DollarDays International, Inc.
7575 East Redfield Road
Suite 201
Scottsdale, AZ 85260
Phone: (480) 922-8155
Fax: (480) 922-3764

Business Plan
and Business Structure
The Twin Foundations of
Any Successful

Wal-Mart last year accounted for nearly 8%
of overall US retail sales.
That leaves 92% for others—for now.
—ADVERTISING AGE (10/6/03)

I begin this crucial chapter with one of my favorite stories:

Two retailers are located directly across the street from each other, in exactly the same business. One is doing quite well; the other is not. Finally, the one doing poorly says to the other, "I don't understand it. I see people coming and going from your store at all hours. You have nice signs; you're always in the store; you're doing gangbusters. What's your secret?" The second store owner replies, "My secret is that I have two people watching my store—you and me—and you have none."
Why is this story one of my favorites? The answer is simple. The
BEGIN THIS CRUCIAL CHAPTER with one of my stories:
bottom line is that you can't always be worrying about what others are doing down the block, up the street, on the Web, in the Sunday ads, or across town. You have to worry about one person, and that's you. In the end, the moral of the story is, "Don't spend too much time worrying about the other person."
If you're like most of us, as you're thinking about whether or not to open your own store, you're deep into layers of academic, professional, personal, and even physical soul searching. And you are fully justified because the chances are good that your enterprise really won't amount to much if, once you've finally committed to going into retail as your sole means of financial support, you don't have a solid plan in place.

After all, knowing what you want to buy is worthless if you haven't planned on enough money to buy those items in the first place.

As you'll see in the many retail examples sprinkled throughout this book, the greatest successes always came with a plan.

And here is where you get one. This chapter will deal solely with the dual aspects of writing a business plan and creating a basic business structure. I call these vital components the "twin foundations of any successful retail enterprise."

Without them, you may operate a business. With them, you'll operate a business success.

Business Plan

Plans are nothing: planning is everything . . .

—DWIGHT D. EISENHOWER, former President of the United States

The reason you write a business plan is to create a document that you can continually review to help you understand where you and your business have been and where you want to go. It is so much more than just some report that you prepare to secure financing, establish credit, impress your suppliers, or secure a location from a landlord. It cannot be written by someone else; to be useful, it must reflect *your* goals, *your* personality, and *your* dreams. It must be *your* business plan.

Before you sit down to write the business plan, there is an old business exercise you should do to help you formulate your thoughts. It is called S.W.O.T.—***S***trengths, ***W***eaknesses, ***O***pportunities, and ***T***hreats.

To begin, take a piece of paper and form four columns. Across the top of the page, mark each column with one of the four initials: ***S, W, O,*** and ***T.*** In the columns, write what you think are your businesses strengths, weaknesses, opportunities, and threats. Leave it on your desk, sleep on it, and then re-read it the next day to make sure you have hit all the major issues. Add and subtract at will. If you still feel good about your retail concept after some minor, or major, revisions, then you are finally ready to start the business plan.

Just like this book begins with a cover, your business plan should begin with a cover *page*. It does not need to look fancy, but it must look professional. It should include:

- **Title.** Start it with "Business Plan for . . . " so there is no misunderstanding about what the document is all about.
- **Name of business.** Every business needs a name, so don't put "not sure." This may be the factor that forces you to pick a name from those you've been considering. None too soon!
- **Names of the principals.** Include the names and a brief description of the backgrounds of the owners and any other key personnel who may have an impact on the business.
- **Business address.** If you do not have a physical location yet, use your home address.
- **Contact information.** Always include your phone, fax, and e-mail address.

Table of Contents

Few people read a business plan from cover to cover, so a well-organized table of contents makes it simpler for people to find what they are looking for. The table of contents should list every section with its page number.

Chapter headings should be clear and straightforward. “Clever” chapter headings have no place in a business plan.

Mission Statement and Executive Summary

The purpose of this section is to get to the meat of what you want to accomplish so your reader understands the concept without having to read through the entire plan. In fact, the executive summary is often the only section a potential investor will read. Naturally, therefore, it must grab one’s attention. And it should generally not exceed two pages.

