in the village. To keep her clientele loyal, the owner makes customer service a priority, placing special orders and large seasonal orders, and putting holiday items on sale immediately afterwards.

- *Market niche and share:* Identify the key findings from your competitor analysis and if you are able to estimate the percent market share you believe your competitors hold. Ideally, you have identified a niche that nobody else is filling so describe how your business is unique and filling an unmet need. Consider what market share you might need to take from your competitor to make your business profitable.
- *Strengths and weaknesses comparison:* Complete the strengths, weaknesses, opportunities, and threats (SWOT) analysis below before writing this section. Compare your strengths and weaknesses to those of the competition. Highlight the strengths that give you an advantage over competitors and explain how your business will overcome any weaknesses.



SWOT ANALYSIS

Analyzing both your strengths and weaknesses and your opportunities and threats pinpoints what is going well in your business and what needs improvement. This exercise also highlights your competitive advantages and identifies where there might be potential risks. It shows you which variables you control and which you can only prepare for. This should take from one to three pages.

Strengths

- Is your business in a good financial position?
- Is your workforce skilled?
- Is your business name recognized by potential customers?
- Is there little or no competition?
- Is transportation to/from your business easily accomplished?
- Do you have business connections?
- What gives your business an edge over competitors?
- Do you own your business premises?
- Do you have experience in your business?
- Do you have good price, value, and quality?
- Is there increased spending in your area?

Opportunities

- Will your good financial position allow you to acquire future loans more easily?
- Does your workforce require little training?
- If your competition is going bankrupt, could you take them over?
- What trends will work in your favor?
- What opportunities does your business have?
- What new customer needs could you meet?
- What new trends relating to your product or service are emerging to increase demand?
- What niches have your competitors missed?
- What economic trends could benefit you?

Weaknesses

- Does your business have a large debt?
- Does your workforce need a lot of training?
- Is your machinery out-of-date or inefficient?
- Do you have to pay rent for your office space?
- Is your business unknown to potential customers?
- Do you waste a lot of product or time?
- Is your business holding too much or too little product?
- Are too few people using your service?
- In what areas do you have little experience?
- Are there gaps in your capabilities?
- Do you have upcoming deadlines or pressures?

Threats

- Is there large and increasing competition?
- Are wages rising?
- Is your product or service losing market share or buyer interest?
- Are you a seasonal business?
- Are interest rates increasing?
- Will you need to relocate in the future?
- Will your staff continue working for you?
- Is your financial backing sustainable?
- Will future political decisions affect your business?
- Will you be able to sustain your business?

Strengths: _____

Weaknesses: _____

Opportunities: _____

Threats: _____

Once you have completed the SWOT analysis, spend some time analyzing each response. Strengths and weaknesses are internal elements your business can either capitalize or improve on. When you address your weaknesses, be sure to explain how you will overcome them. Convince your readers you can deal with adversity. Opportunities and threats are external elements over which you have little control. Even if you cannot change these, your plan should address how you will minimize threats.

Step 6 – Marketing Strategy

This section tells readers how you will get people to buy your product or service. It describes what you are selling and your unique selling position, your pricing strategy, your sales and distribution plan, and your advertising and promotions plan. It explains how you will enter the market, and how you will use promotions and marketing to meet your sales goals. The marketing strategy is generally three to five pages.



Gathering information for the marketing strategy section

What are the features of your product or service?

What are the selling points of your product or services?

What makes your product different from that of your competition?

How will you attract and retain your customers?

How will your product or service benefit your customers?

How will your marketing focus on your market segment?

What do prospective customers think of your product?

What marketing methods will you use, and how many people will each method reach?

- Word of mouth
- Direct mail
- Conventional promotion (radio, newspaper, magazines, internet)
- Direct presentations to potential clients

How much money are you willing to spend on advertising? How much do you need to spend?

What incentives will you offer customers? (E.g. discounts to bulk buyers)

What kind of guarantees and warranties will you offer with your product?

How will you package and label your product to encourage brand loyalty and increase sales?

Writing the marketing strategy



- *Estimated sales and market penetration:* Based on your understanding of the competition and market, state what you believe your business will be able to capture in market share both for the short- and long-term. As a selling point, you should also identify any major customers who have made or are willing to make commitments.
- *Pricing and packaging:* Discuss the prices to be charged for your product or service and how this compares with your competitors' fees and policies. Discuss how you determined your price structure and how this pricing will support ultimate profitability. Mention any special discounts you might offer to customers. Discuss your packaging and labeling plans. Describe how pricing and packaging will entice new customers and encourage customer loyalty.

The examples below show two businesses with unique packaging designed to attract and retain customers.

Alaska Tribal Cache in Seldovia devoted considerable time and effort to packaging and presentation in their search for the right jars and labels to establish their brand. The distinctive logo adorning their turquoise and gold labels is immediately recognizable on the shelf.

