

SESSION 14: FINANCIAL TIPS AND TOOLS

BANK ON IT!

Debt and Equity Financing Worksheet

Seeking financing is a normal part of doing business. It can be challenging, but you've taken a huge step in the right direction by developing a business plan.

Funding sources may include your own savings, a family member, friends, financial institutions, private microlenders, suppliers, and leasing companies.

There are two primary types of financing. *Debt financing* means you borrow money, and pay it back with interest. *Equity financing* means you trade partial ownership in your business for money. Either way, you need to determine your needs, and consider how likely you are to get the money from each potential source.

First, look at your cash flow projections. If you don't have enough cash to cover your start-up expenses, you have decisions to make. If the business doesn't generate sufficient cash to cover the projected cash requirements, you have *more* decisions to make. For example, do you have money in your personal savings to invest in your business yourself? If so, is that a gamble you and your family want to take? Will you need to seek outside funding instead of—or in addition to—your personal savings? Answer the following questions:

Step 1: *How much money do you need to borrow, or to invest yourself, to cover start-up expenses and to operate for your first year? How much financing will you need, and for how long? Will you seek debt or equity financing? Provide a list of potential sources for each.*

Debt Financing: Amount Sought \$ _____

Potential Sources: _____

Equity Financing: Amount Sought \$ _____

Potential Sources: _____



Debt and Equity Financing Worksheet—continued

Step 2: How will you use your debt financing?

Using the worksheet below, fill in:

- Use of borrowed funds.** How will you spend the money? Examples:
- Remodeling
 - Start-up expenses (installation, deposits and fees, legal and professional)
 - Purchase of fixed assets (land, building, equipment, vehicles, etc. List the categories, and individual large expense items)
 - Seasonal working capital (money needed to cover peak work, or sales periods with repayment as the product is sold or the services are paid for)
 - Permanent working capital (base inventory, supplies, etc.)
 - Operating line of credit (revolving credit for operating expenses)

Amount needed. Base these amounts on actual quotes or estimates you’ve received.

Length of loan. How long will it take you to repay the loan?

Use of Borrowed Funds	Amount Needed	Length of Loan

Step 3: How will you pay the money back? (Make sure you included the appropriate debt payments on your Cash Flow Projection Worksheet.)

Your Worksheets Assignment Due for Session 15



All the worksheets for this session will be covered in class. Be sure you understand the worksheet questions about financing your business

If you didn't complete your *Cash Flow Projection Worksheet* from Session 12, you'll need to do so before you can complete the work in this session. Remember, your instructor is here to help you!

Writing Your Business Plan



Use the information you've gathered, and the worksheets in this session, to write the following sections of your business plan. Follow the headings and subheadings as they appear below.

Section VI. The Financial Plan

C. Additional Financial Information

Summary of Financial Needs

*Review your responses to Steps 1 through 3 in the **Debt and Equity Financing Worksheet**. Write a paragraph about how you intend to finance your business. Explain how much money you'll need to borrow, or to invest, to cover start-up expenses, fixed asset purchases, and operate the business. Explain how much of the total funds will come from owner investment, and how much from borrowed funds. Also, explain where you'll get the money, how long you'll need it, and how you intend to pay it back. This section should bring into focus all the financial information you've gathered up to this point.*

Personal Financial Statement

*If you need to borrow funds, include a copy of the **Personal Financial Statement** that you prepared in earlier sessions. Be sure to review it, and update it if necessary.*

D. Conclusion

Write a paragraph summarizing the future of this project. Explain why you will, or will not, move forward with your business idea. Provide a timeframe for your future actions. If you've decided not to move forward with this idea, explain what your next steps will be.

NOTE: *These instructions continue on the next page.*

Executive Summary

Although you write it last, the Executive Summary is possibly the most important part of your business plan. It must make the reader want to go into the body of the plan for additional information. That's why it's important to write it with care.

Once you've finished the other sections of your plan, take the best two or three thoughts from each section to create a summary. The key to writing a good summary is to write it *with your reading audience in mind*. If you're going to use your plan to attract investors, your Executive Summary should address issues that matter to investors. If the plan is going to a banker, the Executive Summary should address a banker's concerns.

The Executive Summary should be no longer than two pages. The information in it should be in the same order as the sections of your business plan. The summary should read like a condensed version of a book. In other words, the ideas need to flow together. They can't be a jumble of loosely connected thoughts.

Before you try to write your Executive Summary, take a little time to review some of your early work. These suggestions might help you to organize your thoughts:

- Look back at your **goals and objectives**. Get a clear picture of how you want to present your business to your reader. Can you summarize your goals and objectives in a way that will make the reader want to learn more about you and your business?
- Review the **Business Concept** and **Business Organization** sections from Sessions 2 through 6. State why you (and your management team) are *uniquely qualified* to move forward with your business idea, and explain how crucial your **management capabilities** are to the project.
- Summarize the **Marketing Plan** section in such a way that the reader has no doubt you have done your homework. Marketing tends to be the weakest section in a typical business plan. The Executive Summary is a great place to let the reader know you understand how important marketing is to the success of your business! Make sure readers understand what's different or better about your business, and show them that you know how to sell these benefits to your target customers.
- The Executive Summary normally includes a brief statement about **financial needs**, including the total amount you need, how the money will be spent, and a timeframe for payback. Review Section VI for those pieces of information.
- You have only two pages to present the information, so pick your key points carefully, and remember your purpose: to make the reader want to continue reading!



