BEGINNER'S GUIDE TO FINANCIAL PROJECTIONS ***WORKBOOK***

POWERED BY

SBA

U.S. Small Business Administration

WISCONSIN SCHOOL OF BUSINESS

UNIVERSITY OF WISCONSIN–MADISON®

SBDC

Wisconsin Small Business Development Center

INTRODUCTION & GOALS OF THIS WORKBOOK

This workbook was developed by the Wisconsin Small Business Development Center (SBDC) at UW-Madison, which is part of the Wisconsin School of Business. The course and workbook have received financial support from Federal Community Project Funds & Associated Bank.

The nationwide SBDC network is funded in part by the Small Business Administration (SBA) and was established by the SBA in 1980 with legislation written by Wisconsin Senator Gaylord Nelson. Since that time, our office - and SBDC offices across the state and nation - have supported thousands of entrepreneurs across industries through individual consulting and educational opportunities.

Completing this workbook is not a quick process; expect to spend multiple hours working through the course material and researching your answers to the questions presented here. However, if you do take the time, you will walk away with the key inputs you need for a projections template. By understanding the financial viability of your business, you can refine your plan as appropriate and share your ideas effectively with a commercial lender. Even if you do not plan to seek funding, completing this course and workbook will increase your confidence in your business' financial picture and better position you to make educated financial decisions moving forward.

WORKBOOK TABLE OF CONTENTS

SECTION 1:
INTRODUCTION TO FINANCIAL PROJECTIONS

Financial Projections *are an estimate of future financial outcomes for a new business or a new project in an existing business.*

A set of projections typically covers a three-year time horizon and includes three standard financial statements and an exhibit that demonstrates the sources and uses of funds. These documents include:

- Profit and Loss Statement
- Cash Flow Statement
- Balance Sheet
- Sources and Uses of Funds (the Balance Sheet is occasionally used for this purpose as well.)

The contents of these statements are based on your business model, any known historical financial data, and a series of reasoned assumptions that are often based on market research.

The documents show lenders and investors how you will repay any loans, what you intend to do with your money, and how your business will grow.

1.1 WHEN DO YOU NEED PROJECTIONS?

There are three typical situations (referred to as "events") that trigger the need for financial projections. Projections are also recommended - even if you do not need outside funding - to help you validate that it makes financial sense to move forward with a project. **Read the three common triggering events below, and select the event that applies to your business plans.**

- ○ Starting a new business
- ○ Purchasing an existing business
- ○ Expanding an existing business

1.2 WHO WILL VIEW YOUR PROJECTIONS?

The data gathered in financial projections is often utilized by multiple stakeholders, ranging from you, the business owner, for the purpose of establishing the feasibility of your business idea and market size, to potential lenders looking to compare your idea to industry data and lending standards. **In the stakeholder list below, select any stakeholders you would anticipate reviewing your financial projections.** *(Check all that apply)*

◯ **Business Owner(s)** - Projections help you to understand the financial feasibility of your idea and answer questions like:

- Does this project make sense?
- What information am I missing?
- How much funding will I need?

◯ **Friends and Family** - Projections illustrate the financial feasibility of your idea and demonstrate how you will spend their financial contribution, which could be offered as a gift, a loan, or an investment with an expectation of a return.

◯ **Lenders (Banks, Credit Unions, etc.)** - Projections allow traditional lenders to look at a business event in a uniform way. They can evaluate your idea based on comparative industry data and lending standards (e.g. SBA loan requirements).

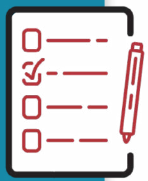
◯ **Equity Investors (Angel and Venture Funding)** - Projections allow investors to look at a business event in a uniform way. They can evaluate the capital needs at each growth stage as you scale.

1.3 KEY FINANCIAL STATEMENTS

The statements listed below are important to developing your financial projections. The profit & loss statement (also referred to as the P&L or income statement), balance sheet, and statement of cash flow are ongoing financial documents you will use throughout the life of your business. Becoming familiar with their layout, vocabulary, and components will help you build your own projections. Spend as much time as you need here! You will have an opportunity later in this workbook to identify components of these financial statements for your business.

For this section, you should:

- Familiarize yourself with the terminology listed here
- View the examples of each of these statements from our case studies in the sample business case study packet, and try to identify the components of each financial statement (we'll talk about this more later, so don't worry if this is new for you!)
- Watch all of the SBDC Entrepreneurial How-To Video Series on financial statements if you did not watch them in the class module.



1. **Profit and Loss Statement** - shows how much revenue was earned over a period of time, and the costs (expenses) associated with earning that revenue.
2. **Balance Sheet** - snapshot of the company's worth at a point in time. It is defined as what the business owns (assets) and what it owes to creditors/lenders (liabilities) at the time the sheet

is created. It is made up of the following components:

- **Assets** - what the business owns (equipment, cash, inventory, land, etc.) or is owed (accounts receivable).
- **Liabilities** - What the business owes (bank loans, bills, etc.)
- **Equity** - The amount of a business' value that can be claimed by the owner(s). This may include owner(s) cash contributions to the business, capital contributions (such as equipment or land), and any net profit the owner(s) leave in the business to support its future growth. Note: Any cash owner(s) take out of the business reduces the total equity.

ASSETS = LIABILITIES *MUST BE REPAID* **+ EQUITY**

3. **Cash Flow Statement** - helps you understand when you might have higher and lower amounts of cash available and helps you plan accordingly. It organizes and reports the cash generated and used during a given period of time (monthly, quarterly, annually) in three categories:
    - Operating activities - revenue and expenses
    - Investing activities - cash flow from purchasing and selling investments (such as property and equipment)
    - Financing activities - cash flow from both debt and equity financing
4. **Sources and Uses of Funds** - shows all costs for your business project/event and how you plan to pay for them. A lender uses this statement to understand how you plan to spend your loan proceeds. It functions like the fourth financial statement after the balance sheet, cash flow statement, and income statement. It is important to note that this statement is uniquely focused on your project/business event.