A good mission statement should capture the big picture, explaining what your company is all about and the reason for its existence. It should describe your business ideas and explain why people will buy from you. It should answer such questions as: Who is the competition? Why is your concept special? What are your advantages?

In more detail, it should cover the following points:

- How are you going to sell the merchandise? This would include “positioning” the store; marketing the products; advertising; and selling to the customer.
- Once you have targeted your market and explained why your plan is well suited to your target audience.
- From your financial plans, explain clearly how much you hope to make, spend, and need to run a profitable business. Prove that the value of your business will increase enough to entice investors.
- Describe who you are and why you can make this business happen. Also, if you have already assembled your team, describe why they are the right people for the job.

Business Description Section

The section directly after the executive summary section should describe the business in more complete detail. It should include:

- Business structure (corporation, partnership, etc.). I describe the possible alternatives later in this chapter.
- Short-term and long-term vision for the business. You have described this briefly before; here is the place to *convince* everyone who reads the document that you know what you’re talking about.
- A tag line or slogan. The tag line or slogan (based on the mission statement) should summarizes what your business stands for and help your customers, employees, investors, and suppliers understand and remember the essence of your business.
- Location. Include where you plan to locate the business and why that location is especially suited to your business.
- Services and prices. Describe the level of service and prices you will provide and how these compare with competitors.

Business Strategy Section

As the name implies, the business strategy section is where you discuss who or what stands between you and your customer and how you plan to overcome any obstacles you or your investors/partners may foresee.

Components of this section include:

- A detailed description of your industry, its current health, and your best estimate of its future. If it is growing, use back up information quoting experts or government or industry reports supporting your claim. If your industry is stable, or even declining, say so. But, at the same time, explain how you plan to buck the trend. In fact, it is quite as important to talk about the problems that may be challenging the industry as it is to talk about the positives. Your investors will believe your optimism far more readily if you temper it with the truth about the hurdles you have to clear. Whatever you say, they know that no business is all honey and roses. They won't believe you if you maintain that yours is.

• Information about the competition:

– Who they are. It's okay to name names; this document isn't for publication.

– How long they have been in business.

– How well they are doing and what plans you suspect they may have for expanding or downsizing in the future.

– What their strengths and weaknesses are and how you plan to beat their strengths and avoid their weaknesses. How is the competition disappointing its customers, thus providing you with an opening?

Marketing Strategy Section

This section discusses your marketing approach. It gives you the opportunity to explain whether you are self-service, full-service, discount, or regular price. It also talks about your preferred method of reaching customers. It should include:

• **Your market.** Is it local, national, or international? Are customers within walking distance or within five miles? Will you augment your sales—with an Internet site, by telephone selling, with satellite locations (such as ski or beach resorts during the season), etc.?

• **Market share.** Make a reasonable projection of how quickly you can gain a toehold—and then a foothold—into the marketplace. Describe each category of customer and what each is likely to buy, how much of it, and how often. Here's a tip: First make the most conservative estimate of the number of customers you are likely to attract, the amount each is likely to buy, and the minimum frequency with which they seem likely to repeat the purchase. Then calculate what this adds up to in annual sales. Now halve it. If the resulting figure is not enough to make your store a raging success, your business plan is not solid and your business does not have a very good chance of succeeding. Why? Because of what an old teacher of mine called "The Law of Natural Cussedness," better known as Murphy's Law: If something can go wrong, it will. You'll attract fewer customers than you expect and they'll buy few items less frequently than you expect. Countless problems will conspire to make things worse than you expect. Don't worry—if you've estimated realistically and have forecasted half of what you expect, you'll weather every storm. Then, if you go over forecast, everyone will cheer. Remember, if you forecast one hundred and sell ninety, you're a schmuck; if you forecast fifty and sell the same ninety, you're a genius!

• **Positioning.** How will you stand out from the crowd? How are you going to be perceived by the customers, the community, and the industry at large? What are you going to do to influence this perception? Here is where you describe what your store will look like, including the signage inside and outside the store. Be specific here, not abstract. This rule should apply to the entire document in general.

