

Introduction

Homework has taken on a new meaning for more than 10 million Americans. The drive for economic self-sufficiency has motivated many people to market their skills and talents for profit from home. The increasingly service-oriented economy offers a widening spectrum of opportunities for customized and personalized small business growth.

Though untrained entrepreneurs traditionally have had a high rate of failure, small businesses can be profitable.

Success in a small home-based business is not an accident. It requires both skills in a service or product area and management competency.

This publication will help you take stock of your interests, aptitudes and skills. Many people have good business skills. If you are convinced that you can operate a profitable home business, use this publication as a guide to developing a business plan for your success.

Information Gathering

A helpful tool to determine if you are ready to take the risk of a home business operation is the U.S Small Business Administration (SBA) publication entitled *Checklist for Going into Business* (mp-12). It will help you focus on the basic steps in information gathering and business planning.

While home-based business operations may vary from one that supplements family income with a few hundred dollars to a sophisticated technical consulting service billing hundreds of thousands of dollars,

there are many common characteristics and challenges to be considered in launching most home-based businesses. Some tasks are universal to all small business start-ups, while others are unique to home-based businesses. For example, careful research into legal and tax issues, evaluation of proper space utilized and time management discipline are essential. Inadequate attention to the development of a detailed business plan can be costly for you and your family in terms of lost time, wasted talent and disappearing dollars.

The Entrepreneurial Personality

Research indicates that successful small business entrepreneurs have some common characteristics. How do you measure up? On the following checklist, write “Y” if you believe the statement describes you, “N” if it doesn’t, and “U” if you can’t decide.

___ I have a strong desire to be my own boss.

___ Win, lose or draw, I want to be the master of my own financial destiny.

___ I have significant specialized business ability based on my education and experience.

___ I have an ability to conceptualize the whole of a business- not just its individual parts, but how those parts relate to each other.

___ I develop an inherent sense of what is right for a business and have the courage to pursue it.

___ One or more of my parents were entrepreneurs; calculated risk-taking runs in the family.

___ My life is characterized by a willingness and capacity to persevere.

___ I possess a high level of energy, sustainable over long hours, to make business successful.

While not every successful home-based business owner starts with an affirmative answer to all questions, three or four negative and undecided answers should be sufficient reasons for you to stop and give second thought to going it alone. Many potential proprietors seek extra training, as well as help for skilled business advisors such as accountants, bankers and attorneys.

Selecting a Business

Perhaps you have already decided what your home-based business will be. You know how you will serve your market and with what. If not, you need to decide exactly what business you will enter. A logical first step for the undecided is to list areas of personal background, special training, educational, job experience and special interests that could be developed into a business. Review the following list of activities that have

proved marketable for others. On a scale of zero (no interest or strength) to ten (maximum interest or strength), indicate the potential for you and a total score for each activity.

For other idea, check you local public library for books and articles about working at home.

Comments:

	My level of Interest	Personal Strengths	Market Strengths	Total Points
Personal services				
__ house cleaning	_____	_____	_____	_____
__ babysitting	_____	_____	_____	_____
__ tutoring	_____	_____	_____	_____
__ secretarial	_____	_____	_____	_____
__ catering	_____	_____	_____	_____
__ direct mail	_____	_____	_____	_____
Handcrafts				
__ needle work	_____	_____	_____	_____
__ ceramics	_____	_____	_____	_____
__ jewelry design	_____	_____	_____	_____
__ upholstering	_____	_____	_____	_____
Artistic Work				
__ painting	_____	_____	_____	_____
__ photography	_____	_____	_____	_____
__ prints	_____	_____	_____	_____
__ wire sculpture	_____	_____	_____	_____
Repair Services				
__ small appliances	_____	_____	_____	_____
__ furniture	_____	_____	_____	_____
__ clothing	_____	_____	_____	_____
__ TV and radio	_____	_____	_____	_____
__ automotive	_____	_____	_____	_____
Instruction skills				
__ languages	_____	_____	_____	_____
__ math	_____	_____	_____	_____
__ gourmet cooking	_____	_____	_____	_____
__ music	_____	_____	_____	_____
__ home repairs	_____	_____	_____	_____
Mall order ideas				
__ product sales	_____	_____	_____	_____
__ repairs	_____	_____	_____	_____
__ business service	_____	_____	_____	_____
Seasonal Products				
__ foodstuff	_____	_____	_____	_____
__ clothing	_____	_____	_____	_____
__ gift items	_____	_____	_____	_____
Party Sales				
__ cookware	_____	_____	_____	_____
__ plants	_____	_____	_____	_____
__ plastic goods	_____	_____	_____	_____
__ cosmetics	_____	_____	_____	_____
Your own Ideas				
	_____	_____	_____	_____