SECTION 2:
BUSINESS MODEL

Projections start with a well-reasoned and supported business model, and then show how the planned business model is expected to play out financially based on expected sources of funding.

A **business model** is the plan for how a business will make money. It includes...

- What **products/services** will be sold
- Who the **customer(s)** are and how the company will sell to them
- The key **cost drivers** (i.e. equipment and infrastructure needed to operate the business, operating costs that will be needed to deliver products/services to the customer)
- The **experience or level of service** the company plans for customers to have (luxury, high-touch, strong customer service, budget, bare-bones, etc.)

There is a lot of business planning you will need to do on your own, but if you are someone who appreciates structure and support, you may find it valuable to find a class near you!

2.1 COMMON BUSINESS MODELS

Below, you will find a list of common business models. **Below, select any business model(s) you will be using**. *(check all that apply)*

- ◯ Retail
- ◯ Fee for Service
- ◯ Revenue as a percentage of transaction
- ◯ Subscription
- ◯ Franchise
- ◯ Bundling (for example, your product with a service, or multiple related services together)
- ◯ Manufacturing
- ◯ Distribution
- ◯ Razor blade (base product is less expensive than refills/replacements - think razor blade replacements, ink cartridges, etc.)
- ◯ Advertising or affiliate marketing
- ◯ Product as a service (often renting a physical product to use. May charge per use, per month, per mile/minute, etc.)
- ◯ Freemium (some parts of the product are free, but there are additional costs for premium services. Common with apps).
- ◯ Product/service that is free to users, revenue from advertisers
- ◯ Leasing (similar to product as a service, but often bigger-ticket items or more extended rental periods)
- ◯ Other

2.2 COMMON TOOLS FOR DOCUMENTING YOUR BUSINESS MODEL

We shared a variety of common tools for documenting your business model in the course content, including a business plan, a Business Model Canvas, a pitch deck, and an executive summary, in addition to financial projections. The goal of any of these documents is to help provide a narrative supporting the numbers provided in your financial projections, and to help explain how you arrived at your projections numbers.

*** Review the following charts to identify what business model tool(s) you will most likely need based on your stakeholder(s), the current stage of your business (startup or expanding), and your current stage of the lending or investment process.**

For the following charts, stakeholders are defined as follows:

- **"Investors"** are those who are investing in rapidly scaling startups, often in exchange for equity in the business. They may be venture capitalists or angel investors.
- **"Lenders"** are focused on traditional lending opportunities, such as business lines of credit or SBA loans. They are typically located in banks and credit unions.
- **Friends and family** provide funding outside of traditional lending environments. This funding can be offered as a gift, a loan, or an investment with an expectation of return and should be clearly documented by both parties.

Startups - Traditional Growth Models

Stakeholder		**Lenders**		**Owner**	**Family & Friends**
Purpose		**Initial meeting**	**Loan Committee & Underwriting**	**Business planning & management**	**Business overview for potential support**
Tool	Business Model Canvas			X	X
	Business plan narrative or executive summary	X			
	Full Business plan		X	X	
	Financial Projections		X	X	X

Startups - Rapidly Scalable Business Models

Stakeholder		Investors		Owner	Family & Friends
Purpose		**Initial meeting**	**Loan Committee & Underwriting**	**Business planning & management**	**Business overview for potential support**
Tool	Business Model Canvas			X	
	Pitch Deck	X	X	X	X
	Business plan narrative or executive summary		X	X	
	Financial Projections		X	X	X

Existing businesses - Growth via acquisition or expansion

Stakeholder		Investors		Owner	Family & Friends
Purpose		**Initial meeting**	**Loan Committee & Underwriting**	**Business planning & management**	**Business overview for potential support**
Tool	Business Model Canvas			X	
	Business plan/ expansion project narrative	X	X	X	X
	Financial Projections		X	X	X

Based on the information you just reviewed, select which tool(s) you anticipate using. *(check all that apply)* As always, check with any lenders or investors you anticipate working with to learn more about their expectations.

- ◯ Business Model Canvas
- ◯ Pitch Deck(s)
- ◯ Business Plan/Expansion Project Narrative
- ◯ Business Plan Narrative/Executive Summary

If you are planning to create a formal business plan, there are many great templates available online.

2.3 BUSINESS MODEL READINESS FOR PROJECTIONS

At their core, financial projections are the numbers you will use to support your business' narrative. Therefore, to create projections, you will need to define and describe the key components of your business model and support your ideas and assumptions with sources like: your own first-hand industry experience, customer interviews, industry and market research, and estimated bids or quotes for various costs within your business.

In the class content, we asked you to indicate what questions you are able to answer about your business model and plans; now, let's take a deeper dive! **In the next several sections, you will be prompted to provide details about your business model. You can use the space provided after each question to answer the question directly, or to indicate where you've included this answer in other documents (e.g. what section of your business plan, pitch deck, or Business Model Canvas for example, if you have completed one).**

Q1: What is your Value Proposition?

- **What problem(s) are you solving for your customer? What are you selling?**

- **How are your customers currently solving that problem?**

- **What is unique about your business' solution compared to your competitors?** Is your solution more affordable? More sustainable? Locally made vs. imported? Do you offer more personalized service or faster turnaround time?

Q2: Who is your customer?

SECTION 3:
REVENUE FORECASTING

3.1 REVENUE STREAMS & UNITS OF SALE

Revenue (also often expressed as income or sales) is the amount of money the business takes in as a result of selling products or services. Key components of revenue include:

- **Units of sale** quantity of the good or service being sold (e.g. selling by the product, per bundle, by the hour, etc.)
- Projected number of units sold
- Price of your products or services

A business may have multiple sources of revenue; each source is called a **revenue stream**. Your list of revenue streams clarifies what, exactly, your customer is paying you to provide. Total revenue for the business is the total of money coming into the business from all revenue streams.

