Creating a Comprehensive Business and Management Plan

By Melissa Marro

first impressions

HOME STAGING & INTERIOR REDESIGN

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Creating a Business and Management Plan

The business plan consists of instructions, thought processes and a few financial worksheets. The instructions template is the body of the business plan. It contains more than 150 questions divided into several sections. Skip any questions that do not apply to your business model. When you are finished writing your first draft, you'll have a collection of small essays on the various topics of the business plan. Then you'll want to edit them into a smooth-flowing narrative.

The real value of creating a business plan is not in having the finished product in hand; rather, the value lies in the process of researching and thinking about your business in a systematic way. The act of planning helps you to think things through thoroughly, study and research if you are not sure of the facts, and look at your ideas critically. It takes time now, but avoids costly, perhaps disastrous, mistakes later.

It typically takes several days or weeks to complete a good plan. Most of that time is spent in research and re-thinking your ideas and assumptions. But then, that's the value of the process. So make time to do the job properly. You will never regret the effort. And finally, be sure to keep detailed notes on your sources of information and on the assumptions underlying your financial data.

Business Plan

OWNERS

Your Business Name
Address Line 1
Address Line 2
City, ST ZIP Code
Telephone
Fax
E-Mail

I. Table of Contents

II. Executive Summary

Write this section last.

I suggest that you make it two pages or fewer.

Include everything that you would cover in a five-minute interview.

Explain the fundamentals of your proposed business: What will products or services will you offer? Who will your customers be? Who are the owners? What do you think the future holds for your business and your industry?

Make it enthusiastic, professional, complete, and concise.

If applying 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.

III. General Company Description

Describe your staging business. What will you do? How will it function?

Mission Statement: Many companies have a brief mission statement, usually in 30 words or fewer, explaining their reason for being and their guiding principles. If you want to draft a mission statement, this is a good place to put it in the plan, followed by:

Company Goals and Objectives: Goals are destinations—where you want your business to be. Objectives are progress markers along the way to goal achievement. For example, a goal might be to have a healthy, successful company that is a leader in customer service and that has a loyal customer following. Objectives might be annual sales targets and some specific measures of customer satisfaction.

Business Philosophy: What is important to you in business?

To whom will you market your products? (State it briefly here—you will do a more thorough explanation in the *Marketing Plan* section).

Describe the industry. Do you view it as a growth industry? What changes do you foresee in the industry, short term and long term? How will your company be poised to take advantage of them? (This section is particularly important if applying for a business loan as many aren't familiar with the industry.)

Describe your most important company strengths and core competencies. What factors will make the company succeed? What do you think your major competitive strengths will be? What background experience, skills, and strengths do you personally bring to this new venture?

Legal form of ownership: Sole proprietor, Partnership, Corporation, Limited liability company (LLC)? Why have you selected this form?

IV. Products and Services

Describe in depth your products or services (portfolio photos, sales brochures, and other bulky items belong in *Appendices*).

What factors will give you competitive advantages or disadvantages? Examples include level of quality or unique or proprietary features.

What are the pricing, fee, or leasing structures of your products or services?

V. Marketing Plan

Market research - Why?

No matter how good you of a home stager you are, your new business cannot succeed without effective marketing. And this begins with careful, systematic research. It is very dangerous to assume that you already know about your intended market. You need to do market research to make sure you're on track. Use the business planning process as your opportunity to uncover data and to question your marketing efforts. Your time will be well spent.

Economics

Facts about your market:

- What is the total size of your market?
- Current demand in target market?
- Trends in target market—growth trends, trends in consumer preferences, and trends in product development. (this may include whether you have a lot of vacancies, occupied consultations, occupied staging jobs, and any packages – discount or otherwise – you may need to offer to compete)
- Growth potential and opportunity?
- What barriers to entry do you face in entering this market with your new company? Some typical barriers are:
  - Inventory Costs or lack of furniture rental companies
  - Finding qualified help or movers
  - Lack of industry awareness or market saturation
  - Consumer acceptance and brand recognition

    - Training and skills
    - Key differentiators between you and your competition
- How will you overcome the barriers?
- How could the following affect your company?
    - Change in technology
    - Change in government regulations (see information on practice law reform on the RESA website, www.realestatestagingassociation.com)
    - Change in the economy
    - Change in the industry

Product & Service

In the *Products and Services* section, you described your products and services as you see them. Now describe them from your customers' point of view.

Features and Benefits

List all of your major products or services.

For each product or service:

- Describe the most important features. What is special about it?
- Describe the benefits. That is, what will the product do for the customer?

Note the difference between features and benefits, and think about them. For example, a house that gives shelter and lasts a long time is made with certain materials and to a certain design; those are its features. Its benefits include pride of ownership, financial security, providing for the family, and inclusion in a neighborhood. You build features into your product so that you can sell the benefits.