SCORING

0-10	Almost a sure loser
11 to 15	Reconsider but proceed with caution
16 to 20	Some potential here, worth further safety
21 to 25	Probably a winner, if you answered correctly.
26 to 30	How can you lose?

Time Management

For both the novice and the experienced businessperson planning a small home-based enterprise, a major concern is time management. It is very difficult for some people to make and keep work schedules even in a disciplined office setting. At home, as your own boss, the problem can be much greater. To determine how much time you can devote to your business, begin by drafting a weekly task timetable listing all current and potential responsibilities and the blocks of time require for each. When and how can business responsibilities be added without undue physical or mental stress on you and your family? Potential conflicts can be faced and resolved at the outset and as they occur; otherwise, your business can become a nightmare. During the first year of

operation, continue to chart post and check off tasks on a daily, weekly and monthly basis.

Distractions and excuses for procrastination abound. It is important to keep both a planning and operating log. These tools will help avoid oversights and provide vital information when memory fails.

To improve the quality of time for work at home, install a separate telephone line for the business and attach an answering machine to take messages when you do not wish to be distracted or away from home. A business line has the added advantage of allowing you to have a business listing in the phone book and, if you wish to buy it, an ad in the classified directory.

Evaluating the site for your home-based business

Is a home-based business site workable?

Where in the home will the business be located? What adjustments to living arrangements will be required? What will the cost be of changed? How will your family react? What will the neighbors think?

It is important to set aside a specific work area. For example, more than one business ledger has gone up in smoke, been chewed by the family dog or been thrown out with the trash when business records were not kept separate from family papers. Ready access to business records during work hours is essential, but these records must be protected.

Check the reasons below for and against working at home that apply to you. List any additional drawbacks or obstacles to operating a business at home;

PROS	CONS
Low start-up costs	Isolation
Low fixed costs	Space limitations
Tax benefits	Zoning
Life-style flexibility	Security concerns
NO commuting	Household interference

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Note that changes in personal habits will be required. For example:

- Exercising the self-discipline to keep the television off while you are working.
- Limiting personal telephone calls.
- Being diligent in meeting work deadlines when no one is checking.

Ask family members to comment on pros and cons. Their concerns may require reconsideration of some specifics.

Is a home-based business allowed at the site?

Investigate potential legal and community problems associated with operating a business from home. There may be limitations that can make your planned business impossible or require expensive modifications to your property. You should research federal, state, county and municipal laws and regulations concerning home-based business operations. Keep a topical file for future reference, including forms that will be needed for your business plan.

The following items should be investigated:

TO DO	DONE	
_____	_____	Country, city and state zoning code restrictions.
_____	_____	Permits and licenses for operations.
_____	_____	Deed or lease restrictions, such as covenants and restrictive conditions of purchase.
_____	_____	Access and parking for customers and delivers.
_____	_____	Sanitation, traffic and noise codes.
_____	_____	Signs and advertising.
_____	_____	State and federal code requirements for space, ventilation, heating and lightening.
_____	_____	Limitations on the number and types of workers. Check either the local chamber of commerce office.
_____	_____	Concerns that neighbors may have about a business being located next to or near them

Here are some ways to collect information. Call or visit the zoning office at county headquarters or city hall. In some localities, a city or county office for economic development has materials available to pinpoint key items affecting home-based businesses.

Even in rural areas, the era of unlimited free enterprises is over. Check before investing in inventory, equipment or marketing programs. If in doubt, call the state office for industrial development or the nearest SBA district office. IN some states the county agent or home demonstration agent will have helpful information concerning rural or farm business development.