A **revenue forecast** is a compilation of expected revenue over a defined time period (by month, by year).

- Revenue forecasts are a key part of financial projections. It may be helpful to complete a revenue table, which identifies sales by month for each revenue stream. There are examples of revenue tables in the **Sample Business Case Study packet.**
- Revenue forecasts are also part of good financial planning for operating businesses, and typically are prepared annually.

You will complete the following Revenue Streams and Cost of Goods Sold (COGS) chart in several stages as you progress through this workbook. Each column indicates when that portion of the chart should be completed.

Complete Now: Column A and Column B

- **Column A (revenue streams):** In Column A, list one revenue stream per row. Revenue streams fill in the following blank: "my customer is exchanging money for ______." Focus on the minimum number of revenue streams needed for your business model to work. If you have many different products or services, it can help to simplify your projections by grouping similarly priced revenue streams together. You can always add more revenue streams (and more complexity) as your business matures.
- **Column B (unit of sale):** In Column B, list your unit of sale for that revenue stream. This should clarify what, exactly, the customer is purchasing from you.

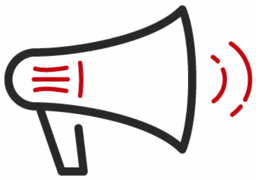
Complete After Section 4: Columns C – E

In Section 4 of this workbook, you will identify your costs to produce your product(s) or deliver your service(s). Because you need to know your costs before establishing your pricing, complete Section 4 before returning to Columns C-E of the Revenue Streams and Cost of Goods Sold (COGS) chart.

- **Column C (average unit selling price):** Because you may sell at different price points based on a given customer segment or channel, Column C asks you to determine your average selling price for a given revenue stream.
- **Column D (COGS %) or Column E (COGS per unit) examples:**
  - ***Product-based business example:*** *If you have a unit selling price of $10 for a knit hat, you would estimate the cost of material to produce it. Let's say that material makes up $5 COGS per unit (Column E). Therefore, your COGS % (Column D) is 50% or $5/$10.*
  - ***Service-based business example:*** *Your business charges $150 for one staff member to clean a two-bedroom house. Your total payroll costs for that job are $25/hour at an average 3.5 hours per job (includes both cleaning and commute time). You have also estimated your cost of cleaning agents for each two-bedroom home to be $12.50. Therefore, your COGS per unit (Column E) equals $100 (3.5 hours * $25/hour + $12.50), and your COGS % (Column D) is 67% ($100/$150). For service businesses, COGS typically include the cost of materials and labor that can be attributed to a particular job or customer, rather than costs that are needed to run the business in general.*

Revenue Streams and Cost of Goods Sold (COGS)				
A	**B**	**C**	**D**	**E**
Product line or service options (revenue streams) *Complete in section 3.1*	**Unit(s) of sale** *Complete in section 3.1*	**Average Unit Selling Price** *Revisit after section 4*	**COGS %** *Complete after section 4*	**COGS per unit** *Complete after section 4*
Ex. Knit hat	Single hat	$10	50% COGS ($5/$10) * 100 = 50%	$5 to produce
Ex. House cleaning	Per house (2 bedroom)	$150	67%	$100 (direct labor and cleaning supplies cost)

3.2 PROJECTED NUMBER OF UNITS SOLD: MARKET SIZE & SHARE



NOTE: This section - and the following one - focus on the details of your business plan and sizing your market. In order to calculate your anticipated share of market, you will need to have made a lot of decisions about your business and your intended customer(s).

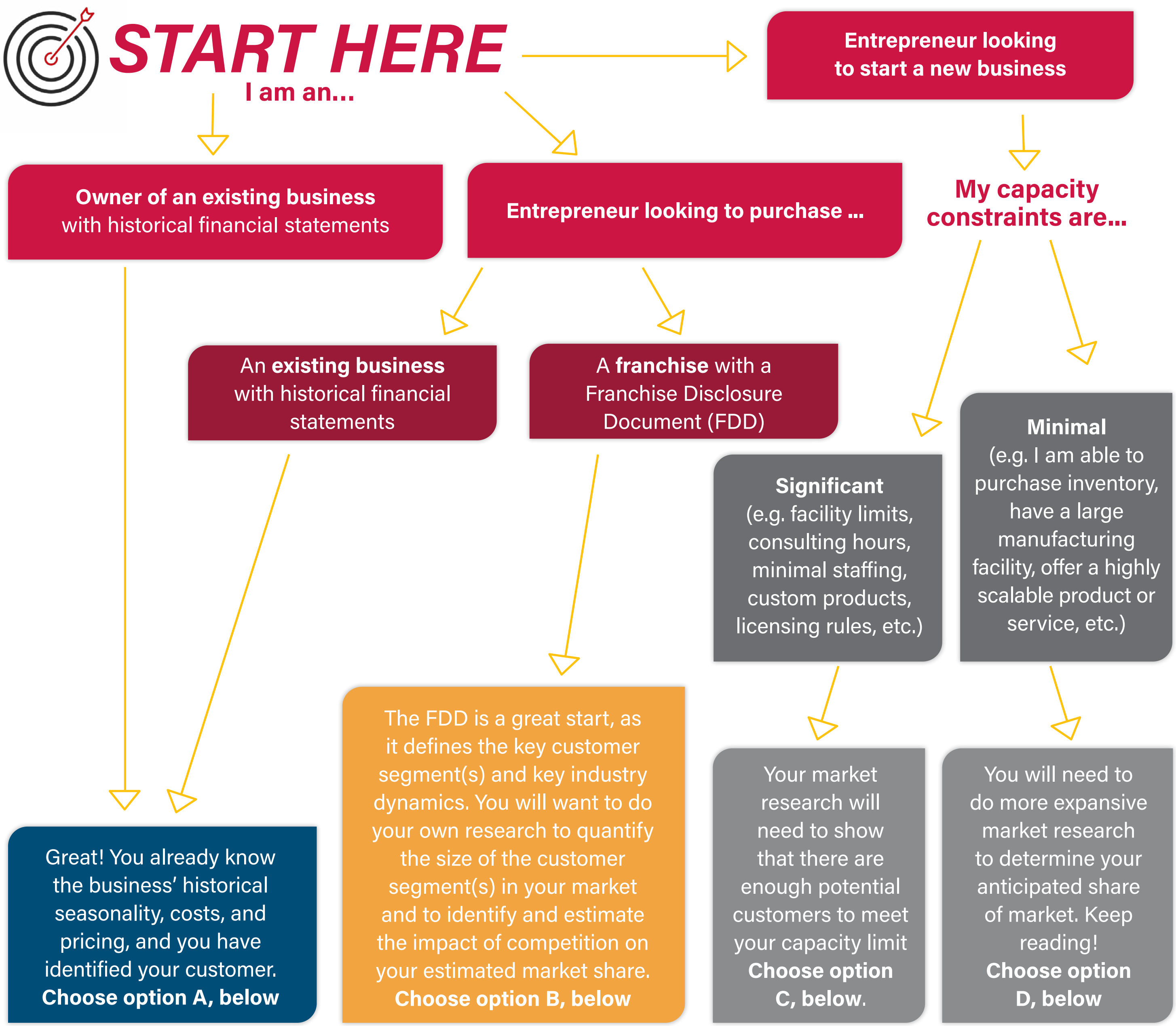
If you are unable to answer some of the questions, don't worry! This is one of the most difficult elements of putting together financial projections, and you will likely work on this section over many sessions, with a consultant, or through a business planning course.

