Your Entrepreneurial Journey Begins With Business Planning

Establish Your Roadmap to Growing a Successful Small Business

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EXECUTIVE SUMMARY

In the United States of America, there are almost 32 million small businesses. Each venture was launched from a vision and a desire to take a risk to experience the American dream of starting and owning a revenue generating entity. In 2020, we experienced one of the most adverse disasters in our history, the COVID-19 pandemic, which claimed over 100,000 small businesses that will never reopen. As business owners of Small-to-Medium Sized Enterprises (SME's), we navigate these ventures through many challenges while taking known risks and facing unknown risks to get from day-to-day as successfully as we expect.

Business planning prepares entrepreneurs for success when the effort is made to develop a plan. However, not many understand the value of writing a plan before the business is launched. When we take time to research and plan, we understand that 20% of all businesses started never make it past the first year of operation. By the 5^{th} year, 50% have failed. When businesses close, we identify lack of capital, insufficient or poor marketing, a bad location, no strong market presence, no competitive advantage, expenses far exceeding revenue, or too many barriers to entry as contributors to business failure. However, if the entrepreneur did not take time to plan before launching, how could he or she have known to avert many of these risks?

A roadmap to growing a successful business requires detailed business planning. Moving the business forward from a vision to start-up requires meticulous planning to determine how to launch successfully and how to grow sustainably. Your entrepreneurship journey begins with business planning, and this must be the first step on your path to owning a business.

During the research, an entrepreneur learns more about his or her business, and the impact it will make on the target market. Identifying a product or service and the market to whom you will sell this service or product is essential to the plan. What is the purpose of this product or service, why should anyone patronize your business, how will you grow, and what do your projected revenues and expenses look like over 3-5 years? Answering these questions are only a few reasons why your plan is a valuable tool and guide.

Small businesses create over 2/3 of all net jobs in America and are a vital part of our economic engine. Entrepreneurs create opportunities with the introduction of disruptive business ideas to generate jobs and grow our economy with new products and services. The function of planning helps to organize ideas of how the business will grow and what is needed for it to grow sustainably and successfully. Furthermore, entrepreneurs must understand how to pivot and change directions when unexpected disruptions occur in the marketplace, as many businesses experienced in 2020.

Finally, in the entrepreneurship ecosystem, leveraging expertise from valuable resources is important to growing a successful business. Key to the analysis is understanding how small business agencies, policy makers, academicians, subject matter consultants, and other key assets in your network contribute to a successful venture. Invest time and effort in performing the research for your business plan. The 5 steps outlined in our business planning model serves as a guide to understanding the pathway from vision to launching. Let the plan be your roadmap to guide you along a successful path to building a business that will be a stellar example in the community.

INTRODUCTION

Thompson Management Consulting, LLC (TMCLLC) created this White Paper as a resource for anyone who contemplates starting a small business, and is debating the importance of a business plan, whether it is needed or not, whether it is important or not, and whether it maintains relevance in starting a business. The purpose of this document is to convey its necessity and demonstrate the importance of a business plan and its contribution to starting and sustaining a successful business. Without it, success will be undermined and short-lived, and important steps in the process of growing a business will be grossly overlooked. You do not embark on any journey without a clear written plan to determine how you get from your point of origin to your intended destination and managing those challenging points of concern in between.

Everyone needs a roadmap, guidance, a GPS which maps your journey from origin to destination. Oftentimes we drift, become lost, and end up in unchartered waters for lack of planning and preparation. If we set out on a journey and have not prepared for the rigors of the long haul, chances are we will end up in peril, and worse yet, facing the reality of abandoning the mission altogether. This can be disappointing if much financial resources have been invested into a failed trip without planning, foresight, forecasting, and sufficient preparation. The trip will not be worth the investment. You will not be prepared for an undesirable outcome, if contingencies are not incorporated into your planned trip for those "what if" unexpected moments.