Writing Your Business Plan

Section I. Executive Summary

Write a one- or two-page summary representing the various sections of your NxLeveL® Micro-Entrepreneur Business Plan. Remember: Your goal is to make the reader want to read more!

NOTE: *You're being asked to begin developing your Executive Summary now, because it often takes several rewrites to get it right. Plan on bringing your first "best effort" to Session 15, and letting your instructor or other participants critique it. You may find you want to make corrections before turning in your final draft of the completed business plan.*

The Final Pieces...

You're now ready to pull together the last pieces to make your plan complete.

The **Attachments** section of your plan can be very helpful for your readers. It contains supporting documents that will give the reader as complete a picture of your business as possible. It should include your **Action Log** for future activities.

The front-end pieces of your NxLeveL® Micro-Entrepreneur Business Plan introduce and organize the plan for easy reading. The **Cover Page** identifies your business name, the owners, and the month and year the plan was written. The **Table of Contents** lists all materials by page number. The **Executive Summary** gets the reader interested in reading more. Follow the instructions on the following pages for these last pieces, and look at the NxLeveL® Micro-Entrepreneur Business Plan Outline to see where they fit in the completed plan.

Cover Page

The **Cover Page** should include the following information:

- Name of the business. If your corporation carries one name, but you actually do business under another name, show both. As an example:

A.B.C. Business Excitement, Inc., dba

Buy It Right Shop

- Business Address
- Business Contact Info (include fax and phone numbers, e-mail address, and Website)
- Logo (if you have one)
- Month and year the business plan was completed

Table of Contents

Organize the **Table of Contents** to show the major section headings, and the page number that starts the section. It's even better if you show detailed headings under the sections, so the reader can find an individual piece of information. For example:

Table of Contents—SAMPLE

<u>Section</u>	<u>Page</u>
Section I. Executive Summary	1
Section II. Personal Background Information.....	3
A. Personal Profile (Skills and Experience).....	3
B. Personal Financial Capability Statement.....	4
Section III. Business Concept	5
A. General Description of the Business.....	5
B. Business Goals and Objectives.....	7
C. Industry Information	8
Background of the Industry	
Current and Future Trends	
Business Fit in the Industry	
(etc.)	

Executive Summary

Now, take one more look at your Executive Summary. It can be tempting to make the Executive Summary longer than two pages, but *don't*. If you can't get your reader interested in two pages, you probably can't in five or six either...especially if your reader has a limited amount of time in which to decide whether to study your plan any further. Be clear, concise, and compelling.

Writing Your Business Plan



Develop Your Cover Page Develop Your Table of Contents

Finish your Executive Summary and include it under the heading:

Section I. Executive Summary

Action Plan Worksheet

Review the *Action Plan Worksheets* that you've been filling out throughout the class. Update any activities you've completed, or that need additional work. For your business plan, consider revising these sheets into an Action Log, to show only the activities that still need work. Include a copy of your revised Action Log in the *Attachments* section.

Attachments

This section of your business plan should include any information or documents that further explain or show the decisions and obligations of your business.

Step 1: Identify your intended audience.

Different audiences will require you to prepare slightly different Attachments sections. For instance, the attachments you send to a banker for a loan would be more detailed than the attachments you would send to a supplier to establish trade credit.

Step 2: Identify desired supporting documents.

Using the checklist on the following page, identify documents you'll use as supporting exhibits for your business plan. Consider which supporting materials you need, based on your audience.

Attachments—continued

Step 3: Collect these supporting documents/exhibits.

Complete any unfinished documents, and track down any documents that are missing. Use this checklist to keep track of which supporting documents you have, and which you still need to find.

Supporting Documents Worksheet

Supporting Documents to be Considered for Attachments Section	Needed?	Completed
Cash flow projection - 1st year monthly, 2 years annual		
Personal financial statement		
Personal tax returns (3 years)		
Current personal credit report		
Resumes for each owner		
Resumes for key employees		
Organizational chart		
Job descriptions		
Property layout (showing outbuildings); floorplan(s)		
Photos of business and/or equipment		
Map of location		
Photos of products		
Photos of marketing tools		
Lease/rental agreements		
Contracts		
Loan documents		
Credit reports of major customers		
Licenses, permits or patents		
Letters of reference		
Market survey report		
Building permits		
Appraisals		
List of your mentors, advisors, and any other business consultants		
Certifications		
Other:		
Other:		
Other:		

Step 4. Determine which supporting documents you want to include in the Attachments section of the business plan. Prepare a cover page for the Attachments section, then list the specific items you've included.