For income tax rules regarding a home-based business, be sure to obtain the Internal Revenue Service (IRS) Publication #587, *Business Use of Your Home*. See Information Resources (Appendix E) for how to contact the IRS.

Is this Site Insurable?

It is almost certain that significant changes will be required in your insurance coverage when you start a home-based business. When you have written a good description of your business, call your agent for help in properly insuring against new hazards resulting from your business operations, such as

- Fire, theft and casualty damage to inventory and equipment.
- Business interruption coverage.
- Fidelity bonds for employees.
- Liability for customers, vendors, and other visiting the business.
- Group health and life insurance.
- Product liability coverage if you make or sell a product; workmanship liability for services.
- Business use of vehicle coverage.

Overall Site Evaluation

After you have gathered as much information as seems practical, evaluate a home-based site versus one or more other nearby locations. Here's a handy checklist. Using the zero to 10 scale, with 10 as the top score, grade these vital factors:

Grades		
Factors	Home	Other
Customer convenience.	_____	_____
A availability of merchandise raw materials.	_____	_____
Nearby competition	_____	_____
Transportation availability	_____	_____
Quality and quantity of employees available	_____	_____
Availability of parking Facilities	_____	_____
Adequacy of utilities (sewer, water, power and gas).	_____	_____
Traffic flow.	_____	_____
Tax burden.	_____	_____
Quality of police and fire services.	_____	_____
Environmental factors	_____	_____
Physical suitability of the building	_____	_____
Provision for future expansion	_____	_____

Vendor delivery access.	_____	_____
Personal convenience.	_____	_____
Cost of operation	_____	_____
Other factors including how much the business can grow without moving.	_____	_____
Totals	_____	_____

The greater the difference between the totals of the two columns, the clearer your decision should be. In the space below, write your decision and the reasons that support it.

Writing the Business Plan

Now that your research and initial planning are nearing completion, it is time to move into action. If you are still in favor of going ahead, you should take several specific steps. The first one is to organize your dreams into a business plan.

What is a Business Plan?

- It is that management and financial “blueprint” for start-up and profitable operation.
- It serves as a prospectus for potential investors and lenders.
- It is written by the business owner with outside help as needed.
- It is accurate and concise as a result of careful study.
- It explains how the business will function in the marketplace.
- It clearly describes the business will be financed.
- It outlines how the business will be managed.

Why Create a Business Plan?

- The process of putting the business plan together, including the thought that you put in before writing it, forces you to take an objective, critical and unemotional look at your entire business proposal
- The finished written plan is an operational tool that when properly used, will help you manage your business and work toward its success.
- The completed business plan is a means for communicating your ideas

to others and provides the basis for financing your business.

- It will increase your chances of making your business a success.

Who should Write a Business Plan?

The home-based owner to the extent possible should write a plan. The owner should seek assistance in weak areas, such as accounting, insurance, capital requirement, operational forecasting and tax and legal requirements.

When Should a Business Plan Be Used?

The home-based owner to the extent possible should write a plan. The owner should seek assistance in weak areas, such as accounting, insurance, capital requirements, operational forecasting and tax and legal requirements.

When Should a Business Plan Be Used?

- To make crucial start-up decisions
- To make reassure lenders, investors or backers.
- To measure operational progress.
- To test planning assumptions.
- To adjust forecasts
- To anticipate ongoing capital and cash requirements
- To set the standard for good operational management

Outline for a Home-Based Business Plan

The following outline is suggested for a small proprietorship or family business. Shape it to fit your needs. For more complex manufacturing or franchise operations, you will want to do further research on the specific industry that interests you. Check the Information Resources section (Appendix E) for places to start your research.

Cover Page

The cover page should include the following:

- Business name.
- Street address
- Mailing address.
- Telephone number.
- Month and year in which plan is issued.
- Name(s) of owner(s).

- Number of copies.

Statement of Purpose

- Why will your business succeed? Promote your idea! State:
__ How and why your business will be successful.
__ What is unique about your business.
__ What your business's "niche" is.
- What is your experience in this business? If you have a current résumé of your career, include it as an appendix and refer to it here. Otherwise write a narrative of your experience here and include a résumé in the finished product. If you lack specific experience, detail how you plan to gain it, such as training, apprenticeship or working with partners who have experience.