• **Selling.** How will you entice your customers to buy your merchandise? Describe the actual methods you will use. Are you going to rely purely on storefront retailing? If you plan on using the Internet or a mail-order catalog, provide the details of how this is going to work. This is particularly important if you are forecasting above average success for any particular approach. For example, most catalogs generate purchases from only 1-3% of the catalogs sent out. But some do far better than that, occasionally enjoying returns of 20% or even 25%. If your plan calls for a return of above 3%, you have to be especially persuasive with your investors—and with yourself—about why your forecast is reasonable.

• **Service.** In context with your description of your plan to sell (whatever the channel), describe the levels of service you will provide. Include the status of your selling staff (hourly, salaried, or on commission).

• **Pricing.** Obviously, pricing is one of the most important aspects of retailing. Thus, you must be very clear about your pricing strategy before you start. If you're opening a 99-cent store, your pricing strategy is obvious. If you plan to open a clothing store, do you intend to be high priced, "everyday" priced, or bargain basement? Whatever you chose, be consistent and know why you made the decision you did.

The great cosmetic pioneer, Helena Rubinstein, a screamer when she was crossed, once brought the roof down when she heard that Elizabeth Arden, her arch rival, had not only launched a face cream to compete with Existence, Rubinstein's most revered product, but had actually had the temerity to sell it for *more!*

• **Marketing plan.** What your message is, who will receive it, and how you plan to communicate this message to others. Advertising is just one part of this process. Discuss all aspects of your marketing plan: public relations, promotions, your marketing calendar, and why your plan will appeal so effectively to your ideal customer.

• **Advertising.** How will you let the customers know about your great business? Discuss the size of your advertising budget and how often and where you plan to spend it. Give a list of the advertising vehicles you plan to use (newspapers, radio, television, magazines, direct mail, Web advertising, etc.). Also, if you plan to recoup some of these funds from co-op advertising offered by vendors, detail that information here.

Financial Plan Section

This is where you show the figures proving that, if you do all the things you said you can do, you *will* be profitable. If there is one section of the business plan that you should always keep close to you, it is the financial plan. It should be updated as often as circumstances change and contain the following vital statistics:

• **Cash flow projection.** In starting your business, your cash flow projection is of the utmost importance. It shows you how much cash you take in each month (including any extra you borrow), and how much you spend (including any debt you repay). If you run out of cash, you're out of business. Thus, you should pore over these figures with the greatest of care. Remember, the amount of cash you have available is stretched by the amount of time your suppliers will let you delay before you pay them. It is shrunk by the amount of inventory you have to buy and by how long you have to hold it. Thus, to maximize your cash flow, you need to keep your inventory for the shortest time possible—"turn" it as rapidly as you can—but pay your suppliers as slowly as they will permit before cutting you off or charging you too much. (Don't worry, all retailers from Wal-Mart to Barnes and Noble pay slowly.)

• **Profit and loss statement.** Called *P & L* for short, this is a summary of the financial activity over a period of time, usually a year. The difference between a cash flow and profit and loss statement is that the

P & L reflects non-cash items such as depreciation, but also accounts for the cash you have to lay out for capital items (such as buying a delivery van or a new cash register) that do not lower your profit. Your P&L should correctly reflect your store's profitability. However, even after you start making a profit, you may continue to have a negative cash flow for some time.

For example, if your sales double from $100,000 to $200,000, your profit may go from $5,000 to $12,000, but you may need $50,000 of extra inventory. You have improved your cash flow but you're running short on cash. So, plan in advance, and when you decide on how much money your new venture will need, it's your cash flow, not your P&L, that is determinant.

• **Balance sheet.** This crucial document shows how much of the business is your own and how much belongs to your financiers. This is important if you are seeking funding because potential investors want to know how committed you are to your business. In the simplest terms, your balance sheet shows assets minus liabilities, with the difference being the business's equals equity or net worth. Assets, the things you own, include cash, inventories, receivables (money or credit owed to the company), equipment, land and buildings, and any trademarks, patents, or copyrights. The assets of the business may also include intangible items called goodwill. If you buy a business for more than the value of its assets minus its liabilities, the difference is goodwill. Liabilities are the monies you owe. Equity, the net worth of your business, is the difference. But of course, it doesn't reflect the real value of your enterprise which, if it is doing well, may actually be worth many times its net worth.