Alaska Glacial Mud Co. designed a simple pastel blue and green label for their silver-lidded glass jar, which conveys the sense of class and style that appeals to their higher end spa and retail market.

- *Sales and distribution:* Describe how you plan to distribute your product and over what geographic area you will provide services. Discuss relationships you have developed with suppliers and distributors. Describe whether your product sales will be retail, wholesale, or direct. Address how you will handle your billings, accounts receivable, credit, and customer financing.

- *Service and warranty policies:* Describe what kind of guarantee and warranty options you will provide with your product/service. Discuss how these policies are designed to make you more competitive in the marketplace and the costs associated with these policies. Detail how customer complaints and claims will be handled.
- *Promotion, advertising, and public relations:* Promotion and advertising are necessary so that potential customers know you exist. Describe any promotions you will use to attract customers when you open. You should also describe your plans for advertising. Give exact details on how much you are planning to spend on advertising your first year and the years following that. There are several different media (such as radio, TV, internet, magazines, newspapers, newsletters, and brochures) you can use to attract attention. Explain which of these you have decided to use to advertise your business, how much they cost, and why you have chosen these methods. Tell readers how you will enter, capture, and retain a share of the market.

The examples below show how two businesses used advertising to increase their number of customers.

Kodiak Combos in Old Harbor, a charter boat operation providing fishing and hunting experiences, pursued and acquired a Cabela's endorsement. Cabela's referrals now make up half of the business clientele.

Kiana Lodge in Kiana developed a website with photographs showing the fishing, wildlife, and scenery of the Kobuk River, which give a strong sense of this Alaska experience.

Step 7 – Ownership, Staffing, and Management Plan

This section outlines how you will run your business, who will work in the business, and how the business will be structured. The experience, talent, and reputation of your management and staff will lend confidence to a potential funder. This section typically takes two to three pages.



Gathering information for the ownership, management, and staffing plan section

Who owns your business and what is its legal status?

- Sole proprietorship
- Partnership
- Cooperative
- Other: _____

Describe your company's ownership. (Is ownership distributed among managers?)

Who is your business manager? What is his/her education level, experience and skill set?

Who are your current investors, partners, and sources of start-up capital?

What managerial positions will your business have? Do you fill one?

What tasks will managers and staff need to complete on a daily basis? (Job descriptions)

How many staff members will you employ? How much will you pay each employee?

Are any of your staffed positions seasonal?

What skills do your managers/staff need to be successful at their jobs?

How will you train them in these needed skills?

What other professional relationships have you established? (Lawyer, accountant, other parties involved in the business)



Writing the ownership, staffing, and management plan

It is important to demonstrate that you have an adequate plan to address your business's operational needs and that key positions are held by persons with adequate expertise. Include in your business plan appendix a résumé and short biography for each member of the management team. Report who will be responsible for what, and how their skills will benefit your business. Sufficiently address how your businesses management, marketing, and financial reporting needs will be met. Describe the ownership structure and explain who owns what percentage of the business, as well as whether the business is a corporation or a sole proprietorship.

As you explain what personnel are needed you may find it useful to develop an organizational chart to more easily show lines of authority, responsibility and delegation.

- *Ownership:* Describe how your business is set up legally and whether, for example, it is a sole proprietorship, partnership, or cooperative. Inform readers who the owner(s) of the business will be and the legal ramifications of their ownership. If your business is a cooperative or corporation, describe how you will choose a board of directors. If it is a sole proprietorship, describe any experience you have in owning a business or, if you have none, how you will compensate for that lack.
- *Management plan:* A skilled, devoted, and involved manager is key to almost any successful business. If you are planning on managing your own business, tell readers why you are qualified and which needed managerial skills you possess. Report here how your management will be organized and the skills, education, and qualifications of your managers. Discuss how the management structure and manager you have chosen will lead to a successful business.
- *Staffing plan:* Describe the role your company's staff will play, the activities they will perform, and the skills they will need to complete these tasks. Discuss the planned salaries of employees and how they compare with other jobs in your area. Mention whether staff will be employed seasonally or year round.
- *Training plan:* Identify the skills both staff and management need and describe a plan to foster the growth of these skills. Discuss how much time you will allocate to training during start-up. Describe how appropriate training will lead to a successful business.

- *Professional support resources:* Describe what relationships you have developed with lawyers, accountants, and/or other professional support resources that will contribute to your business's success. In this section, you could also discuss relationships with marketing agencies, suppliers, and/or distributing agencies and how they will assist you.

Coupchiak Aviation in Togiak has a reliable mechanic in Dillingham who checks the plane out several times a week to ensure it is running optimally.

Chevak Bird & Culture Tours brought in teams of statewide and nationally-known birders on an assessment trip to help spread the word about the rich birding experience in this area.

Huna Totem in Hoonah brought in experts from the cruise industry when they were negotiating a cruise ship stop in their community.