Part I – The Business

Legal Structure and Function

In this section write an accurate, concise description of your business, answering the following questions

- What is the legal structure of your business and what is the date that it was established?
---Proprietorship?
---Partnership?
---Corporation?

Include copies of key subsidiary documents in an appendix to your business plan. Remember, even partnerships require written agreements of terms and conditions to avoid later conflicts and to establish legal entities and equities.

Corporations require charters, articles of incorporation and bylaws.

- What is your business's principal activity? [Be specific. Give product or service description(s).] Examples include
---Retail sales.
---Manufacturing.
---Service
---Other.
- How will your business be started?
---A new start-up.
---The expansion of an existing business.
---Purchase of a going business.
---A franchise operation.
- What is your actual or projected start-up date?

- A new start-up.
- The expansion of an existing business.
- Purchase of a going business.
- A franchise operation.

- What is your actual or projected start-up date?

Other professional resources available to the business, such as an accountant, lawyer, insurance broker, banker, etc. Describe the relationship of each resource of the business: for example, the accountant will be available on a part-time, hourly basis, as needed. The initial agreement calls for services not to exceed _____ hours per month at _____ per hour.”

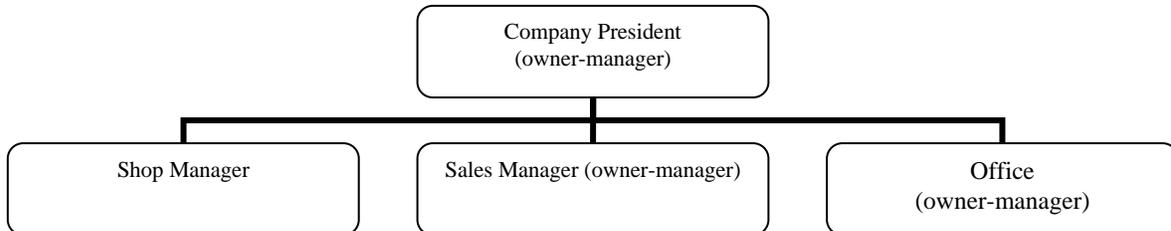
Organization and Management

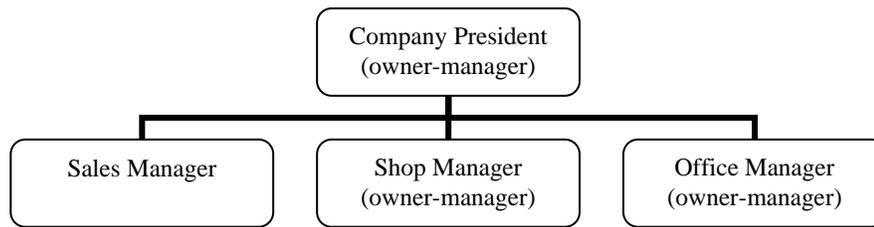
Who will do what?

Be sure to include four basic sets of information

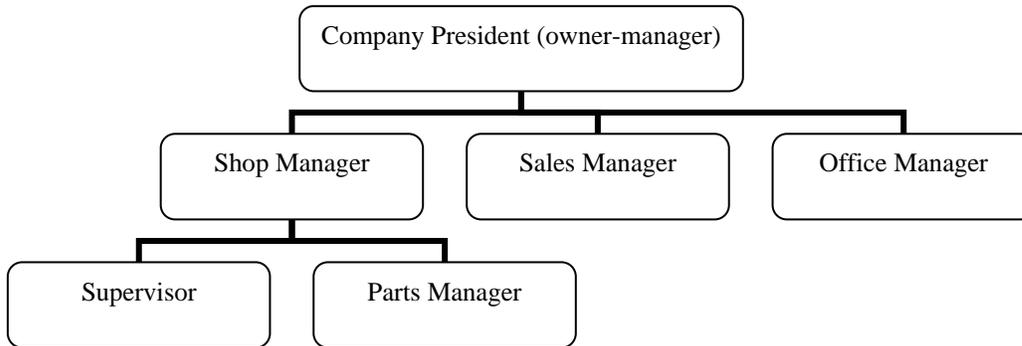
1. A personal history of personal history of principals and related work, work, hobby or volunteer experience (include formal resumes in an appendix).
2. Specific duties and responsibilities of each principal.
3. Benefits and other forms of compensation for each principal.