Business planning is an essential process for entrepreneurs who have the innate desire to start a business and navigate through each phase of its lifecycle as efficiently as possible to ensure long-term success. The business plan is a guide, a roadmap, the GPS needed to ensure a smooth journey from initiation to closure, projecting along the way all required resources and their associated costs. In addition, the business plan provides key information, such as your vision, mission, SMART goals, start-up capital, your target market, who are your customers, how will you sell to your market, what does your supply chain look like, what technology will be needed to track your inventory and what you source for delivery to the end user, your strengths, your weaknesses, how strong is your industry, who are your competitors, what gives you an advantage over your competitors, how do you scale, what is your hiring strategy, how will you manage payroll and employee insurance, your projected revenues, projected expenses, gross margins, break-even sales, liquidity, projected cash flow, assets, liabilities, and so much more. The business plan is a living, breathing document which is utilized and updated to reflect actual activity once the business is in operation. You will be able to measure all actual activity against what you have projected, once you launch your business.

How do you prepare for success without a plan? The old adage is "if you fail to plan, you plan to fail." Yet, thousands of businesses are started each day without the thorough research needed to ensure long-term success for the business. I often say, if 20% of all businesses fail within 12 months of start-up, and 50% fail within the first 5 years of start-up, an abundance of capital to create a sufficient cash infusion into any business will be a waste of money, if planning is not at the forefront of the financial investment. Planning must lead the cash investment, because a great portion of the business plan is how you "plan" to use the cash to grow successfully. What happens when you go into a grocery store without a written list? Before you begin your journey to the local grocery outlet, you sit at home, look through all the cabinets, search the entire house, and make the determination of what you need to purchase. From your evaluation, a list is generated with all the items you need to replenish in the home. At the grocery store, your shopping experience is highly efficient, because you purchase only the items you have on the list, therefore, minimizing any chances of overspending and exceeding your budget. The business plan functions in a similar manner. You are able to prepare for your journey, adjusting along the way to ensure a desired outcome. The plan is used as a requirement for the banks, investors, or as a guide to navigate you down the path of entrepreneurial success as a business owner. Some of the reasons I have been given by business owners who did not have a plan on opening day are:

1. We did not think we needed one
2. We did not have time to get one done, but we are doing fine without it
3. It was too expensive, and we did not have the budget to have one written
4. We kinda started one, but didn't go far with it. We have it saved somewhere……
5. Business plans are irrelevant, and we don't need one

Do you fall into one of these categories? Are you a business without a plan which had to close its doors for lack of planning? Are you a business still operating and think "hey, we are doing fine, why bother with a plan?" If the latter represents your pattern of thinking, what happens when you are placed in a situation that disrupts your sales volume? How will you react to market patterns when a new player enters and reduces your market share? How can you pivot successfully if needed when the economy is on the brink of collapse, and with the resources and assets you have in place, how can you capitalize on opportunities you did not realize?

Yes, business plans are quite relevant, and without one, you are navigating your venture down a path of uncertainty and imminent failure. We have all seen Shark Tank. The questions are rapidly fired off at the contestants. What are your gross revenues, what is your profit margin, what are your cost of goods sold, what is your competitive advantage, who are your customers, what are your sales projections, why should I invest in you? Imagine attempting to do business without knowing or having a clue how to answer these basic questions as the business owner. If you cannot recall clearly from memory, you have a plan with all the information you researched. Important investment and time well-spent, right?

This document is intended for entrepreneurs who wish to pursue business ownership as a Small Business Administration (SBA) defined small business, sole proprietor, gig economy freelancer, 1099 independent contractor, micro enterprise or mom and pop business, Limited Liability Company (LLC), incorporated for-profit or non-profit entity, partnership, or regardless if you are a 2-person barber shop owner, or a 500 employee manufacturing company. The business plan matters to your success. Take the risk of business ownership and invest in a well-researched and written plan.