Step 8 – Financial Plan

This section of your business plan explains how you will fund the start-up of your business, how much revenue it will bring in, and what the start-up and operational costs will be. Most importantly, it tells the reader how and when your business will be profitable. Your financial plan should be three to five pages.

To manage the finances of your business effectively, you must have a firm grasp of your projected start-up and operational costs. The first step is to determine how much money you need to open your business (start-up costs). Next, you should calculate how much you require to keep it open (operational costs). Operational costs are broken down into fixed costs and variable costs.

To prepare these financial estimates, you need to come up with assumptions about the average cost of your product or service, your number of customers, and your general operating expenses. Assumptions are educated guesses based on the best information available.

START-UP



Gathering information on your business start-up

- **Estimating start-up costs**

These might include one-time expenses such as down payments, utility deposits, major equipment, legal assistance, employee training, and licenses. Use the Estimated Start-up Costs worksheet on page 57 to calculate the start-up costs for your business.

How much money do you need for start-up? _____

- **Financing start-up costs**

Small business owners usually cover start-up costs with personal savings or through a small loan. Due to the difficulty of qualifying for and obtaining bank loans in rural Alaska, a loan may not be a readily available option. If this is the case for your business, consider renting or leasing instead of buying, which turns some start-up costs into fixed costs. While renting and leasing might be more expensive in the long term, if your business fails, you will have spent or borrowed less money. For possible funding sources, refer to the free publications listed on page 66.

Remember to factor any loan repayments into operational costs, so you know your business can be profitable while paying off your debt. Rural start-up grants may be available for your type of business but do not rely on grant money for your start-up.

How much money have you saved to start up your business? _____

How much money do you need to borrow for start-up? _____

Where will you find funding for start-up costs?

What agencies in your area offer start-up assistance to rural Alaskan businesses? Will they provide you with financial aid?

If you plan to take out a loan or line of credit, what is the interest rate? _____

How long is the payback period for this loan? _____

OPERATIONS



Gathering information on your business operations

- **Estimating sales (revenue)**

To estimate your business revenue you will need to estimate how many products or services you will sell. This depends on the price of your product or service and how many customers you estimate are in your target market. Use the Estimated Revenue worksheet on page 58 to calculate your revenue.

What are your estimated yearly sales? _____

- **Estimating operational costs**

Every business has fixed and variable operational costs, and you should estimate these costs to the best of your ability.

Fixed operational costs

These are expenses you must pay as long as you operate your business, whether or not you have any customers. Often you must cover these costs – also referred to as overhead – just to open the door. Examples of fixed costs are rent, utilities, interest, and depreciation. Other fixed costs might be business licenses, loan payments, and professional association fees. Minimum staffing and managers are also fixed costs. However, any extra staff members you employ to produce your product or provide your service are a variable cost.

It is important to include all staffing or labor costs to get a complete and accurate picture of your fixed expenses. In addition to wages, you need to calculate Federal Insurance Contribution Act (FICA) tax, Workers' Compensation, federal and state unemployment taxes, medical insurance, and any holiday or vacation pay. These costs can amount to 15-20 percent of your total labor costs.

What are your fixed cost totals on a monthly and yearly basis? (Use the Estimated Fixed Costs worksheet on page 59 to calculate this amount.)

Monthly: _____ Yearly: _____

Variable operational costs

Variable costs are the inventory you carry (e.g. a general store) or the cost of making and packaging the goods you produce (e.g. jars of wild berry jelly) or the cost of providing the service you offer (e.g. guided birding tours.) Variable costs can be tricky to calculate, but it is important to take the time to estimate this expense. The lower your variable costs, the more profit you make on each sale.

What is your per-product cost of production? (Use the Estimated Variable Costs worksheet on page 60 to calculate this cost for your business. Depending on your business, you may need to repeat this exercise.)

Product 1: _____ Product 2: _____ Product 3: _____

What is your yearly cost of goods sold? _____

How could you lower your cost of goods sold?

How much money do you need for working capital? (Refer to your Estimated Fixed Costs and Estimated Variable Costs worksheets.)

How will you earn enough working capital as the business builds up a clientele?

- **Estimating Break-Even Point**

A tool often used in business planning is called a “break-even analysis”. A break-even analysis tells you how many sales you need to make to cover all your costs (fixed and variable). This is your “break-even point.”

To calculate a break-even point, take the following few simple steps:

1. Determine the sales price of your product or service;
2. Calculate the total variable costs;
3. Subtract the total variable costs from the sales price – the remainder is called the “unit contribution” or amount you have to cover fixed costs;
4. Total your fixed costs (insurance, licensing, utilities) also known as overhead; and
5. Divide your total fixed costs by your “unit contribution” to determine your break-even point.

For example, if you sell a botanical cream for \$11 a jar that costs you \$5 a jar to produce, your “unit contribution” is \$6 (the difference between the sales price of \$11 and the variable cost of \$5). This \$6 difference is the amount per sale you can use to cover your fixed costs. If your yearly fixed costs total \$4,800, your break-even point would be sales of 800 jars of cream per year ($\$4,800/\$6 = 800$).