4. To make this section graphically clear, start with a simple organizational chart that lists specific tasks and shows who (type of person is more important than individual name, other than for principals) will do what. Use arrows, work flow and lines of responsibility and/or communications. Considers the following examples





As a business grows, its organizational chart could look like this:



Answer the following questions.

- What your personal needs now?
 1. _____
 2. _____
 3. _____
 4. _____

- What skills must each key person have?
 1. _____
 2. _____
 3. _____
 4. _____

- Are the people needed available?
Name them, indicate whether they are full- or part-time and their salary rates:
 1. _____
 2. _____
 3. _____
 4. _____

Detail a proposed work schedule by week and month for the first year.

Calculate total salaries, wages, fringe benefits and payroll taxes for each month of the first year in the work block below.

If you have identified any gaps in personnel skills, state how these will be overcome by training, purchase of outside services or subcontracting. Check with the nearest state employment office for assistance. Describe your plan.

What is Your Banking Plan?

What will be the location and type of bank accounts opened for the business? A word of caution: keep business accounts separate from personal or family accounts. These vital records will be necessary for future tax and accounting purposes. Describe your banking plan.

How is Your Credit Rating?

There may be several partial answers to this question. All will be important to the future of the business. First, what is your personal history of pay debts? Just to be safe, purchase a copy of your personal credit record from a local credit bureau and make sure that it is accurate. Look in the classified telephone directory under "Credit Reporting Agencies."

To establish a credit rating, it is necessary to secure and use credit from a number of businesses. Your rating will be based upon your record of paying for good and services according to the agreed terms. If your prior credit rating is poor, discuss with your lawyer, accountant and banker options for improving it before you seek business credit.

	Compensation	Fringe benefits	Payroll taxes
Month 1			
Month 2	\$ _____		
Month 3	\$ _____	\$ _____	
Month 4	\$ _____	\$ _____	\$ _____
Month 5	\$ _____	\$ _____	\$ _____
Month 6	\$ _____	\$ _____	\$ _____
Month 7	\$ _____	\$ _____	\$ _____
Month 8	\$ _____	\$ _____	\$ _____
Month 9	\$ _____	\$ _____	\$ _____
Month 10	\$ _____	\$ _____	\$ _____
Month 11	\$ _____	\$ _____	\$ _____
Full Year	\$ _____	\$ _____	\$ _____
	\$ _____	\$ _____	\$ _____
		\$ _____	\$ _____
			\$ _____

Part II – The Marketing Plan

The marketing plan is the core of your business rationale. To develop consistent growth in sales, a home-based businessperson must become knowledgeable about the market. To demonstrate your understanding, answer several basic questions.

Who Is your Market?

- Describe your typical customer.
 Age _____
 Gender _____
 Family size _____
 Annual family income _____
 Location _____
 Buying patterns _____
 Reason to buy from you _____
 Other _____
- Describe your market in geographic terms (e.g., county, state, national, etc.).

- Describe your market in economic terms (single family, average earnings, number of children, etc.).

How Large Is the Market?

- Total units or dollars _____
- Growing _____ Steady _____
 Decreasing _____
- If growing, annual growth rate _____

Who Is your Competition?

No small business operates in a vacuum. Get to know and respect competition. Identify direct competitors (both in

terms of geography and product lines) and those who are similar or marginally comparable. Begin by listing names, addresses and products or services. Briefly detail the following information concerning each of your competitors:

- Who are the nearest ones?
- How are their businesses similar to or competitive with yours?
- Do you have a unique “niche”? Describe it.
- How will your service or product be better or more saleable than your competitors’?
- Are their businesses growing? Stable? Declining? Why?
- What can be learned from observing their operations or talking to their present or former clients?
- Will you have competitive advantages or disadvantages by operating from home? Be honest!

Remember, your business can become more profitable by adopting your competitors’ good practices and by avoiding their errors.

To help evaluate your potential success, candidly evaluate the following characteristics of your product or service (you may want to add more characteristics from your knowledge of your field). Use a scale of zero (theirs puts mine to shame) to 10 (mine puts theirs to shame).