The next component of the revenue forecast is estimating how many units your business will sell based on your market size and share. The work you need to do to determine your market size and share depends primarily on how much information you already have available. When you first start a new business, you do not have historical data on which to base your decisions. However, you should have a strong value proposition and an understanding of your customer segments, which will help you do market research to estimate how many customers might be reasonable to expect.

3.2a Sizing Your Market: Clarifying Your Approach

If you are expanding your existing business or purchasing another existing business or franchise, you will have much more information available than someone who is starting a new business. **Follow the Approaches for Sizing Your Market flow chart to help guide your approach to identifying your market size estimates.**

Approaches to Sizing Your Market



Based on the flowchart, I will...(select the option below):

- ○ **A.** Focus on whether my historical data accurately reflects my current market size/share based on market dynamics and any changes I plan to make to the business *(start with Section 3.2a(i))*
- ○ **B.** Use the FDD as the basis for research to quantify my local market size and identify the impact of competition on my estimated market share *(start with Section 3.2a(i))*
- ○ **C.** Determine if there's enough business possible given my capacity *(start with Section 3.2a(ii))*
- ○ **D.** Determine my overall share of market in a scalable or higher-capacity business *(start with Section 3.2a(ii))*

Now that you've identified where to focus your efforts, read on to understand more about the market research process.

3.2a(i.) Sizing Your Market - for Existing Business Expansions/Purchase, Franchise Purchases

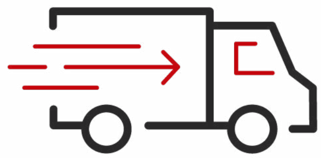
If you are planning to expand your current business, purchase an existing business, or purchase a franchise, you may already know your market size based on historical financial documents or your Franchise Disclosure Document (FDD). You might instead focus on your local market, competition, or how you anticipate changes to your existing business plan may impact your market size.

How big is your market (units, sales dollars, or potential number of buyers)? How did you determine this number?

What have you learned from your historical financial documents or FDD about your customers' purchasing behavior? For example:

- How many times a year do you anticipate they will purchase your product or service?
- How many units do they tend to purchase at one time?

How many competitors do you have? Is it reasonable that you would receive an equal share of the market (e.g. ¼ of the market if you have 3 competitors)? Why or why not?



NOW THAT YOU HAVE ANSWERED THESE QUESTIONS,
SKIP AHEAD TO SECTION 3.6 - PRICING

3.2a(ii.) Sizing Your Market-for New Businesses (Non-Franchise)

If you identified at the beginning of Section 3.2 that you are focused on determining your overall share of market for a scalable or higher-capacity business, continue with the market sizing information below. You will need to complete a more robust business planning process to be able to answer these questions; you may find a business planning class helpful for making these decisions.

Market research can help you find relevant data about your intended customers; market trends, size and dynamics and competitor information to use as a basis for making educated decisions. Research also helps to justify your "ask" if you are seeking funding for your business.

To learn more about your market size - or maximum total number of sales or customers your business can expect to see - you will have to do some research. Once you've defined who your ideal customer is, you can then work to quantify how many people fit that definition using researchable data (demographics like age, gender, income level, etc.). This type of data can typically be found in resources like the U.S. Census or in industry reports.

If the total potential **market size** is large enough to support your business model, you should identify a more accurate estimate by adding additional "filters," such as more detailed customer characteristics and the number of competitors you have. This process helps you feel confident that you have enough people who will possibly buy your products or services. Remember, not everyone who fits your customer profile will buy, so zeroing in on a more detailed estimate helps you understand your **share of market** - which is what you will use in your revenue forecast.

3.2b Sizing Your Market: Identifying Measurable Customer Characteristics

Sizing your market requires you to refine your anticipated customer base and identify key measurable characteristics of those customers. In doing so, you can anticipate your potential "slice" of the market and clarify whether that number is large enough to make you feel confident about launching your startup or business expansion. These customer characteristics can be demographic (e.g. age, education, income, etc), behavioral (e.g. how often your customers typically buy, or if there is a seasonal pattern to when customers buy your type of product) and/or psychographic in nature (customer attitudes and beliefs).