Break-Even Analysis

Calculating Unit Contribution

Per Unit Sale Price – Variable Cost = Unit contribution

$$\text{OR } \$11/\text{jar} - \$5/\text{jar} = \$6/\text{jar}$$

Calculating Break Even Point

$$\frac{\text{Fixed Costs}}{\text{Unit Contribution}} = \frac{\$4,800}{\$6} = 800 \text{ jars}$$

Sales of the first 800 jars will cover your fixed costs. With your 801st jar, you start making money. A break-even calculation is useful in several ways. When you are starting your business, it gives you a minimum target. If you can't realistically hit this target, you had better reconsider. If you have been in business for a while, you can use a break-even analysis to better understand how much you need to increase sales to purchase equipment, or to expand.

- **Estimating Gross Profits**

Gross profits are the total revenues minus the fixed costs and variable costs. Continuing the botanical cream example for the first year of business, you get:

Gross Profit at Different Sales Volumes (Year 1)

Jars Sold	Revenue	Cost	Profit
500	\$5,500	\$7,300	\$(1,800)
1000	\$11,000	\$9,800	\$1,200
2000	\$22,000	\$14,800	\$7,200
3000	\$33,000	\$19,800	\$13,200
4000	\$44,000	\$24,800	\$19,200

This table illustrates how the break-even point works with gross profit. You calculated that your break-even point would be 800 jars. The gross profits table shows that you lose \$1,800 if you sell only 500 jars. But if you sell 1,000 jars, you make \$1,200. Break-even analysis shows where you stop losing money. Calculating gross profits shows how much money you can make.

This example is simplified for clarity. When you are making these calculations for your own business, remember to account for all expenses fully, and to be conservative when estimating revenues.

- **Factoring In Start-Up Costs**

The simplified example did not show start-up costs. You can see from the gross profits table that if you had start-up costs of more than \$19,200, you would have no profit in the first year. This assumes you had to pay off all start-up costs in the first year. Many of the things you will buy to start your business will last several years, if not several decades. Here are two ways to fit them into your financial analysis.

The simplest way is to lump the start-up costs into your first year fixed costs. You might lose money the first year but eventually the business should pay them off. Say we had \$20,000 in start-up costs for our example. Then our gross profits table would look like this:

Jars Sold	Revenue (<i>jars sold x price per jar</i>)	Operating Costs (<i>Fixed + Variable</i>)	Start-Up Costs	Profit
500	\$5,500	\$7,300	\$20,000	\$(21,800)
1,000	\$11,000	\$9,800	\$20,000	\$(18,800)
2,000	\$22,000	\$14,800	\$20,000	\$(12,800)
3,000	\$33,000	\$19,800	\$20,000	\$(6,800)
4,000	\$44,000	\$24,800	\$20,000	\$(800)

If you sold 4,000 jars, you could expect to show a profit early in your second year. If you use this method, make sure you calculate a break-even point or a gross profit without the start-up costs. This ensures your business is at least covering its operating expenses (fixed and variable costs).

Another method of dealing with start-up costs is to spread them out over several years. Say you know that everything you bought to start up in this example will last for ten years. If you divide \$20,000 by ten, you get \$2,000 a year. Then you could show a gross profit in year one if you sell 2,000 jars.

Jars Sold	Revenue (<i>jars sold x price per jar</i>)	Operating Costs (<i>Fixed plus Variable</i>)	Start up cost	Profit
500	\$5,500	\$7,300	\$2,000	\$(3,800)
1000	\$11,000	\$9,800	\$2,000	\$(800)
2000	\$22,000	\$14,800	\$2,000	\$5,200
3000	\$33,000	\$19,800	\$2,000	\$11,200
4000	\$44,000	\$24,800	\$2,000	\$17,200

This type of calculation is similar to what you would do if you take out a loan to pay for start-up costs – it just does not include interest payments.



Writing the financial plan

The financial plan shows the cost of running your business, provides an estimate of your profits, and determines whether your business will be a success from year to year. Potential lenders or investors will read this section carefully, so make sure it is accurate and well-presented.

The standard financial statements included in a business plan are:

- Year one cash flow statement
- Profit and loss statement
- Balance sheet projections

Many funding agencies ask for a three to five year projection as well. When making financial projections, back up any spreadsheets with a write-up of all your assumptions.

Your financial plan should include:

- *Start-up summary:* Write out your plan of action and include the timeline for getting your business up and running. This gives you direction and a framework for judging your progress. It also allows investors to evaluate your success. The timeline can be a chart of weekly actions or a list of start-up tasks to be completed. Assign a target date to each action or task. Describe your start-up costs and how you will finance your start-up.
- *Project budget:* Walk your reader through what revenue or income will be generated through business sales for initial years and how these funds will be used to supplement the working capital and eventually pay off start-up costs.