UNDERSTANDING SMALL BUSINESS START-UP CHALLENGES

There are currently almost 32 million small businesses in the United States of America, all clamoring for market share in their respective competitive industries. According to the Small Business Administration, 20% of all businesses which start each year shall experience business failure within one year after start-up. Businesses are started because the entrepreneur is either dissatisfied with his or her experience in Corporate America, excited to embark on a journey of independence, has a hobby or creates a "side gig" which has the potential to be a successful full-time business, transitions into full-time entrepreneurship resulting from a downsizing or layoff, or influenced by a role model, probably a parent or someone who he or she perceives as an inspiration in business ownership. Regardless the reason and based on statistics from Statista, the market and consumer data company, an average of 700,000 businesses over the past five years were launched (2015-2020), driven by risk takers who see demand for the service or products they provide to their intended marketplace. Therefore, if 734,000 businesses were launched by the end of 2018, approximately 146,800 of those businesses will not reach their first year of maturity by end of 2019, if 20% of those 734,000 businesses are expected to fail within a year. Furthermore, after start-up in 2018, 50% of those businesses will fail by the 5th year of operation, eventually resulting in approximately 367,000 businesses from the class of 2018 moving on successfully and surpassing five years in operation. With each successive year, the same pattern shall continue. ***See the TMCLLC business lifecycle model below, Figure 1***.

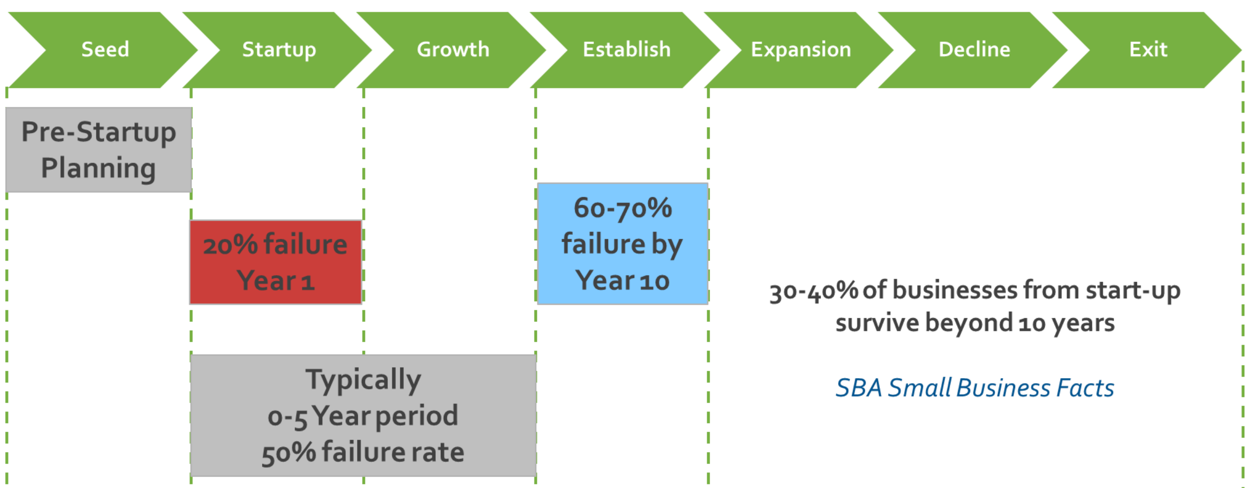


Figure 1

Thompson Management Consulting, LLC developed this model, based on a 2019 article by Darrell Zahorsky, to illustrate the natural progression of a business in stages. The model illustrates 7 stages of a business' lifecycle from seed to exit. For a business to achieve success, it must understand the lifecycle through which it shall evolve and the need for proper business planning to navigate through the nuances of each stage to realize success. There are five contributing factors I identify below which, without proper research, preparation, and understanding, could cause the premature derailment of any business venture.

1. **Vision**

Vision is foresight. It is the ability to see into the future, see beyond the present, and knowing where you wish to be in the long-term. According to dictionary.com, vision is *"the act or power of anticipating that which will or may come to be*." In business planning, or the function of planning, the entrepreneur is introduced to projecting and anticipating the evolution of his or her business from start-up to exit. The entrepreneur must invest time to study each stage of the business to determine what is needed and how the business will execute its plan. Each stage is unique and requires the accomplishments of specific tasks in each of its respective stages. Having a clear vision, in the beginning, of where you wish to be in the long-term, aids in this planning process to achieve what you foresee for the future. A lack of vision and a plan which evolves from this vision will only deliver short-term gains, as you will undermine your own ability to see where you wish to go with your business, therefore, undermining its lifespan.