When reviewing your anticipated future balance sheet, a useful rule of thumb is that if your short-term liabilities (i.e., what you owe now or shortly) exceed your short-term assets (i.e., your cash plus what your customers owe you plus the value of the inventory you own), then you may be in difficulties. This ratio of short-term assets to liabilities is called the *current ratio.* If it falls below 1:1, you may be in trouble.

• **Monthly income statements.** These statements, in addition to showing how much profit or loss you expect to make each month, and how much cash you expect to generate or consume, should be arranged so they show which products or departments are bringing in the most profits. They also track the overhead and expenses and pinpoint the business' strongest and weakest areas.

• **Breakeven analysis.** You need to know what volume of business you need to turn a profit at the price at which you are selling your products. Only when you know this can you set realistic goals and chart your business course with confidence. By the way, your backers will be keen to know this too!

• **Sources of funding.** Potential investors will be interested in seeing if you already have any other source(s) of funding. Some sources could include your own savings, a mortgage on the house, cash on a credit card, or a loan from a family member. This kind of funding shows your commitment to the business and reassures potential investors. (See Chapter 4 for a more detailed discussion of funding.)

• **Use of funding.** Having funding means nothing if you do not have a plan to use it. Be sure to itemize what you plan to use the funding for.

• **Start-up costs.** These are the one-time expenses new companies incur, such as furniture, equipment, fixtures, etc.

Management Team Section

Generally, investors in your new business are not betting on your business plan (good though it may be) as much as they are betting on *you*. As a friend of mine says, “I never saw a business plan I didn’t like.” (Of course—he never sees a plan that promises failure.) The real issue is whether investors believe you can pull it off. Therefore, as I have said before, even if you are the only employee, in your business plan describe your key staff, including their biographies and explanations of their roles, experience, and areas of expertise. For each person, including yourself, give the following:

- Full name and title
- Educational background and/or special training
- Current job and relevant past jobs
- Special skills and talents
- How these talents will be put to use in the new company

Your management plan should also list any planned associations with outside professionals such as accountants, lawyers, or consultants. If you have put together a board of directors or advisers, their names and resumes go a long way especially if they are bankers or well-known current or retired business executives.

Problems and Hurdles

Here is where you talk about what could go wrong with your plan. Landlords and bankers like to see a plan that is well thought-out—that describes both the strengths of your business and also the potential challenges and problems. It’s natural to want to downplay these negatives, but resist the temptation to soft-pedal this section of the plan. Professionals will recognize right away that you are holding out on them, and that will hurt your long-term credibility. After identifying possible pitfalls, write a short explanation of how you would respond to each problem. Here are some common risks in retailing:

- **Sales goal are not met.** What will happen to the business?
- **Expenses come in higher than projected.** How will you adjust?
- **Too much merchandise is purchased.** What will you do now?
- **A natural disaster destroys your location.** Do you have enough insurance? Will you rebuild somewhere else?
- **Promotions do not work and all advertising monies are spent.** How would you handle this situation?
- **Wrong merchandise is purchased.** Your customers aren’t buying it. What do you do?
- **Good employees aren’t found.** What are you going to do until you find them?

Summary Section

Here is where you get one last chance to tell your readers what you want them to remember. Summarize all of your financial plans and remember to accentuate the positive. You may add that you are willing to work longer hours and take less pay in order to build your business. Regardless of what you put here, however, remember to keep this section to one or two paragraphs.

Choosing a Business Structure

Your business structure is the second foundation of your retail model.

When starting a business, you need to give it a legal framework. The business structure you choose will affect your taxes, legal liability, profits, and more. Remember that you always have the right to change your business structure at a later date, but for our purposes it is important that you know what those business structures are.