Psychographic data is trickier to quantify; however, you may be able to use survey-based consumer data to better understand the attitudes and values of your target customers and use that information to identify "lookalike" audiences who have similar interested as your target customer. For example, customers who are a good fit for your holistic wellness business may also be interested in vegan food, yoga, or other wellness products or services. You could then use available market size information for those customer groups as a reasonable proxy for yours.

In the space below, describe your ideal customer. Make sure to include measurable details you can support with data, such as customer demographics, behaviors or psychographics. Market research can then be conducted to inform your market size estimates.

Sizing Your Market Example: Determining Feasibility

Market sizing is the process of narrowing down from "all existing people in a market" to the number of people who would most likely be your customers. We often refer to this narrowing-down process as "applying filters."

Sizing Your Market Using Market Research Filters

Let's say you want to open up a spa in Madison, WI that offers massages. From your research on the massage therapy industry, you have learned that:

TAM

- 43% of people who book massages make more than $100,000 annual household income, so $100,000+ income will be your target audience.
- Most customers drive no more than 20 miles for a massage appointment, so you will use 20 miles as the approximate radius within which you can expect customers
- **Based on Census data, there are 81,700 households within a 20-mile radius of downtown Madison that make $100,000 annual income**

SAM

- 28% of women and 26% of men received a massage last year, so you take **27% of these 81,700 households as your starting point, for a total of 22,059 households.**

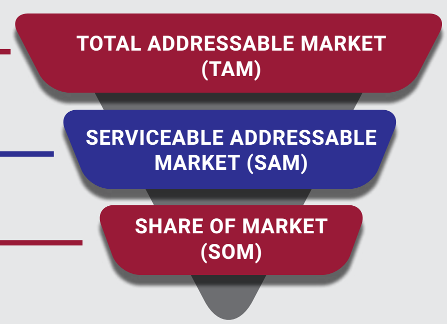
SOM

- Next, you will need to consider your competitors. You discover that you will have 3 competitors within your 20-mile radius. **If you have 3 similar competitors in the area, it is reasonable to initially assume you could earn ¼ of the market share, leaving you with 5,514 households.** You may want to adjust this estimated share based on how similar, or dissimilar, your value proposition is to your competitors based on services offered, pricing, location, etc.

Households in a 20-mile radius that make $100,000+ income annually = **81,700 households**

27% of people booked a massage last year = **22,059 households**

With 3 competitors, ¼ of the market share = **5,514 households**



Note: See section 3.4 for more on how this information connects to demonstrate your revenue forecast.

Unit Sales

The number you are trying to calculate to determine feasibility of your business is not households, but instead the number of units you might expect to sell. In this case, a "unit" is the number of massages booked.

- Consumers typically book a massage appointment every 3 months, or 4 times a year. If your 5,514 households each book 4 times a year, they would be booking **22,056 appointments per year**.
- Based on similar competitors, you plan to charge $80 for a one-hour massage (your signature service).

Capacity

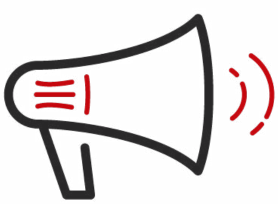
You learned from your research that it is typical for a massage spa to be open 6 days a week with 2 shifts per day. You plan to staff 5 therapists per shift, each therapist taking 4 appointments per shift. This means you would have a total of **240 spots available each week, or 12,000 spots each year** (assuming you are closed a total of 2 weeks/year). Since you have the **potential for 22,056 appointments per year** - well above your capacity - you can anticipate having enough demand.

3.3 PROJECTED NUMBER OF UNITS SOLD: CAPACITY CONSIDERATIONS

As you saw in the example, certain businesses will need to consider both the overall market size and the business' own capacity limitations. **Capacity** represents the highest volume of products you can make and sell, or the maximum hours of service you can provide in a given period of time based on your current resources. Even if you have a lot of potential customers, your sales may be limited by capacity issues.

What are your capacity constraints? *(check all that apply & add details as known)*

- ○ Available work hours
- ○ Available labor
- ○ Opportunities to sell (e.g. farmer's markets or craft shows)
- ○ Supply chain
- ○ Equipment
- ○ Other



IF YOU HAVE IDENTIFIED THAT YOUR BUSINESS' CAPACITY IS SIGNIFICANTLY SMALLER THAN YOUR POTENTIAL SHARE OF THE MARKET, ***YOU CAN SKIP AHEAD TO SECTION 3.5 PROJECTED NUMBER OF UNITS SOLD: SEASONALITY.*** *OTHERWISE, ANSWER THE FOLLOWING QUESTIONS.*

3.4 PROJECTED NUMBER OF UNITS SOLD: CONNECTING YOUR BUSINESS PLAN TO YOUR PROJECTIONS

By taking key elements from your Business Model Canvas/business plan - value proposition, customer segment(s), and revenue stream(s) - and adding in the information you have been collecting throughout section 3, you are developing a clearer picture of your estimated revenue forecast, as you can see demonstrated in the following image using our spa example.

Above each shape, you can see the relevant section of the Business Model Canvas/business plan represented in blue. Within each red shape, we are clarifying the associated quantities based on our market research. Finally, by multiplying all of these quantities, you can see how your revenue forecast begins to come together.