Then walk the reader through both your fixed and variable costs so that they fully understand the expenses associated with your business and are confident that you have addressed all potential costs. Use this narrative to explain your assumptions, preferably following the order of your *pro forma* statements (balance sheet and cash flow statement).

- *Sources and uses of funds:* Describe how you will pay for your start-up costs and secure the necessary working capital for your business. Discuss how much money you will need and explain clearly how you intend to spend this money over the first few years. All plans should be consistent with your financial projections. For instance, if you need working capital, you might state that the funds will be used for product development and initial marketing.

- *Supporting documents:* Provide a short narrative introducing your financial documents. Because your business has not yet opened, your balance sheet and cash flow statement will be *pro forma*. That means they are a prediction or estimate of what will happen. If possible, create your financial documents and *pro forma* estimates in an Excel-type spreadsheet. In most cases, a potential investor will want to see three basic financial statements:
 - Profit and loss statement – Also known as an income statement, this financial statement lets you know how much your business is making or losing over a specific period of time (monthly, quarterly, or yearly). This statement simply subtracts expenses from revenues to arrive at a net profit or loss. (See Profit and Loss Statement worksheet on page 61.)
 - Balance sheet – Also referred to as a “snapshot” financial picture of a business, it summarizes your assets, liabilities, and ownership equity on a specific date. (See Balance Sheet worksheet on page 62.)
 - Cash flow statement – Also known as your statement of cash flows, this financial statement shows the inflows and outflows of financial activity for a specified period (usually monthly or quarterly.) Your net cash flow is the difference between incoming cash and outgoing cash. This statement should tell you if you are generating enough revenue to cover your expenses. (See Cash Flow Statement worksheet on page 63.)
- *Performance measures:* Based on your financial estimates, set some goals for yourself. You should have a financial goal (how much money you make), a production goal (how many products/services you will make and/or sell), and a break-even goal (the point at which your revenues cover both fixed and variable costs.) Use these indicators to evaluate your progress and success over the next few years.



Financial management of your business

A primary indicator of the overall health of your business is its financial status. It is critical that you develop the skills needed to track and monitor the financial progress of your business. There is a wide range of computer software packages available to help small businesses manage their finances. If you are unfamiliar with these programs, you might consider contracting with an accountant to set up your accounting systems and provide training so you can track your own progress. Alternatively, you might prefer to pay someone to do your monthly accounting for you. Whatever system you use, it is important to keep your business records current.

Monitoring and understanding your cash flow is extremely important to the success of your business. Small business owners have been known to take in revenue without accounting fully for the costs to be covered. Start-up costs and unforeseen and unbudgeted expenses can quickly eat up your cash reserves. If you prepare cash flow reports, you will be better prepared as a business owner to plan for payment of your bills and employee wages.

Finally, all businesses have a sales cycle – this might follow the seasons, community events, or even the days of the week. Your financial projections should take into account events and known activities that will impact your sales and expenses.

Schedule: Once you have created your list of activities and estimated how long they will take, order these tasks in the format below according to priority. The final table will be a list of activities with start and end dates and an opening date for your business. This will be crucial to keeping track of what needs to be done and how you are staying on schedule for start-up. The table below is a sample implementation summary that includes cost estimates and assigns responsibility for each task, and has been organized by start date for simplicity.

Milestone	Start Date	End Date	Budget	Manager
<i>Business Plan</i>	15-Nov-07	15-Feb-08	\$5,000	Me
<i>Financial backing</i>	1-Jan-08	31-May-08	\$10,000	Me
<i>Make signs</i>	15-Mar-08	31-May-08	\$2,000	ABC
<i>Develop website</i>	31-Mar-08	30-Jun-08	\$1,500	ABC
<i>Mail (1st) advertisements</i>	1-April-08	30-Apr-08	\$3,000	ABC
<i>Open store</i>	30-Apr-08	31-Jul-08	\$30,000	Me
<i>Mail (Ongoing) advertisements</i>	1-May-08	30-Jun-08	\$3,000	ABC

Implementation: Tell readers what needs to be done to accomplish each of these activities on schedule and within budget. If necessary, explain why it is important these tasks be completed by the assigned date.

Step 10 – Concluding Comments

Any conclusion should be a short summary of what you have written. It does not need to be a formal conclusion but can simply be a reworked version of your executive summary. Depending on who your reader is, you can emphasize how successful your business will be financially or the work your management team needs to do. In summary, your plan should ultimately describe your:

- Company and industry
- Product or service
- Market and marketing approach
- Management and staffing team
- Financial projections.

Finishing the first draft of your business plan is a monumental step forward for your business. Keep on editing it. If this plan is a working copy for your own use, there is no need to spend a lot of time on presentation. If you are using the plan to ask for financial support, it should look professional and be easy to read. Make sure your spelling, punctuation, and grammar are correct. You may even want to have the document reviewed by someone you trust and/or an outside expert, such as a professional from the University of Alaska.



