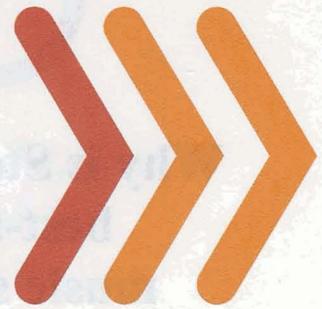


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ASK ALAN | BY ALAN FRIEDMAN

Business Plans: Part 1

In the many years we've helped our clients obtain business loans, there seems to be one constant in those who were ultimately successful in their quest. No, they didn't bribe their banker with free gear. The successful ones had formal business plans.

That's not to say that any music store without a business plan won't get a loan, or any music store with a business plan will have their banker throwing money at them at 2 points below prime. But having a well-organized, meaningful business plan does, in my opinion, demonstrate your vision, business objectives and ability to achieve those goals.

That, in turn, speaks volumes to your bankers, financiers, vendors and/or prospective investors; perhaps because so few business owners take the time to generate a business plan.

Strangely enough, the real value of doing a business plan is not having the finished document in hand. It lies in the process of researching, analyzing and thinking about your business in a systematic way—the "planning" part of the business plan.

The act of planning helps



Photo by William Shakespeare
Caption by Alan Friedman

'A well-thought-out business plan can help you avoid costly, disastrous, mistakes.'

you: (a) critique the way you conduct business, (b) study and research important financial, operational and organizational procedures that are either lacking or in need of improvement,

and (c) express your ideas and dreams in written form, which, in turn, helps you figure out how to turn those grandiose visions into reality. A well-thought-out business plan can also help you avoid costly, and perhaps disastrous, mistakes.

WHAT IS A BUSINESS PLAN?

Even the name "business plan" sounds like it might be pretty easy to create, but don't kid yourself. It's involved. In its simplest terms, a business plan is a formal, written document, consisting of narrative content and financial analysis of a given business.

The narrative content is the body of the business plan and is divided into several sections. The financial analysis is comprised of financial documents, including projected income statements, balance sheets, cash flow schedules and pertinent key financial data and ratios, in addition to historical financial data like last year's financial statements prepared by an independent CPA firm.

In this first part of a two-part series on the construction of a business plan, I'll focus on helping you construct the nar-

rative content of a business plan. Next month's Part 2 will guide you on preparing the financial analysis section.

HOW LONG IS THIS GOING TO TAKE?

It usually takes a couple of weeks to complete a good business plan. Most of your time will be spent in research and re-thinking your ideas, business practices and financial assumptions. But as previously stated, that's where the value lies.

To induce you into taking on this important task, the guide on the following pages contains an abbreviated outline to help you write the narrative section of your plan.

In addition to this written guide, you can get plenty of help from both the Internet and off-the-shelf business plan software. The cool thing about business-plan software is you can get it at any office products store, it's cheap—under \$100—and, best of all, much of the narrative is written for you in boilerplate form. The software instructs you to insert specific information about your business into Microsoft Word and Excel templates,



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allowing you the time to be a business planner instead of William Shakespeare.

So whether there's a borrowing need, plan to sell the store, desire for expansion or simply an interest in running your business more effectively, prepare a business plan to accomplish those goals. Set aside quality time to do it properly; those who do never regret the effort.

'The value lies in researching, analyzing and thinking about your business.'

Besides, it's a new year and time to take hold of your destiny to ensure your store's financial success. And remember, "Neither a borrower, nor a lender be; for loan oft loses both itself and friend, and borrowing dulls the edge of music retailing."

That was my feeble attempt to be William Shakespeare instead of Alan Greenspan.

THE MODEL BUSINESS PLAN

Cover Sheet

Contains the legal business name and any trade names, address, phone/fax numbers, e-mail addresses and Web site.

Table of Contents

Lists each section of the business plan and its related page number.

Executive Summary

A two-page or less narrative that includes everything you would cover in a five-minute interview about your business, including the following "fun-

damentals," such as: What is your product, who are your customers, who are the owners, what do you think the future holds for your business and your industry?

The Executive Summary should be enthusiastic, professional, complete and concise. If you're writing this business plan to apply for a loan, state clearly how much you want, precisely how you are going to use it, and how the money will make your business more profitable, thereby ensuring repayment of the loan.