Connecting the Dots: Linking Market Research to Your Revenue Forecast

Value Proposition — Units of Goods/Service you are selling

×

Customer Segments(s) — # of Buyers

×

Revenue Stream(s) — Price per Unit

×

Customer Segments(s) — Purchase Frequency

=

Revenue Forecast

Units of Goods/Service you are selling: 1-hour massages are your signature service

# of Buyers:

Customer segment =

- households within a 20-mile radius of downtown Madison
- make $100,000+ household income annually
- 27% of them would book a massage =
- 22,059 households
- 3 competitors decreases this number to **5514 households**

Price per Unit: Based on competitor pricing, you plan to charge $80 for a 1-hr massage

Purchase Frequency: Most customers book a massage 4x/yr

Revenue Forecast: Are business resources sufficient to support this forecast?

Adjust forecast for any capacity limitations

Potential for 22,056 massages your capacity is 12,000 massages/year

Potential revenue $960,000 is based on capacity

In our spa example, the market research suggests that there could be the potential for as many as 22,056 massages booked per year. The maximum number of massage timeslots available based on staffing and hours the spa will be open is 12,000 massages per year, or a potential revenue of $960,000 given the current capacity.

This tells us that there should be sufficient demand based on our market research. Now we can evaluate whether the revenue forecast is sufficient based on the costs of starting and running the business. Going through this process helps us determine the feasibility of the business and whether we'd need to make any adjustments to our plan – such as increasing the hours the spa is open, adjusting pricing, offering a wider variety of services, or scenario-planning to estimate best-case and worst-case scenarios.

Now it's your turn! *So far, in Section 3.2b, you identified your customers. These customer characteristics inform your research to help you identify the potential overall size of your market and your estimated market share. Using that customer research, answer the questions below.*

How big is your market (units, sales dollars, or potential number of buyers)? How did you determine this number?

What do you know, or assume to know, about your customers' purchasing behavior? For example:

- How many times a year do you anticipate they will purchase your product or service?
- How many units do they tend to purchase at one time?

How many competitors do you have? Is it reasonable that you would receive an equal share of the market (e.g. ¼ of the market if you have 3 competitors)? Why or why not?

As you can see, each question - or filter - helps you narrow down your possible share of market. **Based on the answers to these three questions (market size, customer purchasing behavior, and number of competitors), is your anticipated share of the market large enough to justify the need for your business? Why or why not?**

3.5 PROJECTED NUMBER OF UNITS SOLD: SEASONALITY

In some businesses, sales occur throughout the year. In others, most of the sales are made in a compressed timeframe. Accounting for the seasonal nature of a business is important.

Examples:

- A gift shop in a summer tourist destination makes 90% of sales between June and August.
- A snowboard school offers lessons between November and March each year.
- A retail gift shop makes the highest percentage of sales during holiday gifting season. This means that a large amount of inventory must be purchased earlier in the year, and that inventory is sold primarily in November and December.

List any seasonality that may impact your business.

Based on the seasonal impact you noted above, what month(s)/season do you anticipate your highest and lowest sales?

3.6 PRICING

Price is the amount of money you charge for your goods or services. Research will help you understand industry trends and make reasoned assumptions about pricing models. This research can be done through trade associations, looking at your competitors, and by calculating your costs. Pricing often starts with materials and costs, but can also include elements of brand image (such as premium services, luxury goods, experience level, etc.). **Review the factors listed in the left column below, and consider which apply to your business.** In the right column, write "N/A" if that factor does not influence your pricing, or make notes about how it impacts your pricing (or give a dollar estimate if relevant).

Considerations when Determining Your Pricing	
Consideration	**Notes or estimate** *(if applicable)*
Breakeven (what materials and labor costs do you need to make your product or provide your service)	
MSRP (manufacturer's suggested retail price)	
Competitor's pricing	
Brand Image (premium vs. low cost) - may be helpful to compare this consideration directly to your competitors	
Contribution Margin (how much money you need to cover your overhead expenses)	
Profit Margin (how much profit do you want to make per item)	
Context (proprietary technology? Captive audience? Do customers consider your product/service essential?)	

Typical industry trade margins	
Current supply and demand	
Experience level (e.g. an apprentice vs. an experienced stylist)	
Franchise Mandates	
Other	
Other	
Other	

In some cases, you may base your pricing on an established Manufacturer's Suggested Retail Price (MSRP) or a base hourly rate determined by your personal needs and/or experience in the industry. If that is the case, use that information and the factors you identified above to **return to the pricing column of the chart in section 3.1 and fill in your estimated Average Unit Price (Column C) for each revenue stream. If not, complete Section 4 before you revisit your pricing information.**

SECTION 4:
ESTIMATING COSTS

In addition to projecting revenue, you also need to be able to identify and estimate key costs you expect to incur both starting your business or your new project and the ongoing costs of operating the new entity.

4.1 START-UP COSTS

Start-up Costs include all costs required to prepare a new business to open its doors for normal operations. These costs are typically one-time in nature.

Start-up costs are typically recorded in a document called Source and Use of Funds, which documents where funding for the business will come from and how that funding will be used to start the business or fund a significant expansion. If you are purchasing an existing business or a franchise, you may already have information about these costs from your historical financial documents or your FDD.

In the table below, you will find a list of common startup costs. **Identify your key start-up costs by indicating whether a specific cost applies to your business in the middle column (Y=yes, N=no) and, if yes, include a bid or estimate for that item.** Please note that while this chart includes many common one-time startup costs, it is not meant to be comprehensive. There are several spaces for other costs that may apply to your business at the end of the table.