Sole Proprietorship

This is the quickest and easiest route when you are in business for yourself. However, we strongly urge you not to choose this route. For all intents and purposes, the individual owner *is* the business in a sole proprietorship. Thus, *you* pay the taxes incurred by your business. This means that when you pay your federal taxes, your business income will be listed on your individual tax return with a reference to a special form (usually schedule C) that records the profits and losses from your business. If your profits exceed your cash flow, you may owe more than you have cash to pay. Alternatively, if you elect cash accounting (which means you only count cash in versus cash out as "profit"), you'll have the cash available, but if your profit is less than your cash flow, you'll be paying more tax than required.

This discrepancy is what distinguishes a sole proprietorship.

However, the main disadvantage with this structure is that you are exposing *all* of your assets to judgments or other debts that may be incurred by the business if something should go amiss. You should never take that level of risk. It's bad enough if your business should go awry. How much worse if you lose your house in the process?

Moreover, it is so simple to incorporate and, done right, you have all the advantages of a sole proprietorship with none of the disadvantages. Your lawyer can incorporate a company for only hundreds of dollars (unless you have an expensive lawyer in which case it will cost a few thousand). On the other hand, if you don't incorporate, here are the risks you run:

- **Personal liability.** The biggest drawback is the "unlimited liability," which means that, as the sole owner, you have sole responsibility for any liability that exceeds your insurance coverage. For example, if someone wins a judgment against you for more than your insurance coverage (or for something for which you are not insured) they can go after your personal assets.
- **Personal credit rating.** If your business goes bad and you pay the bills late, your personal credit rating is compromised.
- **Taxation.** All income from the business is taxed at personal levels that are higher than corporate levels.

Partnerships

Similar to a sole proprietorship, a partnership is when two or more parties share the responsibilities including decision making, the profits, and the liabilities. Business partners can range from the silent, to the inactive, to the limited, to the very involved. As with sole proprietorships, partnerships are strongly discouraged. If something goes wrong, *both* partners are personally on the hook for the whole loss. Why take that risk when it's easy to set up a corporation owned by your partner and yourself? That way, you have all the advantages of a partnership without the risk of losing everything you own.

There are, of course, considerable potential advantages in having a partner, including:

- **Shared financial responsibilities.** If you do not have enough capital, then bringing in the right partner brings in additional resources.
- **Two heads are better than one.** Assuming that the partner you have brought in is a complement and not a clone of yourself, using the talents of both of you usually results in better decisions.
- **Moral support.** Sometimes you need a partner to bounce ideas off or to raise your spirits. Two people after the same goal push each other to greater heights.

On the flip side, there is one potentially major problem with taking a partner. Like a marriage that blooms in the beginning but ends in acrimony, partners can grow apart or can get on each other's nerves. One partner may not work as hard as the other or not to the same high standards. The partners may disagree over spending or the distribution of profits—one partner preferring to put the profits back into advertising with the other wanting to take out an extra bonus. One partner may decide to sell his part of the business to an outsider the other partner does not approve of. Also, the timing of when to sell the business could cause a major conflict farther down the road.

Even if you have chosen a corporate structure as I recommend, to avoid the potential problems involved in taking a partner, you should both agree on at least the following points:

- What exactly is each partner's role in the company?
- Who is the ultimate decision maker? In my experience, 51/49 ownership deals generally work out better than 50/50 ones.
- What happens if irreconcilable differences arise? The best solution here is to enter into a buy/sell agreement right at the outset. In general, it states that, after a certain amount of time has passed (or a certain level of business is achieved), either party may offer to buy the other out. However, if one partner makes a formal offer, then the other partner may turn the tables and buy out the offering partner at the quoted price (with a reasonable time in which to pay). That insures that the offering partner does not try to pay too little. If he does, he may lose his share for that price.

Corporations

A corporation is a separate legal entity that separates you personally from the business. This means that the corporation enters into agreements, signs contracts, signs leases, and is responsible for the outcome. All liabilities and risks belong to the corporation. Officers and shareholders can come and go, but the incorporated business can continue.