2. **Planning**

Failure to plan is a plan for failure, as the adage goes. It is a clear and straight forward principle. I consider planning to be essential and should be executed prior to any business launch. If you have an idea for a business, you do not invest capital to open a business without understanding how the idea will evolve and mature into an executable, functioning, and sustained operation. A plan introduces a series of necessary steps which forms the basis of a process on moving from one stage to another in developing the business. Not knowing what steps to take or knowing how the business will grow and become profitable, will undermine your journey and render your business failed within a short time after launching. The analysis for your business plan should include your mission, SMART goals, management team with experience, advisors, hierarchical organizational structure, start-up requirements, operations, legal formation or structuring, marketing, human resources, strategic development, technology and I.T. requirements, marketing and sales, industry and economic studies, and pro-forma financial analysis. These are primary components to consider, among others. How can you move a business from an idea to sustained success without a plan to understand all necessary requirements within each stage of the plan? Each stage in Figure 1 has key elements which are detrimental to the success of business planning, when understood and implemented (see Figure 2). Hope is not a plan, and neither is licking your finger and placing it in the air to determine the direction in which the wind is blowing. Immense effort should be undertaken to do the research necessary for sustained business success. Be proactive, not reactive when things begin to unravel.

In addition, your plan should include how you would pivot effectively and repurpose your operations, if there was a major disruption in the economy which stalls your operations. For example, in the recent COVID-19 pandemic, many businesses repurposed their operations to manufacture and develop products unlike what their business models were created to produce. Numerous smaller manufacturers, rather than lay off employees and closing operations, pivoted and became part of a massive call to produce face masks, gloves, ventilators, and other medical supplies to fight COVID-19. Restaurants were part of that solution. Many kept their doors open and staff on payroll to produce substantial amounts of lunches for front line operators. This was not a necessary component prior to COVID -19, but it will not hurt to include a strategy for pivoting, if the need arises for a major adjustment and change of direction when an unnatural phenomenon disrupts positive economic activity. The confidence level of investors increases when entrepreneurs demonstrate a well thought out plan for loan repayment and have taken the responsibility to conceptualize all matters of satisfying their debt.

7 STAGES OF A BUSINESS LIFECYCLE – KEY ELEMENTS
SEED • Conceptualize the business idea • Identify experiences and skillsets you bring to the business. • Seek advisement and advisors. • Determine start-up funding needed and sources of your seed capital (who will lend you money). Try to stay with basic needs at startup, with considerations for scaling. • Develop your business plan. This is a critical step in the process.
START-UP • You are now in the critical 0-5 year range. • Manage cash effectively as you begin to operate. Revenue will be low in the beginning and expenses high, as you are new to the market. So, watch your spending and expenses. • Establish and grow your customer base. Target marketing will be essential. • Continue to leverage your funding sources
GROWTH • You have surpassed 5 years in operation. Scaling to the next level should be a consideration to remain competitive. • Fall back to your operations plan to determine how growth is affecting your sales, customer retention, revenue, and if the current systems can help you sustain your current level of success. Capital expenditures for new assets may be needed. • Review your HR needs for potentially adding new staff. • Review financials for incurring costs to grow.
ESTABLISH • Revisit your business plan to make possible adjustments. This, you should be doing since start-up. Pay attention to your competitive advantage, value proposition, economic changes, and change in customer behavior, spending patterns, and demand. You need to revise your marketing strategy. • In addition, focus on your operations and if you need to outsource functions of your business. • Systems and processes should be evaluated for upgrade. Automate to keep competitive. • Evaluate financials for incurring all costs for upgrading
EXPANSION • At this stage you may be considering a location expansion and/or adding streams to capture new customers. Invest in a Feasibility Study to determine the Return on Investment (ROI) of your expansion plans. • Determine capital need and sources to fund your realistic expansion plans.

