

THE FINANCIAL PLAN

Roles of the Financial Plan

The financial plan plays three very important roles:

- The financial planning process is a vital function of management, whereby management's plans for the future of the business are quantified.
- The financial projections, by themselves, are an effective medium for communication of the plans and expected performance to employees and investors.
- Financial projections are a vital element of any request for financial assistance, providing a forum for "selling" the company's financial potential and ability to earn an attractive return on an investment (including loans) in the company.

Outline of the Financial Projections

A complete set of Financial Projections will include all of the following components:

- Financial Narrative
 - o Summary
 - o Assumptions
 - o Highlights
- Start-Up / Expansion Capital (Use of Funds)
- Revenue & Collections
- Variable Costs
- Fixed Expenses
- Cash Budget
- Income Statement
- Supporting Documents
 - Loans
 - Depreciation/Amortization
 - Personal Financial Information

FINANCIAL NARRATIVE

Summary

This section indicates how much funding is being sought, if any, and how much of it will be provided by the owner. Comment should be made about how big the company will become, in terms of revenue, and what operating margins are planned. Comment on the degree of debt service coverage included in the plan.

Assumptions

Indicate the basis for revenue calculations, as well as variable costs and fixed expenses; i.e., document what assumptions have been made. Discuss capacity and productivity assumptions that are included in the plan. Talk about market penetration if it is relevant. Discuss the assumed timing of key events, such as financing, site preparation, etc.

Highlights

Include a table like the following:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
TOTAL REVENUE	145,000	387,500	425,000	435,000	445,000
PCT GROWTH		167%	10%	2%	2%
VARIABLE MARGIN	52,200	139,500	153,000	156,600	160,200
PCT TO SALES	36.0%	36.0%	36.0%	36.0%	36.0%
PRETAX PROFIT	14,880	75,365	65,459	68,777	71,000
PCT TO SALES	10.3%	19.4%	15.4%	15.8%	16.0%
NET PRE-DEBT CASH FLOW	18,177	81,174	71,160	74,029	77,000
DEBT SERVICE	3,508	6,013	6,013	6,013	6,013
DEBT COVERAGE (times)	5.2	13.5	11.8	12.3	12.8

FINANCIAL INPUT

The following page provides a format for development of the key input information for development of the financial plan. The information to be input will come substantially from the Financial Feasibility, Section IIIc of this packet.

Revenue / Month

Product/Service

Enter the products/services or groups of them that you will be selling. For example, in a coffee shop, you might choose to group products such as coffee, specialty coffees, prepared beverages, bottled beverages, prepared foods, bulk coffee and packaged foods. It is not necessary to list each product/service separately. If you are providing a service, group them in a similar manner.

Unit Price

Enter the average price that you expect to receive for each of the products/services that are listed. For services being provided, enter the average price expected for each of the listed services.

Sales Quantity

Enter the quantity that you expect to sell each month when you are fully operational

Total Revenue

Multiply the Unit Prices by the Sales Quantities for each product/service. This calculation step is optional.

Variable Costs / Unit

Enter only *variable* costs, which are those that vary directly with the level of your production/service. In other words, variable costs are those that double when you double your production or delivery of service. Costs that are not variable should be entered as Fixed Expenses.

Material

Enter the amount of material cost that is required to produce one unit of each product/service. In a food service business, this will be ingredients and containers (for take out). In a manufacturing business, this will be components and raw materials. In a service business, there may be only minimal materials involved, if any.

Labor

Enter the amount of labor cost that is required to produce one unit of each product/service. In a food service business, there will be little variable labor cost, since most labor will be fixed expenses; in other words, you need the same number of cooks and wait-staff whether you serve 100 meals or 50 meals in a day. In a manufacturing business, variable labor cost is directly related to production of inventory. In a service business, most labor will be variable with the level of service.

Other

Enter other variable costs that are not included in materials or labor. Feel free to add/rename this category, as needed.

Total Variable Cost

Simply add across the material, labor and other variable costs for each product/service.

Variable Margin / Unit

Amount

This calculation is optional. To calculate, subtract the Total Variable Cost per Unit from the Total Revenue per Unit, for each product/service.

Percentage

This calculation is optional. To calculate, divide the Variable Margin amount by the Total Revenue for each product/service.

Fixed Expenses

These expenses are those that don't change with the level of production/service of your business, such as rent. In many businesses, most labor costs are included in fixed expenses because the number of hours worked by employees does not vary with production/service.

Category

The input form provides a sample list of fixed expense categories that apply to most businesses. Feel free to add others and/or change categories to suit your needs.

Important note: Exclude compensation to owners of the business, since this will be handled separately.

\$ per Month

Enter the estimated amount of expenditure per month for each category. As with the revenue projections, enter expenditures that will occur when the business is fully operational (not the first few start-up months).

Use of Funds

This section provides a format for entry of the initial capital that will be required to get the business started. You probably will not have expenditures in all categories, but the categories to consider are:

Leasehold Improvements / Real Estate

Include expenses associated with “upfitting” a leased property or purchasing a property.

Equipment to Purchase

Include machinery and equipment, including computers, required by the business.

Inventory – Operating

Include inventory that will be required for the initial period of sales and/or production.

Inventory – Office

Include an inventory of office supplies that will be needed.

Deposits – Rent

Leases generally require two months of deposit initially.

Deposits – Utilities & Other

New utility and phone hook-ups may require deposits.

Goodwill / Franchise Fee

In the case of a purchased business there may be Goodwill in the purchase price.
Purchase of a franchise will include an initial Franchise Fee.

Organizational Expenses

Include the up-front costs paid to attorneys, accountants and other service providers.

Research & Development

Include costs that will be incurred for research and development of products and/or services for sale in the foreseeable future.

Furniture, Fixtures & Signs

Include the acquisition costs of furniture, accessories, fixtures and signage.

Total Start-Up Capital Required

Add down the amounts for each category.

Owner Contribution

Investors and creditors will expect owners to invest their own cash into a business before they add capital. Enter the amount you will be putting into the business.

FINANCIAL INPUT FORM

USE OF FUNDS & FIXED EXPENSES

USE OF FUNDS

Leasehold Improvements/Real Estate	
Equipment to Purchase	
Equipment Invested by Owners	
Inventory - Operating	
Inventory - Office	
Deposits - Rent	
Deposits - Utilities & Other	
Goodwill / Franchise Fee	
Organizational Expenses	
Research & Development	
Furniture, Fixtures & Signs	
Total	

FIXED EXPENSES

		CATEGORY \$ PER MO.
Salaries & Wages (non-owners)		
Facility Rent & Fees		
Utilities		
Insurance		
Advertising & Promotion		
Equipment Rent		
Maintenance & Repairs		
Vehicles		
Travel / Meals & Entertainment		
Professional (legal, acctg, etc.)		
Office Supplies		
Phones		
All Other		
TOTAL FIXED EXPENSES		