Characteristic	Score
Price	_____
Performance	_____
Durability	_____
Versatility	_____
Speed/accuracy	_____
Ease of operation or use	_____

Ease of maintenance	_____
Ease or cost of installation	_____
Size, weight or color	_____
Appearance, styling or packaging	_____
Total	_____

A total score of less than 60 indicates that you might reconsider the viability of your product or service or think about how you can improve it. Over 80 points indicates a clear competitive edge.

Describe how you will sell, distribute or service what you sell. Be specific. Some common practices are outlined below.

What Percentage of the Market Will You Penetrate?

1. Estimate the market in total units or dollars.

2. Estimate your planned volume.

3. Estimate the volume of total market.

4. Subtract #2 from #3.

Line 4 represents the amount of your planned volume that must be taken away from the competition.

Direct Sales

competitors. Remember, though, if your selling price does not exceed your costs and expenses by the margin necessary to keep your business healthy, you will fail. Detail your pricing policy below.

What Is Your Pricing

Direct sales are made by telephone or in person. The tremendous growth of individual sales representatives who sell by party bookings, door-to-door and through distribution of call-back promotional campaigns suggests that careful research is required to be profitable.

Mall Orders

Specialized markets for mail order products have grown as more low-income families find less time to shop. Be aware of recent mail order legislation and regulations.

Franchising

You may decide to either buy into someone else's franchise as a franchisee or create your own franchise operation that sells rights to specific territories or product lines to others. Each option will require legal, financial and marketing research.

What Is Your Pricing?

The primary consideration in pricing a product or service is the value that it presents to the customer. If according to the previous checklist of characteristic, your product is truly ahead of the field, you can command premium price. On the other hand, if your product is not unique but one of many similar products, you may have to lower your price to "buy" a share of the market and get a foothold. After you have established a market for your product, try raising the price. This is always risky and difficult. One rule will always hold: Ultimately, the market will set the price. Know your competitors' pricing policies. Send a friend to comparison shop. Is there discounting? Special sales? Price leaders? Make some "blind" phone calls to your

An excellent starting point if you are considering franchise involvement is the SBA publications *Evaluating Franchising Opportunities*. The International Franchise Association (IFA) also publishes a number of valuable aids in this field. Write to them

at 1350 New York Avenue NW, Suite 900,
Washington, D.C. 20005.

Distributors

You may decide to work as a local or regional distributor for several different product lines.

Outline your sales plan below.

What is Your Advertising Plan?

Each product or service will need its own advertising strategy as part of a total marketing plan. Before developing an advertising campaign for your business, review a few basic assumptions. By definition, advertising is any paid, nonpersonal promotion that simultaneously communicates with a large number of potential customers. The purpose of advertising is to inform, persuade and remind customers about your company's products or services. Every advertising activity should have specific goals. Common examples are:

- To bring in sales orders or contacts.
- To promote special events, such as sales business openings or new products.
- To bring in requests for estimates or a sales representative's call.
- To establish yourself before start-up and to get potential customer feedback.

Initial forms of advertising might include one or more of the following:

- Purchase and distribution of business cards to potential clients.
- Posting notices on free bulletin boards in area supermarkets or office complexes.

- A telephone survey of potential clients to alert them to your start-up plans.

To determine what types of advertising are appropriate and within company budget projections, carefully review your customers profile and write a clear statement of your advertising goals.

The next step is to answer the following crucial questions about your advertising:

- What should be said about the business and how should it be stated?

- What media should be used?

- How much can be spent on advertising?

- How can the advertising program be implemented?

- How can its effectiveness be measured?

Address the following areas in selection the types of media for your advertng.

- *Trading area* – Do you plan to serve or sell to an industrial market, a national market, a neighborhood or a specialized market? Describe your market area.

- *Customer type* – What does your potential customer read or listen to? Where? How often? What image of your product or service does the media you are considering suggest? Does it fit your customer? Describe your customer.

- *Budget restrictions* – How will the amount of money you have to spend limit the media you can use? How can you spread your budget over a year to give a repetitive, continuous message? While you have to spend more at the start, a useful guide is that advertising should not exceed 1 or 2 percent of sales. How much are you willing to invest in advertising in the 1st year?