Consideration	Applies? Y/N	Bid / Estimate	Notes
Acquisition Cost or Franchise Fee			
Space (lease deposit; remodeling or build-out; land and/or building purchase)			
Fixtures, furniture, equipment			
Vehicles			
Services, supplies			

Beginning inventory cost			
Insurance prior to opening			
Legal and accounting (professional) fees			
Licenses, permits (i.e., liquor license)			
Deposits for utilities (phone line(s), etc.)			
Signage for Space			
Opening advertising/ promotion			
Letterhead, envelopes, business cards (design & printing)			
Website development			
Salary & wages; payroll taxes for work/training done prior to opening			
Working Capital: Cash on hand, or readily available credit. A best practice, and good goal, is to plan for 3-6 months of expense coverage.			
Other			
Other			
Other			
Other			

4.2 OPERATING EXPENSES: VARIABLE EXPENSES & COST OF GOODS SOLD (COGS)

Operating Expenses are ongoing expenses associated with running your business. These fall into two main categories: fixed and variable. Variable expenses change with the quantity of goods produced or services provided. The most commonly recognized variable cost is **Cost of Goods Sold (COGS)** - the direct costs of making and delivering your product or service. In service businesses, this can sometimes be called **Cost of Sales**.

COGS can also include the cost of **direct labor and related payroll costs**, meaning labor that can be attributed to a specific client or job. Note that many business types do not have direct labor costs; these are most common with manufacturing, construction, per-hour client services, etc.

In the chart below, identify the variable expenses you are likely to incur, and include what your bid or estimate is for that cost (if known) in the right column. *Mark N/A if the expense is not relevent to your business. If you do not yet know the price for relevent costs, it is time to do some research!*

Variable Expense *(check off all that apply)*	**Bid or estimate** *(may be stated as a % of sales or a cost per item)*
COGS: Staffing costs for direct/ project-based labor	
COGS: supplies or raw materials used to create your product	
COGS: Purchase of goods to be sold (inventory)	
COGS: Gas/travel/mileage (attributed to specific clients/jobs)	
COGS: Expenses incurred on behalf of a client (software purchases, client-specific research or education, temporary office rental in a different location etc.)	
COGS: “Freight in” shipping costs for goods moved from the supplier or distribution to sales or manufacturing location (general).	
Sales commissions or performance bonuses	

Shipping expenses to send products to your customers	
Credit card or other payment processing fees	
Other	
Other	
Other	

*IF YOU WERE NOT ABLE TO COMPLETE THE AVERAGE UNIT SELLING PRICE INFORMATION (COLUMN C) OF THE CHART IN SECTION 3.1 EARLIER, **GO BACK AND DO THAT NOW.***

4.3 OPERATING EXPENSES: FIXED EXPENSES

Fixed expenses are costs that you incur in the normal course of business - regardless of sales volume.* These recurring costs will be part of your profit and loss statement.

In the chart following, identify the operating expenses you are likely to incur each month (or annual expenses you can divide into a per-month cost). In the right column, write NA if that expense does not apply, or include a monthly estimated cost (if known). *If you do not yet know these costs, it is time to do some research!*

**NOTE: some fixed expenses need to be paid regardless of sales; however, the amount you pay may not be the same every month from a cash-flow perspective. For example, you will only pay legal fees when you interact with your lawyer; you will pay property taxes annually instead of on a per-month basis; and you are likely to have higher repair and maintenance costs accompanying heavier use of your equipment. If you can anticipate when some of the larger expenses will occur, you can include them on a particular month on your Year 1 cash flow statement; otherwise, you can estimate an average per-month cost. You will have the opportunity to capture some of these expenses in the question following this chart.*

Fixed Expense *(select all that apply)*	**Estimated Cost** *(per month)*
Rent	
Property Taxes	
Insurance	
Bank charges	
Marketing costs	
Utilities (electricity, water, garbage, internet, wifi, etc.)	
Employee wages & payroll taxes (not direct labor)	
Web hosting	
Point of Sale (PoS), bookkeeping, or other recurring software fees	
Depreciation on equipment or other large assets	
Other	
Other	
Other	
Other	

Fixed expenses remain the same from month to month, but there are many other ongoing costs. **What are some additional costs you want to consider as part of your overall operating expenses (e.g. project-based facility/rent costs for special assessments; common-area maintenance; office supplies; equipment maintenance & repair; professional service fees, etc.)?**

4.4 SPECIAL CONSIDERATIONS: ESTIMATING EMPLOYEE WAGES WITH LABOR TABLES

In your business plan, consider your staffing needs – both for coverage and cost purposes. These needs are often expressed as a labor table. A **labor table** will include the type of labor (employee or contractor) and amount of coverage you will need. Things to consider include:

- What are your hours of operation?
- Will your staffing coverage differ by days of the week? Do you have peak periods throughout the day or week when you would need higher staffing?
- Is your business seasonal? If you have a highly seasonal business, you may want to create two labor tables - one for your high-volume periods, and one for your slower months.
- What hours do you work (as the owner)? Be sure to include yourself on the labor table!
- What are the pay rate(s) for different roles?
- Will your team be independent contractors (IC on the chart) or employees (E on the chart)? Review the DWD website's Nine Requirements Test to understand the formal definition of each of these types of employees. If you determine that you will have employees, make sure to factor in additional costs, such as taxes (Social Security, Medicare, and FUTA), unemployment insurance, benefits, etc. Some businesses may have a mix of both employees and independent contractors.

Complete the chart following, based on your business' staffing needs. Include the relevant job title(s), a note of E (employee) or IC (independent contractor), and pay rate. For each day of the week, list how many hours you anticipate that staff member working that day. It can be helpful to start by identifying the total hours your business will need staffing each day and each week, as well as how many weeks a year you will need that role based on any seasonality in your business. This type of information is something that is helpful to note in your assumptions document to help explain how you arrived at your staffing costs. To see sample labor tables and assumption documents for MasAi and Forest Friends, see the Sample Business Case Study Packet.

Job Title	E or IC?	Pay rate *(hourly or salary)*	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Hrs / wk	Wks / year
Hours Open											

4.5 SPECIAL CONSIDERATIONS: OWNER COMPENSATION

Sole proprietors and most LLCs should not include payroll or compensation for the owner in your financial projections. Lenders assume that the owner will take a draw from the business' cash flow for compensation, and that this will happen only when financially feasible (when there is enough money available from the bottom line of the profit and loss statement). In these entity types, lenders do not fund owner salary as part of their loan.