DECLINE
• Are sales in a steady decline? What about customer volume and demand for your product or service? Competition and/or a volatile market may cause your business to go into decline. • Cut costs and spending as reasonably possible.
EXIT
• At this point, as the business owner, it is time to determine when to sell the business or close altogether. Start looking for buyers, and if you plan to sell, have a valuation of the business performed to determine its full value and establish a selling price. • Involve your Accountant and Attorney in this process.

Figure 2

3. Capital

Access to capital is important to the business launch and sustained business success. Moreover, a business should generate revenue to cover all costs of running the business. This is true for the business during operation, but essential at start-up. The business, through careful planning and research, should understand how much working capital it requires to launch successfully. Cash is essential in running a business, and without knowing how your business is functioning properly, there is no way of knowing what money is being generated and how much cash is going out, if the financial analysis is not conducted. Insufficient cash will ruin a business, if it is unable to pay its bills, pay its employees, or purchase supplies. Understanding your start-up capital needs, which consists of cash needed to launch successfully, are as important as tracking your sales, revenues, net profit, and cash flow during the operation of the business. As you will see in Step 3 of Figure 5, the Business Planning Model, there are several options for an entrepreneur to consider when seeking start-up capital.

4. Marketing

Marketing is one of the key aspects of a business plan and an area in which the entrepreneur must spend considerable time analyzing. For instance, the process of "marketing" a business has changed much over the past 20-25 years with growing online activity by those with access to mobile phones, tablets, and laptops. Websites allow companies to promote their businesses online, advertise their services, and acquire the visibility required to remain competitive and profitable to a broader "virtual" audience. Digital marketing has substantial advantages over traditional marketing efforts for your branding, such as newspaper ads, printed material, and cold calling. Reaching a wider audience with digital marketing, for example blogging, social media, YouTube videos, podcasting, and radio has proven to capture far greater attention for business owners than traditional marketing strategies.

As an example, let us look at printed ads. You pay for the typesetting, graphics, and person designing the flyer or brochure. In addition, you pay for hundreds of copies, if the purpose is mass distribution through various identified channels. The possibility of reaching your market depends on how much physical effort it takes for you to get out and touch as many individuals as possible. This can be achieved by attending industry related networking events, placing your materials in businesses, purchasing ad space in printed publications, etc. You have much ground to cover to make the necessary contacts. However, in digital form, you cover a wider range via the Internet. Social media has exploded over the past 15-20 years allowing people to connect locally, nationally, and globally utilizing digital devices. Here is a comparative analysis illustrating five of the top social media platforms.

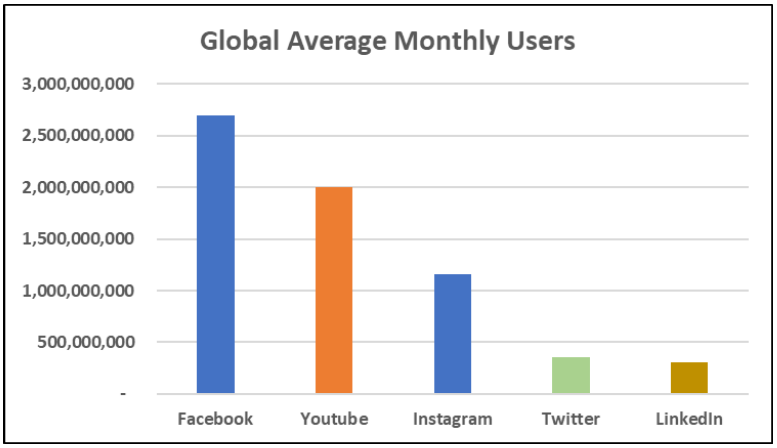


Figure 3

Facebook leads all social media platforms with over 2.7 billion average monthly active users, YouTube is second with 2 billion average monthly active users, Instagram is third with 1.2 billion average monthly active users, Twitter is fourth with 353 million average monthly active users, and LinkedIn with 310 million monthly active users. If almost 275 million Americans have access to a smart phone, and 2.7 billion worldwide have access to smartphones, imagine how expansive your marketing efforts will be. You can decide to leverage Facebook, YouTube, and Instagram as your top three platforms on which to execute your digital marketing campaigns. Upload your marketing videos on all three platforms for maximized digital marketing promotion. Digital marketing has greater advantages over traditional print marketing. Do you agree? The advantage is clearly present, especially if you do not have a dedicated marketing associate in the beginning stages of your start-up. It is important to understand the tools at your disposal when considering marketing.