\$ _____

Break this amount into monthly or quarterly installments.

\$ _____ per month

\$ _____ per month

- *Continuity of message* – How will the type of product or service, customer profile and seasonal buying patterns affect your choice of media and the frequency with which you advertise? Explain.

- *Past performance* – What is the track record of the advertising media you are considering for your type of business? What do your competitors use? What does your trade association suggest? Record appropriate comments.

Summary

Summarize the various operations of your business on a list that includes cost of operation. The outline will be helpful when you create the financial section of your business plan. In addition, you will want to summarize the advantage and disadvantage of a home-based business operation.

Part III – The Financial Plan

The most crucial section of your business plan is the financial plan. IN formulating this part of the document, you will establish vital schedules that will guide your business through the troubled waters of the first year and beyond

Before going into the details of building the financial plan, it is important to realize that some basic knowledge of accounting is essential to the productive management of your business. If you are like most home business owners, you probably have a deep and abiding interest in the product or services that you sell. You like what you do, and it is even more fulfilling that you are making money doing it. There is nothing wrong with that. You conviction that what you are doing is worthwhile is vitally important to success. Nonetheless, the salary of a coach who takes the greatest pride in producing a winning team will largely depend on someone keeping score of the wins and losses.

The business owner is no different. Your product or service may improve the condition of mankind for generations to come but unless you have access to an unlimited bankroll, you will fail if you don't make a profit. If you don't understand the financial side of your business you are not in a very good position to assure its profitability. Cash methods are the simplest form of accounting. Sales are recorded when cash is received and expenses are recorded when they are paid. As your business grows, you may want to switch the accrual method, a system that allows you to record sales and expenses when they are incurred rather than when they are collected or paid.

Most home-based businesses will use the cash method of accounting. This system of record keeping consists of little more than a

carefully annotated checkbook in which all recipients and expenditures are recorded, supported by a few forms of original entry (invoices, receipts, cash tickets, etc.). For a sole proprietorship, the very minimum of recorded information needed us that required to accurately complete the IRS Form 1040, Schedule C. Other business types (partnerships, joint ventures, and corporations) have similar requirements but use different tax forms.

If your business is, or will be, larger than just a small supplement to family income, you will need more sophisticated record keeping. Stationary stores can provide you with several small business accounting systems complete with simple journals and ledgers and detailed, understandable instructions.

If you think your accounting knowledge is so rudimentary that you will need professional assistance to establish your accounting system, the classified section of your telephone directory can lead you to a number of small accounting services. You can buy as much as you need, for simple "peg board" systems all the way to a computerized accounting and tax return service and monthly consulting services to assess the profitability of your business. An initial consultation will usually be free. Look under the heading, "Business Consultants," and make some calls. Be sure to indicate the size of your business so you can find consultants who specialize in home-based operations. Many of them are home-based entrepreneurs themselves and know what you will be going through.

The financial plan includes the following:

- Assumptions—these are short statements of the conditions under which you plan to operate.

___ Market health. _____

___ Date of start-up. _____

___ Sales build-up. _____

___ Gross profit margin. _____

___ Equipment, furniture and fixtures required.

___ Payroll and other key expenses that will impact the financial plan.

___ Equipment, furniture and fixtures required.

___ Payroll and other key expenses that will impact the financial plan.

- Income (profit and loss) projection—This is prepared for the first year, broken into twelve months. It should become your first year’s budget. See Appendix A.
- Sources of funds schedule—this shows the sources of your funds to capitalize the business and how they will be distributed among your fixed assets and working capital. See Table 1.

- Pro forma balance sheet –“Pro forma” refers to the fact that the balance sheet is before that fact, not actual. This form displays assets, liabilities and equity of the business. It indicates how much investment will be used as working capital in the operation of the business. See Appendix B.
- Cash flow projection—this will forecast the flow of cash into and out of your business throughout the year. It helps you plan for staged purchasing, high volume months and slow periods. See Appendix C.

Income (Profit and Loss) Projection

Refer to Appendix A. Create a wide sheet of analysis paper with three-inch-wide columns across the page. Write at the top of the first page the planned name of your business. On the second line of the heading, write “Income Projection (P & L Projection).” On the third line, write “First Year.”