What add-ons to your service do you include? Some examples might be: virtual tours, broker open houses or other events, professional photographs, etc

Customers

Identify your targeted customers, their characteristics, and their geographic locations, otherwise known as their demographics.

You may have more than one customer group. Identify the most important groups. Then, for each customer group, construct what is called a demographic profile:

- Age
- Gender
- Location
- Income level
- Social class
- Other (specific to your location)

This is a necessary step to ensure that you spend your time and marketing dollar wisely. For instance, if you decide your target demographics are high end communities with high income sellers, you will want to cater all of your marketing materials, logo and every piece of business around a custom high end look. Likewise if your target demographic is a moderate income, you will be able to use slightly less quality materials, but will still need an overall impression that will work for your demographic.

Competition

What companies will compete with you?

List your major competitors:

(Names and addresses)

Will they compete with you across the board, or just for certain products, certain customers, or in certain locations?

Will you have important indirect competitors? (For example, some designers may offer staging, or furniture rental or sales companies may have staging experts on staff or allow consumers to rent from them directly)

How will your products or services compare with the competition?

Use the Competitive Analysis table below to compare your company with your two most important competitors. In the first column are key competitive factors. Since these vary from one industry to another, you may want to customize the list of factors.

In the column labeled **Me**, state how you honestly think you will stack up in customers' minds. Then check whether you think this factor will be a strength or a weakness for you. Sometimes it is hard to analyze our own weaknesses. Try to be very honest here. Better yet, get some disinterested strangers to assess you. This can be a real eye-opener. And remember that you cannot be all things to all people. In fact, trying to be causes many business failures because efforts become scattered and diluted. You want an honest assessment of your company's strong and weak points.

Now analyze each major competitor. In a few words, state how you think they compare.

In the final column, estimate the importance of each competitive factor to the customer. 1 = critical; 5 = not very important.

Table 1: Competitive Analysis

Factor	Me	Strength	Weakness	Competitor A	Competitor B	Importance to Customer
Products						
Price						
Quality						

Factor	Me	Strength	Weakness	Competitor A	Competitor B	Importance to Customer
Selection						
Service						
Reliability						
Stability						
Expertise						
Company Reputation						
Location						
Appearance						
Sales Method						
Credit Policies						
Advertising						
Image						

Now, write a short paragraph stating your competitive advantages and disadvantages.

Niche

Now that you have systematically analyzed your industry, your product, your customers, and the competition, you should have a clear picture of where your company fits into the world.

In one short paragraph, define your niche, your unique corner of the market.

Strategy

Now outline a marketing strategy that is consistent with your niche.

Promotion

How will you get the word out to customers?

Advertising: What media, why, and how often? Why this mix and not some other?

Have you identified low-cost methods to get the most out of your promotional budget?

Will you use methods other than paid advertising, such as trade shows, blogs, attending agent meetings or open houses, word of mouth (how will you stimulate it?), and network of friends or professionals?

What image do you want to project? How do you want customers to see you? (Remember your demographics)

In addition to advertising, what plans do you have for graphic image support? This includes things like logo design, cards and letterhead, brochures and signage. Should you have a system to identify repeat customers and then systematically contact them (drip marketing)?

Promotional Budget

How much will you spend on the items listed above?

Before startup? (These numbers will go into your startup budget.)

Ongoing? (These numbers will go into your operating plan budget.)

Pricing

Explain your method or methods of setting prices. For most small businesses, having the lowest price is not a good policy. It robs you of needed profit margin; customers may not care as much about price as you think; and large competitors can under price you anyway. Usually you will do better to have average prices and compete on quality and service.

Does your pricing strategy fit with what was revealed in your competitive analysis?

Compare your prices with those of the competition. Are they higher, lower, the same? Why?

How important is price as a competitive factor? Do your intended customers really make their purchase decisions mostly on price?

What will be your customer service and credit policies?

Sales Forecast

Now that you have described your products, services, customers, markets, and marketing plans in detail, it's time to attach some numbers to your plan. Use a sales forecast spreadsheet to prepare a month-by-month projection. The forecast should be based on your historical sales, the marketing strategies that you have just described, your market research, and industry data, if available. (RESA is a good source for this information. You may also want to check with your training company to see if they have industry data.)

You may want to do two forecasts: 1) a "best guess", which is what you really expect, and 2) a "worst case" low estimate that you are confident you can reach no matter what happens.

Remember to keep notes on your research and your assumptions as you build this sales forecast and all subsequent spreadsheets in the plan. This is critical if you are going to present it for a small business loan.

VI. Operational Plan

Explain the daily operation of the business, its location, equipment, people and processes.