Mission Statement and Vision

Many companies have a brief mission statement, usually in 30 words or less, explaining their reason for being and guiding principles. In addition to the mission statement, describe your company's "vision." Consider the following example:

By 2006, our company will be known as the best pro audio retailer in Connecticut. We will provide professional recording and high-end audio products and will market these products to regional recording studios, allowing us to become the leading pro audio retailer in a 100-mile radius of our store. Sales will exceed \$2 million by actively and regularly promoting recording, engineering and mixing seminars and clinics to home recording enthusiasts.

Company Description

This section identifies the company's legal name, address, form of ownership, ownership percentages, board of directors, management team, staff and outside advisors.

It also describes your responsibilities, product market, company's origins, years in business, previous owners, successes, fail-

ures, lessons learned, reputation in the community, sales and profit history, number of employees and events which have affected your success. Don't be afraid to discuss past problems and how you solved and survived them; this is often indicative of your company's strengths and core competencies.

Also, describe your industry. Is it a growth industry? What changes and challenges do you foresee, and how is your company poised to handle them? If you're seeking a loan or investment, explain how the new capital will help you meet these challenges.

Products and Services

Describe in depth your products and/or services and what factors give you competitive advantages or disadvantages.

Explain the pricing philosophy of your products and the fee structure for your musical services. Describe these products and services as you see them, and then describe them from your customers' point of view.

Market Analysis

Even though you probably spend a fair amount of time on marketing-related matters, every business can benefit from conducting some market research. Gather up published information, such as industry profiles, trade journals, newspapers, magazines, census data and demographic profiles. This information is often readily available in public libraries, from industry associations (NAMM, National Association of School Music Dealers and Retail Print Music Dealers

Association) and music product suppliers. Government agencies, such as the Small Business Administration (sba.gov) and your local Chamber of Commerce should also have it.

You can also gather your own data, such as doing your own traffic count at a proposed location, identifying competitors from the yellow pages and conducting surveys or focus-group interviews. In your marketing analysis, be as specific as possible by giving statistics and sources, as this data will lend credibility to the assumptions you make in developing your sales projections later on. Your market analysis should identify your customers' characteristics—including age, gender, education and income level—and their demographics.

It should also describe the size of your marketplace, competition, your percent share of the market, demand in your target market, growth history and buying trends. Include any "barriers to entry" that keep out potential competitors.

Marketing Plan and Sales Forecast

Now you can attach some numbers to the plan. I suggest using an Excel spreadsheet to prepare a 12-month projection of sales and other operating revenue. The forecast should be based upon your historical sales, the market research and marketing strategies you've just described, as well as pertinent industry data.

You may wish to do two forecasts: (1) a "best guess," which is what you really expect

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and (2) a “worst case” low estimate you’re confident you can reach no matter what happens. This forecast will become an integral part of your store’s income statement and cash flow projections included in the financial analysis section (more on that later).

Business Operations

This section explains the daily operation of your business, including store locations, business hours, people, processes, methods of product acquisition and internal accounting controls. Include information about inventory and related inventory management, such as average value of in-stock inventory, rate of turnover, GMROI and how your data compares to industry averages.

Also include information

‘Discuss past problems and how you solved them; this is often indicative of your company’s strengths.’

about personnel, including the type of labor force you employ, where you find new employees, quality of existing staff, pay structure, training methods and any new hiring plans.

Identify your suppliers, the kind of inventory they furnish, their credit and delivery

policies, and their history and reliability. Address any issues regarding inventory shortages or short-term delivery problems, fluctuating costs and whether you’re searching for new suppliers. Also, discuss your store’s credit policies.

Additionally, you should elaborate on your store’s management and organization. Who manages the business on a day-to-day basis? What experience and distinctive competencies does that person bring to the business? Is there a plan for continuation of the business if this person is lost or incapacitated? Prepare an organizational chart showing the management hierarchy, coupled with job descriptions for key employees.

Last, identify your company’s professional and advisory support, including your

board of directors and/or management advisory board, attorney, accountant, insurance agent, banker, consultants, mentors and key advisors.

Financial Analysis and Plan

A solid analysis of the past must precede any serious attempt to forecast the future. The Financial Analysis and Plan section will allow you to include, in the form of exhibits, a great deal of financial information from the past, present and your projection of the future. We’ll discuss this in greater detail in the next *Ask Alan* column. **MI**

Are financial questions keeping you up at night? E-mail yours to askalan@musicincmag.com.

Alan Friedman, CPA, provides accounting and financial services to music industry clients. He is a frequent speaker at NAMM U. seminars and can be reached at 860-521-3790.

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