In addition to understanding the impact of traditional versus digital marketing, performing your economic and industry analysis are important. The SWOT analysis, sales strategy, understanding the brand strength of your product(s) or service(s), the stability of your industry, your barriers to entry, competitive advantage, unique selling and value proposition, pricing model, consumer behavior, key performance indicators (KPI's), and other key aspects of how you will effectively market your services, are critical to your marketing plan.

Your marketing plan should be robust and substantial time should be invested to capture all the key information required to "sell" your brand and plan for the visibility you need to experience the success you expect. You should also identify the marketing channels through which your business will be advertised and marketing strategies for your advantage. Such channels and strategies are purchasing banner ad space on the websites of businesses which are frequently visited, writing articles or placing ads in industry publications with wide audiences, vendor or exhibiting opportunities, radio advertisements, blogs, mailers, distributors, billboards, and many others which may be advantageous to reaching those who will buy from you.

I have a saying *"if no one knows you exist, how can they do business with you."* This should always remain at the forefront of your thinking as you establish and grow your new business.

5. Scaling

As you plan your start-up venture and attempt to determine what will be needed on the day you launch, an understanding of what services or products will be available on day 1 is essential. Before opening, you should have undertaken a careful study of your target market, for whom your services and products were created. Critical questions must be asked. Who is purchasing, why are they purchasing from you, what is the immediate demand, and will there be sustained demand in varying economic cycles, does my product or service make me competitive, would I have a healthy market share, how much of my products or inventory (if a non-service business) will I need at start-up, what level of operations will I need to drive my business at start-up and into the first year of operation? All these questions should be understood. If you are operating a service-based business, you can plan to scale your operations in a similar manner. Determine what capabilities you need at start-up and budget for that. Your services offered will drive your revenue streams. As you experience business growth over time, resulting from increased demand, you can add services. However, identify the resources and capabilities required to sustain growth from new clients from day 1 through your first year. See Figure 4 at the conclusion of this section.

Scaling involves a gradual incremental increase of your operations over time. It is a "ramp up" as the business shows signs of growth. Your scaling strategy should capture your plan for scaling and ramping up as you grow from increased demand for your product or service. Remember, at start-up, you should have sufficient cash (working capital) to sustain your business. There are equipment which you may not need in the first few months of business, but you should have what is essential to building customer loyalty for your brand from start-up, and keep building and adding (scaling) as you continue to see customer growth. As your business grows and demand for your services or products increases, you can add to what you already have as your general product or service mix. Conversely, you cannot scale if you realize stagnant growth or low customer volume and demand for your service. With a written business plan as your tool, you will be prepared to measure progress affectively and adjusting where necessary.

Scaling and all plans for expansion should predicate on feasibility studies, a needs analysis, or cost/benefit analysis to determine the strength and profitability of what you are adding. The products, services, or new menu items should be added based on market studies. Once you have determined the market demand and ROI of these additions, you will have to optimize your operations to accommodate the new revenue streams, thereby building capacity. However, start modest, conserve cash, and build according to demand. There is such a thing as growing too fast, which can be detrimental to your business. You can hastily exhaust cash to grow and not have the demand to see a return on your investment. Conversely, you can experience overwhelming demand and not have the capacity or bandwidth to properly supply what the market demands. So, your strategy to scale properly while continuing to study your market demand, should include analyzing consumer behavior, competitor's response to market shifts, and the strength of your industry, as there will be significant economic shifts to consider. Your business plan is essential to your success.

The illustration below, Figure 4, represents an increase in revenue driven by market demand over an elapsed time. This is an example illustrating the correlation and relationship between marketing and revenue. The more demand you recognize from a growing marketing campaign, the higher your revenue potential, and the greater your need to build capacity to supply the market.

Example A represents modest demand, which can be expected when you are a newly established business in your start-up stage. The market does not know you exist, but you managed to capture some attention to your business.