I strongly recommend that your start your business in the form of a corporation, not as a sole proprietorship or partnership. There are almost no disadvantages in doing so, and there are many advantages, including the following:

- A corporation protects you from personal liability. Your individual assets and liabilities are not at risk if the business goes south.
- Transferring ownership by selling, buying, or issuing stock is easy. If an owner dies, the incorporated business is not affected.
- It is easier to raise money for the business because you can sell shares.
- Corporate taxes are lower than personal taxes. Thus, if you want to leave money you earn in the business, you don't have to pay as much tax on it. Of course, if you take out a salary, you still pay personal taxes on that money. But then, as we all know, only death and taxes are inevitable.
- If you prefer, you can organize your business as a Chapter S corporation,

or an LLC. These are described in the following sections. It's important that you consult your accountant or a tax attorney before you decide how to incorporate your business.

• The way you run an incorporated business is exactly the same as you would run the business if you were not incorporated. The only difference is that you are supposed to keep certain corporate minutes. However, these can be very limited and take almost no time to prepare. (It's only when you become large and go public that bookkeeping becomes problematic. But, by that time, you'll have a bunch of experts on hand to take care of it.)

• Setting up a corporation and registering it with the state is not expensive. You can even handle it yourself with a kit you can buy at most office supply stores for a few hundred dollars. In either case, this is money very well spent.

Publicly held corporations are traded on the various public stock exchanges like the New York Stock Exchange, the American Stock Exchange, and NASDAQ. The shareholders are typically large numbers of people who have not come in direct contact with each other. Privately held or close corporations are the most common in retailing. In this case, the shares are held by you alone or by you and your investors, partner(s), and key employees. Shareholders may (or may not) sit on your board or participate as officers. These shares are not offered to the general public.

In listing the disadvantages of incorporating your business, I come up blank. There are none.

Chapter S Corporations

This form of corporation is limited to companies with fewer than seventy-five shareholders. The main difference between an S corporation and a regular corporation, known as a *C corporation,* is that an S corporation avoids the risk of double taxation. Double taxation occurs when your corporation makes so much profit that, even after it pays you the maximum salary you can justify (which reduces its profits and therefore its taxes), it still has profits left over. These are taxed at corporate levels and stay in the company. Now, if you want to take out those extra profits, they count as dividends and you pay taxes on them again. (You should be very happy, of course, if you are making that much profit.) However, income from an S corporation is taxed only once as personal income not corporate profits.

For the starting business owner, a major benefit of an S corporation is the ability to take business losses on reductions in personal income. Many businesses experience tax losses in the early years and those losses flow right into the shareholders' personal income, reducing the taxes they pay on other earned income—even on future income.

Limited Liability Corporations

Known as LLC, this is the newest type of corporation, established in the U.S. tax codes in 1988 and adopted in all 50 states. The LLC has the protective benefits of a regular corporation, but works almost the same as an S corporation. The number of members is unlimited and may be individuals, corporations, or any other LLCs.

An LLC can select any form they want for the distribution of profits. Whereas corporations are required to keep at least a minimum of formal minutes, the LLC business structure requires no corporate minutes or resolutions so it is easier to operate by those running the day-today business. All your business losses, profits, and expenses flow through the company to the individual members. Thus, you avoid the double taxation of paying corporate tax and individual tax.

Summary

Writing a business plan does not take as long as you might think. Whether you write one or not, you must take the time to research the business, your market, and the competition. The business plan should only be an extension of your research. If you have trouble writing part of it, it is probably because that there is a gap in your research or your thinking. It's better for you to discover such a gap before it's too late to correct.

There are several sources on line that can help you through this whole process. The government small business site at www.sba.gov has all kinds of help to get you focused. The *Wall Street Journal* has a great site for business start ups at www.startupjournal.com, and if you want to see what other business plans look like, go to www.bplans.com. This site helps with business plan writing.

As for business structures, your specific situation will help determine which one is right for you. Depending on the one you choose, be sure to research locally which options apply and have a trusted legal representative do the paperwork for you, or at least have one look over the paperwork you've done yourself.