After you get your business started, continue to update and evolve your business plan. Your situation or the business may change, and this should be reflected in the plan. Keep your financial analysis current, as you learn from experience. Use your implementation schedule and continually update it.

Your business plan is your roadmap for navigating your business start-up. If you hit a large bump that throws you off, revise your planning and/or implementation schedule.

Congratulations! You have finished the first draft of your business plan.

APPENDICES

Estimated Revenue Worksheet

Use this section to estimate your yearly revenue:

Price:

Price of product/service 1 \$ _____

Price of product/service 2 \$ _____

Price of product/service 3 \$ _____

Average price per product \$ _____

*(Add each price per product and divide by
number of products)*

Quantity:

Number sold of product/service 1 _____

Number sold of product/service 2 _____

Number sold of product/service 3 _____

Revenue from Products/Services:

Price x quantity of product/service 1 \$ _____

Price x quantity of product/services 2 \$ _____

Price x quantity of product/Service 3 \$ _____

Total: \$ _____

Other Revenue:

All other revenue \$ _____

TOTAL REVENUE: \$ _____

Estimated Variable Costs Worksheet

It is harder to calculate variable costs than start-up and fixed costs. Variable costs are the per product cost of production. For example, one variable cost for a business making and selling birch syrup is the cost to produce one bottle or jar of syrup. A variable cost for a bed and breakfast is the cost of food per customer. The lower your variable costs, the more profit per sale you gain. Repeat this exercise for each product or service your business sells.

VARIABLE COST – PRODUCT 1	Cost Per Product/Service
TOTAL VARIABLE COST PER PRODUCT 1:	

To calculate your yearly variable cost, use the following formula:

Total Variable Cost = Total No. of Product 1 Sold x Variable Cost of Product 1

TOTAL YEARLY VARIABLE COSTS FOR PRODUCT 1 = \$ _____

Profit and Loss Statement

Revenue:

Gross Sales		\$ _____
Less Returns and Allowances	-	\$ _____
Net Sales		\$ _____
Cost of Sales	-	\$ _____
Gross Profit		\$ _____

Operating Expenses:

Salaries		\$ _____
Payroll Taxes		\$ _____
Employee Benefits		\$ _____
Insurance		\$ _____
Advertising		\$ _____
Depreciation		\$ _____
Transportation Expenses		\$ _____
Dues and Fees		\$ _____
Legal and Accounting		\$ _____
Office Supplies		\$ _____
Telephone and Internet		\$ _____
Utilities		\$ _____
Rent/Mortgage		\$ _____
Taxes and Licenses		\$ _____
Other		\$ _____

Total Operating Expenses		\$ _____
Operational Profit (Loss)		\$ _____
Other Income and Expenses		\$ _____

Net Income (Loss) Before Taxes		\$ _____
--------------------------------	--	----------

Income Tax		\$ _____
------------	--	----------

Net Income (Loss)		\$ _____
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Balance Sheet

Once your business is up and running your balance sheet will tell you the financial status of the business. Since your business has not yet started, this is what is called a *pro forma* balance sheet – it predicts what will happen to your business in the future. In this way, you can see where your money will be going and whether to expect a profit or a loss.

Year: _____

Assets

Current Assets

Cash and equivalent	\$ _____
Accounts receivable	\$ _____
Inventories	\$ _____
Prepaid expenses	\$ _____
Total Current Assets	\$ _____

Fixed Assets

Land	\$ _____
Buildings	\$ _____
Equipment	\$ _____
Furniture	\$ _____
Vehicles	\$ _____
Less total depreciation	- \$ _____
Net Total Fixed Assets	\$ _____
TOTAL ASSETS (Total Current + Total Fixed)	\$ _____

Liability

Current Liability

Accounts payable	\$ _____
Short-term debt	\$ _____
Current portion of long-term debt	\$ _____
Income tax payable	\$ _____
Accrued expenses	\$ _____
Total Current Liabilities	\$ _____
Long Term Debt	\$ _____
TOTAL DEBT AND LIABILITIES	\$ _____

Cash Flow Statement

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Beginning Cash Balance	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Cash Receipts:						
Cash sales	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Accounts receivable collections	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Other	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Total Cash Receipts	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Cash Disbursements:						
Inventory	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Salaries and wages	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Fixed assets	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Rent	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Insurance	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Utilities	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Interest	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Advertising	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Taxes	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Other payments	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Total Cash Disbursed:	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Total Operational Cash Surplus (Deficit)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Additional Funding (Repayment)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Ending Cash Balance	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

Glossary

Asset: Properties and valuables of an individual or organization including land, structures, system improvements, equipment, vehicles, inventory, receivables, investments, and cash.

Business plan: A plan that describes the detailed workings of a business.