Production

How and where are you working?

Explain your methods of:

- Types of Staging and costs involved
- Quality control
- Customer service
- Inventory control
- Product development (this could include packages or programs unique to your company)

Location

What qualities do you need in a location – if you've decided to carry inventory you will need a location. Describe the type of location you'll have.

Physical requirements:

- Amount of space
- Type of building
- Zoning
- Power and other utilities

Access:

Is it important that your location be convenient to transportation or to suppliers?

Do you need easy walk-in access or a roll up gate for large trucks? Will customers visit your location? Do you need a showroom? What about office space?

What are your requirements for parking and proximity to targeted communities?

Cost: Estimate your expenses, including rent, but also including maintenance, utilities, insurance, and initial remodeling costs to make the space suit your needs. These numbers will become part of your financial plan.

What will be your business hours? Will you need someone working for you at this location managing the building, inventory or moves?

Legal

Describe the following:

- Licensing and bonding requirements
- Permits
- Insurance coverage
- Trademarks, copyrights, or patents (pending, existing, or purchased) Even as a new business you may want to consider using these as a way to protect yourself from competition.

Personnel

- Number of employees
- Type of labor (skilled, unskilled, and professional)
- Where and how will you find the right employees?
- Pay structure
- Training methods and requirements
- Who does which tasks?

- Do you have schedules and written procedures prepared?
- Have you drafted job descriptions for employees? If not, take time to write some. They really help internal communications with employees.
- For certain functions, will you use contract workers in addition to employees?

Inventory

- What kind of inventory will you keep: will you carry large pieces of furniture or only accessories?
- How much inventory (dollars or qty) are you willing to invest in?
- Rate of turnover? How often will it be used? How many times can it be used before it is obsolete?
- Seasonal buildups?
- Lead-time for ordering?

Suppliers

Identify key suppliers: This is important if you will be ordering from a wholesale furniture supplier or using a rental company.

- Names and addresses
- Type and amount of inventory furnished
- Credit and delivery policies
- History and reliability

Should you have more than one supplier for critical items (as a backup)?

Do you expect shortages or short-term delivery problems?

Are supply costs steady or fluctuating? If fluctuating, how would you deal with changing costs?

Credit Policies

- Do you plan to sell on credit? (this may include payments due at closing)
- Do you really need to sell on credit? Is it customary in your industry and expected by your clientele? Could it give you a significant market advantage?
- If yes, what policies will you have about who gets credit and how much?
- How will you check the creditworthiness of new applicants?
- What terms will you offer your customers; that is, how much credit and when is payment due? Will your rates be the same as non-credit clients or higher?
- Do you know what it will cost you to extend credit? Have you built the costs into your prices? What if the home does not sell, how will you collect your money?

Managing Your Accounts Receivable

If you do extend credit, you should chart your accounts at least monthly to track how much of your money is tied up in credit given to customers and to alert you to slow payment problems. A receivables chart looks like the following table:

	Total	**Current**	**30 Days**	**60 Days**	**90 Days**	**Over 90 Days**
Accounts Receivable						

You will need a policy for dealing with slow-paying customers:

- When do you make a phone call?

- When do you send a letter?
- When do you get your attorney to threaten?

VII. Management and Organization

Who will manage the business on a day-to-day basis? What experience does that person bring to the business? What special or distinctive competencies? Is there a plan for continuation of the business if this person can or will no longer do the job?

If you'll have more than 5 employees, create an organizational chart showing the management hierarchy and who is responsible for key functions.

Include position descriptions for key employees. If you are seeking loans or investors, include resumes of owners and key employees.

Professional and Advisory Support

List the following:

- Board of directors
- Attorney
- Accountant
- Insurance agent
- Banker
- Mentors and key advisors

VIII. Personal Financial Statement

Include personal financial statements for each owner and major stockholder, showing assets and liabilities held outside the business and personal net worth. Owners will often have to draw on personal assets to finance the business, and these statements will show what is available. Bankers and investors usually want this information as well.

Assets:		Liabilities	
Cash	$	Real Estate Mortgage	$
Investments	$	Installment Loans	$
Accounts & Loans receivable	$	Credit Cards	$
Real Estate Owned	$	Federal income tax	$
Auto	$	Other Liabilities	$
IRA/Pension Fund	$	Total Liabilities	$
Other Assets	$	Net worth (assets – liabilities)	$
Total Assets	$	Total Liabilities plus net worth	$

IX. Startup Expenses and Capitalization

You will have many startup expenses before you even begin operating your business. It's important to estimate these expenses accurately and then to plan where you will get sufficient capital.