Note the headings for each month on Appendix A and copy them onto your 14-column sheet. If the actual start-up date is indefinite, write “month #1 month #2.” Etc. Column 14 should be headed “Annual Total.”

In the wide, unnumbered column in the left of your sheet, copy the headings from the similar area on Appendix A. Follow the example set by Appendix A and list all of the other components of your income, cost and expense structure. You may add or delete specific lines of expenses to suit your business. Guard against consolidating too many types of expenses under one heading because it will make the accounting more difficult. Appendix A provides ample details for most home-base businesses.

Controllable expenses (salaries, supplies, advertising, Etc.) will be estimated monthly, based in planned volume and seasonal or other fluctuations.

Depreciation allowances for fixed assets, such as production equipment, office furniture and machines, vehicles, etc., will be calculated from the source of funds schedule.

The instructions describe line by line how the values on the income (profit and loss) projection are developed. Use it as your guide.

Sources of Funds Schedule

To create this schedule, you will need to create a list of the assets you intend to use in your business, how many investments each will require and the source of funds to capitalize them. A sample of such a list is shown below in Table 1.

Table 1 – Sources and Cost of Assets

Asset	Cost	Source of funds
Cash	\$ 2,500	Personal savings
Accounts receivable	3,000	From profits
Inventory	2,000	Vendor credit
Pickup Truck	5,000	Currently owned
Packaging machine	10,000	Installment purchase
Office desk and chair	300	Currently owned
Calculator	20	Personal cash
Personal computer*	3,000	Personal savings

*A note about office equipment: Although this publication has been written for home – based business operators in general, if you plan an enterprise that produces printed products or a large volume of correspondence, you should consider purchasing desktop software for your computer and a laser printer. Compare two or more systems that appear to meet your needs and select the one with which you feel most comfortable. Don't be afraid to ask for advice.

Before you leave your source of funds schedule, indicate the useful life (in months) for depreciable fixed assets. (In the example, the pickup truck, the packaging machine and the furniture and office equipment would be depreciable.) Generally, any individual item of equipment, furniture, fixture, vehicles, etc., costing over \$100 should be depreciated. Divide the cost of each fixed asset item by the number of months over which it will be depreciated. You will need this data to enter as monthly depreciation on your profit and loss projection. All of the data on the sources of funds schedule will be needed to create the balance sheet.

For more information on allowances for depreciation, request free publication and assistance from your local IRS office.

Pro Forma Balance Sheet

Refer to Appendix B, the balance sheet form. There are a number of variations of this form and you may find it prudent to ask your banker for the form that the bank uses for small businesses. It will make it easier for them to evaluate started and transfer the data to your preferred form later. The instructions describe line by line how to develop the balance sheet.

Even though you may plan to spread the purchase of some assets through the year, for the purpose of this pro forma balance sheet, assume that all assets will be provided at start – up.

Cash Flow Projection

An important subsidiary schedule to your financial plan is a monthly cash flow projection. A prudent business practice is to keep no more cash in the business than is needed to operate it and to protect it from catastrophe. In most small businesses, the problem is rarely one of having too much cash. A cash flow projection statement indicates the amount of cash that is going to be absorbed by the operation of the business and compares it against the amount that will be available.

The SBA has created an excellent cash flow projection form, shown in Appendix C. Your projection should be prepared on 13 – column analysis paper to allow for a twelve-month projection. The instructions give you a line-by-line description and explanation of the components of the cash flow projection, including a step-by-step method of preparation. Contact your local SBA office to obtain a free copy of Form 1100.

A FINAL WORD

In completing this publication, you have in a great deal of time and effort. You should now have all the elements needed to present as simple or sophisticated a prospectus for your enterprise as you desire. More important, you have created the management tools to guide you in your venture. Once the business opens its doors, you will be inundated by the details, problems, challenges and joys of going it alone. It will be difficult to hold to your course through the rough seas ahead, but don't forget this "chartbook"; it will see you through to "Port Profit". It should be a living document, referred to regularly and often revised to reflect your experience. Begin a planning cycle that expands this first year plan into one that spans three or five years. Update it a regular intervals. Set your goals and live by them. Your success is in your hands. Good planning and good execution is key to any business success