Capital: Items acquired or constructed with a life expectancy of more than one year and having a value greater than a set amount, typically \$500.

Cooperative: An enterprise that produces or distributes products/services and is owned and operated by its members.

Corporation: A publicly or privately owned business entity that is separate from its owner and has a legal right to do business in its own name; stockholders are not responsible for the debts or taxes of the business.

Direct competition: The competition between products that perform the same function.

Expenses: Payments made to others for goods or services.

Feasibility study: A study done to determine whether a project is possible and capable of success.

Indirect competition: The competition between products that are similar to each other and close substitutes for one another (for example: margarine and mayonnaise are indirect competitors).

Inventory: All goods and materials in stock for use in operations.

Investor: Someone who will provide an entrepreneur with the money needed to begin or operate a business venture.

Long-term: Any asset or liability that will be used or due in more than a year.

Market penetration: The degree of success and acceptance of a product by a specified target market.

Market segment: A group of people with a trait that causes them to have similar product needs.

Market share: The portion of the total market sold by a specific company, expressed as a percentage.

Partnership: A form of business ownership when two or more people own the company. A partnership agreement will be signed that tells how the company is to be run, who is responsible for doing what jobs, and other important information about the company.

Pro forma: Advance projections that show what will happen in the future and whether your business will earn or lose money in a particular month or year.

Revenue: Income or money paid for services rendered or products sold.

Sole proprietorship: A business owned by one person and that has not been incorporated.

Start-up capital: All the money needed to get a business going. Start-up capital is required before any sales are ever made.

Unique Selling Proposition: A point used in marketing that shows how a business is different and unique from its competitors.

Variable Costs: Costs that are not stable and change with the production level.

Working capital: The money used to maintain inventory and cover operational costs.

Additional Resources

FREE PUBLICATIONS FOR ALASKA SMALL BUSINESS OWNERS

- **Alaska Economic Development Resource Guide** (19th Edition, October 2007) – An inventory of programs and services which can provide technical and financial assistance to Alaska communities and businesses. Published by the Alaska Department of Commerce, Community and Economic Development, Division of Community Affairs. Available at <http://www.dced.state.ak.us/dca/edrg/EDRG.htm>.
- **Alaska Small Business Resource Guide** – Offers advice, contacts, and information to help Alaska business owners succeed. Available at any First National Bank Alaska branch or the Alaska Small Business Development Center.
- **Establishing a Business in Alaska Reference Guide** (13th Edition, March 2006) – Provides information regarding critical steps to take before starting a business, such as: license, regulatory, tax and labor law requirements; business assistance information; financial institutions; and environmental protection requirements. Published by the Alaska Department of Commerce, Community and Economic Development, Office of Economic Development. Available on CD-ROM or download at <http://www.commerce.state.ak.us/investments/pdf/EstablishingABusiness.pdf>.
- **Starting Your Small Business** (Spring-Summer 2007) – A general guide to starting a small business in Alaska, including lending resources. Published by the Alaska Department of Commerce, Community and Economic Development, Office of Economic Development. See http://www.commerce.state.ak.us/oed/small_bus/pub/StartingaSmallBusiness.pdf.
- **The Small Business Resource Guide** – A reference guide for small business and self-employed taxpayers. Available from the Internal Revenue Service on CD-ROM or download at <http://www.irs.gov/businesses/small/article/0,,id=101169,00.html>.

OTHER PUBLICATIONS

- **Alaska Business Monthly** <http://www.akbizmag.com>
907-276-4373 ◦ editor@akbizmag.com
501 West Northern Lights Boulevard, Suite 100, Anchorage, AK 99503
- **Alaska Journal of Commerce** <http://www.alaskajournal.com>
907-561-4772 ◦ jeff.jones@alaskajournal.com
301 Arctic Slope Avenue, Suite 350, Anchorage, AK 99518

ALASKA REGIONAL DEVELOPMENT ORGANIZATIONS (ARDORs)

The Alaska Legislature established the ARDOR program in 1988 to stimulate economic development. The ARDORs:

- Enable communities to pool their limited resources and work together on economic development issues
 - Develop partnerships among public, private and other organizations
 - Offer a technical, nonpartisan capacity to develop and implement an economic development strategy
 - Often have extensive experience with federal/state programs
 - Provide needed technical assistance via direct links with local citizens.
-
- **Anchorage Economic Development Corporation** <http://www.aedcweb.com>
907-258-3700 ◦ aedc@aedcweb.com
900 West Fifth Avenue, Suite 300, Anchorage, AK 99501
 - **Bering Strait Development Council (Kawerak)** <http://www.kawerak.org>
877-219-2599 ◦ webmaster@kawerak.org ◦ P.O. Box 948, Nome, AK 99762
 - **Copper Valley Economic Development Council** <http://www.alaskaeconomicdevelopment.org>
907-822-5001 ◦ cvedc@cvinternet.com ◦ P.O. Box 9, Glenallen, AK 99588
 - **Fairbanks North Star Borough Economic Development Commission**
<http://www.co.fairbanks.ak.us/mayorsoffice/economicdevelopment>
907-459-1309 ◦ kdodge@co.fairbanks.ak.us ◦ 809 Pioneer Road, Fairbanks, AK 99707
 - **Kenai Peninsula Economic Development District** <http://www.kpedd.org>
907-283-3335 ◦ info@kpedd.org ◦ 14896 Kenai Spur Highway, Suite 103A, Kenai, AK 99611
 - **Lower Kuskokwim Economic Development Council** <http://www.lkedc.org>
907-543-5967 ◦ carl_berger@ddc-alaska.org ◦ P.O. Box 2021, Bethel, AK 99559
 - **Mat-Su Resource Conservation and Development Council** <http://www.matsurcd.org>
907-373-1062, extension 108 ◦ matsurcd@mtaonline.net
1700 East Bogard Road, Wasilla, AK 99654
 - **Northwest Arctic Borough Economic Development Department** <http://www.nwabor.org/edu>
800-478-1110 ◦ dhamilton@nwabor.org ◦ P.O. Box 1110, Kotzebue, AK 99752
 - **Prince William Sound Economic Development District** <http://www.pwsedd.org>
907-222-2440 ◦ pwsedd@alaska.net ◦ 2207 Spenard Road, Suite 207, Anchorage, AK 99503
 - **Southeast Conference** <http://www.seconference.org>
907-523-2310 ◦ info@seconference.org ◦ 612 West Willoughby Avenue, Juneau, AK 99802

- **Southwest Alaska Municipal Conference (SWAMC)** <http://www.swamc.org>
907-562-7380 ◦ admin@swamc.org
3300 Arctic Boulevard, Suite 203, Anchorage, AK 99503

OTHER SMALL BUSINESS RESOURCES

- **Alaska Department of Commerce, Community & Economic Development, Office of Economic Development** <http://www.commerce.state.ak.us.oed/home.htm>
 - *Small Business Assistance Center*
<http://www.commerce.state.ak.us/oed/smallbus/home.cfm>
907-269-8104 ◦ michael.hanzuk@alaska.gov
550 West 7th Avenue, Suite 1770, Anchorage, AK 99501
 - *Made in Alaska (MIA)* <http://www.madeinalaska.org/mia/>
- **Alaska Manufacturing Extension Partnership (AMEP)** <http://www.ak-mep.org>
907-279-2637 ◦ info@ak-mep.org ◦ 701 Sesame Street, Suite 200, Anchorage, AK 99503
 - *Ecommerce program: Alaska Manufacturing, Business, Industrial, and Technology Projects (AMBIT)* <http://www.ambit.cc>
- **Alaska Small Business Development Center (SBDC)** <http://www.aksbdc.org>
 - 907-274-7232 430 West 7th Ave, Suite 110, Anchorage, AK 99501
 - 907-456-7232 604 Barnette Street, Suite 220, Fairbanks, AK 99701
 - 907-463-3789 3100 Channel Drive, Suite 306, Juneau, AK 99801
 - 907-260-5629 43335 Kalifornsky Beach Road, Suite 12, Soldotna, AK 99669
 - 907-373-7232 201 North Lucille Street, Suite 2A, Wasilla, AK 99654
 - *BuyAlaska* www.buyalaska.com
800-478-2332 ◦ ansj@uaa.alaska.edu
 - *Procurement Technical Assistance Center (PTAC)* <http://www.ptacalaska.org>
800-478-7282 (Anchorage)
800-478-1701 (Fairbanks)
 - *Rural Outreach* 907-274-7232
- **Alaska Village Initiatives** <http://www.akvillageinitiatives.com>
800-478-2332 ◦ cparker@akvillage.com ◦ 1577 C Street, Suite 304, Anchorage, AK 99501
- **Americans with Disabilities Act (ADA)** <http://www.ada.gov>
800-514-0301
- **Kauffman Foundation, EntreWorld** <http://eventuring.kauffman.org>
- **Occupational Safety and Health Administration (OSHA)** <http://www.osha.gov>
907-271-5152 ◦ 222 West 8th Avenue, Room A14, Anchorage, AK 99513

- **SCORE** – Free small business counseling. <http://www.akscore.org>
907-271-4022 ◦ score558@gci.net ◦ 510 L Street, Suite 310, Anchorage, AK 99501
- **Small Business Administration (SBA)** <http://www.sba.gov>
800-827-5722 ◦ answerdesk@sba.gov
- **University of Alaska Center for Economic Development** – Feasibility analysis, market research, business planning, and business implementation assistance for nonprofits and municipal and tribal governments. <http://www.ced.uaa.alaska.edu>
907-786-5444 ◦ ancab5@uaa.alaska.edu
4500 Diplomacy Drive, Suite 507, Anchorage, AK 99508