For S-Corporations and C-Corporations, the owner(s) is/are paid on payroll like an employee by a regular paycheck. LLC owners can also choose to be taxed as an S-Corp and be treated as a payroll employee. Therefore, owner compensation is included in the projection model for both of these entity types. Owners also have the option of taking a draw if cash flow in the business supports it.

Note: It is important to understand that many business owners do not receive payment for a while after a business launches – prepare for this in your planning and in evaluating if you can make enough money to meet your living expenses.

Below, select your entity type, and indicate your personal financial needs for Year 1 of your business operation.

○ Sole Proprietorship/LLC (most)

- "Pay" typically = owner draw (often taken annually or quarterly)
- Include owner work hours in staffing needs assessment - (labor table)

○ S-Corp/C-Corp, or LLCs taxed as an S-Corp

- Paid on payroll like an employee (regular paycheck)
- Need to include in your calculations:
  - Payroll taxes
  - Workers compensation estimates
  - Owner salary

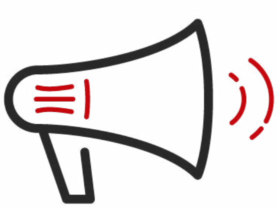
In Year 1 of operation, indicate your personal financial needs:

○ I do not expect to take an owner's draw/paycheck in Year 1 (I plan to use savings, partners' income, etc. for my personal living expenses while I launch the business).

○ I expect to take an owner's draw/paycheck in Year 1.

○ Minimum required income $

○ Expected income based on my research and assumptions $



NOW THAT YOU HAVE EXPLORED YOUR COSTS, REVISIT YOUR PRICING ESTIMATES FROM THE CHART IN SECTION 3.1 TO SEE IF YOU NEED TO MAKE ANY ADJUSTMENTS.

SECTION 5:
FUNDING YOUR BUSINESS

Funding is the money used to start or expand a business. Most small businesses start with funding from

- Founder
- Friends and family
- Lender

Founders, and sometimes other investors, may also contribute items they already own to the business to meet business needs.

For a basic understanding of business lending, view the SBDC Entrepreneurial How-To Video Series: https://wisconsinsbdc.org/video_series/.

Topics in the lending video series include:

- **Alternative Funding Sources**
- **Common Ways to Fund Your Small Business**
- **How to Prepare for a Meeting with a Business Lender**
- **Increase Your Chances of Getting a Business Loan**
- **Other Services Financial Institutions can Provide**

5.1 IDENTIFYING FUNDING SOURCES

Now that you have identified the key costs for your business, it is time to think about how you fund your business. If you do not have enough money to fund your startup out of pocket, where will you seek additional funds? **Complete the chart below, indicating in the second column the estimated amount you plan to borrow, or listing N/A if you do not plan to use that funding source. In the notes column, you can indicate if you have a particular lender in mind, or anything else that seems relevant.**

Financing Type	Estimated Amount	**Notes** *(write N/A if you do not plan to use a specific type of funding)*
Personal capital (your own money)		
Items already owned to be contributed to the business		
Personal loan		
Personal credit card		

Friends and family		
Bank loan		
SBA loan		
KIVA loan		
Crowdfunding		
Line of credit		
Angel investors		
Venture capitalists		
Government and Non-profit grants		
Other (specify)		

5.2 UNDERSTANDING YOUR CREDIT REPORT & CREDIT SCORE

If your business is new, you will not yet have business credit established. Therefore, your personal credit history is one of the metrics lenders will review when considering your loan application. Most lenders are looking for a personal credit score of 670 or higher. Knowing that is the case, it is valuable to have an idea of your credit score before visiting a lender.

Your credit score is compiled by three major consumer credit reporting agencies: Equifax, Experian, and TransUnion. They base your score on factors like:

- On-time payments over time
- How much debt you have, and for how long
- Overall credit usage, compared to the amount of credit available to you
- How frequently you have applied for credit

Do you know your credit score?

○ Yes; it is at least 670

○ Yes; it is not yet 670

○ No; see the resource page listed at the end of this workbook to learn more about credit scores and credit repair.

5.3 BORROWER EXPECTATIONS

As a borrower, you may need to speak to multiple lenders to find a good fit for you and for your business. You can expect:

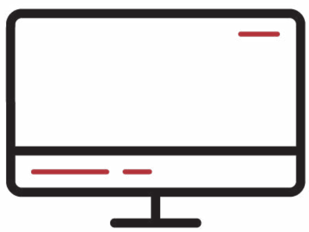
- A clear discussion of the overall lending process at that institution.
- To complete a loan application from the institution, including personal financial data.
- To submit your business plan and financial projections.
- Feedback from the lender, which will likely include a request for additional information – this process is not fast!
- A **term sheet** – a document presented by the lender that clearly outlines the terms of the loan agreement. This document will include the loan type, length, interest rate and repayment schedule.
- That the lender will partially evaluate your plan using formulas called **financial ratios** – these ratios show how your plan compares to standards in your industry.
- A credit report pull.

List lenders that you may want to meet

- ○
- ○
- ○

SO WHAT ARE YOUR NEXT STEPS?

Congratulations! You have taken many steps toward understanding your business' financial projections! By understanding the inputs you need to create effective financial projections, you are well on your way to assessing the feasibility of your business, explaining your needs to potential investors, or seeking traditional lending.



Visit the course resources page at projections.sbdc.wisc.edu/your-next-steps/ for more information on many of the topics we've referenced throughout the course.

Common next steps (depending on where you are in the process) may include:

- Solidifying your business plan
- Conducting market research
- Understanding and/or improving your credit score
- Learning more about loan options by connecting with a lender
- Finding financial projection template options
- Reviewing financial statements for MasAi and Forest Friends in the Sample Business Case Study Packet
- Seeking additional help