You should consider adding a category for contingencies – things you don't think of or didn't realize would come up. Talk to others who have started a business with similar structure and demographics to get a good idea of how much to allow for contingencies. If you cannot get good information, I recommend a rule of thumb that contingencies should equal at least 20 percent of the total of all other start-up expenses.

Explain your research and how you arrived at your forecasts of expenses. Give sources, amounts, and terms of proposed loans. Also explain in detail how much will be contributed by each investor and what percent ownership each will have. (This last part of course is if you decide to run your business with a partner.)

X. Financial Plan

The financial plan consists of a 12-month profit and loss projection, a four-year profit and loss projection (optional), a cash-flow projection, a projected balance sheet, and a break-even calculation. Together they constitute a reasonable estimate of your company's financial future. More important, the process of thinking through the financial plan will improve your insight into the inner financial workings of your company.

12-Month Profit and Loss Projection

Many business owners think of the 12-month profit and loss projection as the centerpiece of their plan. This is where you put it all together in numbers and get an idea of what it will take to make a profit and be successful.

Your sales projections will come from a sales forecast in which you forecast sales, cost of goods sold, expenses, and profit month-by-month for one year.

Profit projections should be accompanied by a narrative explaining the major assumptions used to estimate company income and expenses.

Research Notes: Keep careful notes on your research and assumptions, so that you can explain them later if necessary, and also so that you can go back to your sources when it's time to revise your plan.

3-5 Year Profit Projection

You will want to have long term forecasts as well. This will help keep you motivated and moving in the right direction after the first year. Keep notes of your key assumptions, especially about things that you expect will change dramatically after the first year. You will want to update your business plan annually and this section will help you see if you are still on target for the long term, not just the immediate.

Projected Cash Flow

Businesses fail if they cannot pay their bills. Every part of your business plan is important, but none of it means a thing if you run out of cash.

The point of this worksheet is to plan how much you need before startup, for preliminary expenses, operating expenses, and reserves. You should keep updating it and using it afterward. It will enable you to foresee shortages in time to do something about them—perhaps cut expenses, or perhaps negotiate a loan. There is no great trick to preparing it: The cash-flow projection is just a forward look at your checking account.

For each item, determine when you actually expect to receive cash (for sales) or when you will actually have to write a check (for expense items).

You should track essential operating data, which is not necessarily part of cash flow but allows you to track items that have a heavy impact on cash flow, such as sales and inventory purchases.

You should also track cash outlays prior to opening in a pre-startup column. You should have already researched those for your startup expenses plan.

Your cash flow will show you whether your working capital is adequate. Clearly, if your projected cash balance ever goes negative, you will need more start-up capital. This plan will also predict just when and how much you will need to borrow.

Explain your major assumptions, especially those that make the cash flow differ from the *Profit and Loss Projection*. For example, if you make a sale in month one, when do you actually collect the cash? When you buy inventory or materials, do you pay in advance, upon delivery, or much later? How will this affect cash flow?

Are some expenses payable in advance? When?

Are there irregular expenses, such as quarterly tax payments, membership dues, or seasonal inventory buildup, that should be budgeted?

Loan payments, equipment purchases, and owner's draws usually do not show on profit and loss statements but definitely do take cash out. Be sure to include them.

And of course, depreciation does not appear in the cash flow at all because you never write a check for it.

Opening Day Balance Sheet

A balance sheet is one of the fundamental financial reports that any business needs for reporting and financial management. A balance sheet shows what items of value are held by the company (assets), and what its debts are (liabilities). When liabilities are subtracted from assets, the remainder is owners' equity.

Use a startup expenses and capitalization spreadsheet as a guide to preparing a balance sheet as of opening day. Then detail how you calculated the account balances on your opening day balance sheet.

Optional: Some people want to add a projected balance sheet showing the estimated financial position of the company at the end of the first year. This is especially useful when selling your proposal to investors.

XI. Appendices

Include details and studies used in your business plan; for example:

- Brochures and advertising materials
- Industry studies
- Magazine or other articles
- Detailed lists of equipment owned or to be purchased
- Copies of leases and contracts
- Letters of support from future customers
- Any other materials needed to support the assumptions in this plan
- Market research studies
- List of assets available as collateral for a loan

XII. Refining the Plan

The generic business plan presented above should be modified to suit your specific marketing, business model and the audience for which the plan is written (applying for a loan, or simply creating a road map).

For Bankers

- Bankers want assurance of orderly repayment. If you intend using this plan to present to lenders, include:
    - Amount of loan
    - How the funds will be used
    - What this will accomplish—how will it make the business stronger?
    - Requested repayment terms (number of years to repay). You will probably not have much negotiating room on interest rate but may be able to negotiate a longer repayment term, which will help cash flow.
    - Collateral offered, and a list of all existing liens against collateral