Example B represents increased demand, which you may realize as your business begins to grow, and you are building your base of loyal customers. The market is growing familiar with your products or services through target advertising and branding.

Example C represents higher revenue driven by continued demand for your service or products. You are becoming a key player in the market. At this point, your capacity and bandwidth to accommodate greater demand must be a result of your planning and preparation to supply your market. Closely monitor your supply chain and production pipeline.

Example D represents demand which has contributed to continued revenue growth. Going into your 5th year of business, you should have the appropriate capabilities, increased capacity, and hired the appropriate number of staff to deliver the quality of service expected by your customers. Growth in business is a result of many variables (i.e. customer service, operations, marketing, your value proposition, etc.) all contributing to the success of your venture.

Example E represents a decline in revenue, after previous success during the start-up period. This may be attributed by one or a combination of the following factors:

1. Market equilibrium is not achieved, so prices are driving down.
2. Declined demand for your products or service resulting from increased competition.
3. Your customers recognize substitutes due to lower prices from competition.
4. Lack or decline of quality in service or customer relations management (CRM). You have defaulted on consistency.
5. Inventory is not selling fast enough. Has there been a change in your supply chain?

6. You may not have adequate staff, equipment, or systems in place to meet increased demand. So, your customers go elsewhere.
7. A decline in cash to purchase inventory or the working capital required to sustain competitive marketing campaigns.
8. You have lost sight of KPI's and goals. Time to revise your plan.

At this juncture, you must undertake an analysis to determine what is required to get your revenues turned around in a positive direction and avert a continued slump. Example E validates the need for meticulous business planning and the importance of your financial analysis and pro-forma projections in the business plan.

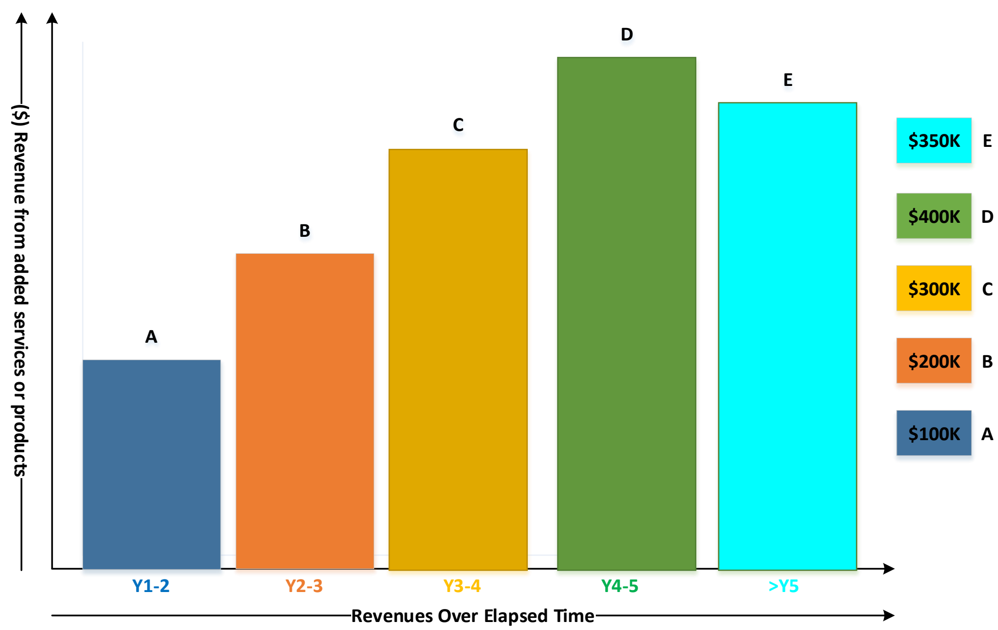


Figure 4

THE TMCLLC BUSINESS PLANNING MODEL

Figure 5 below illustrates the business planning model TMCLLC created to demonstrate the importance of developing the plan as an essential tool for securing funding and serving as a roadmap to growing a successful business. We take you through six steps to understand the relationship of each critical preceding and dependent step which are important to launching successfully.

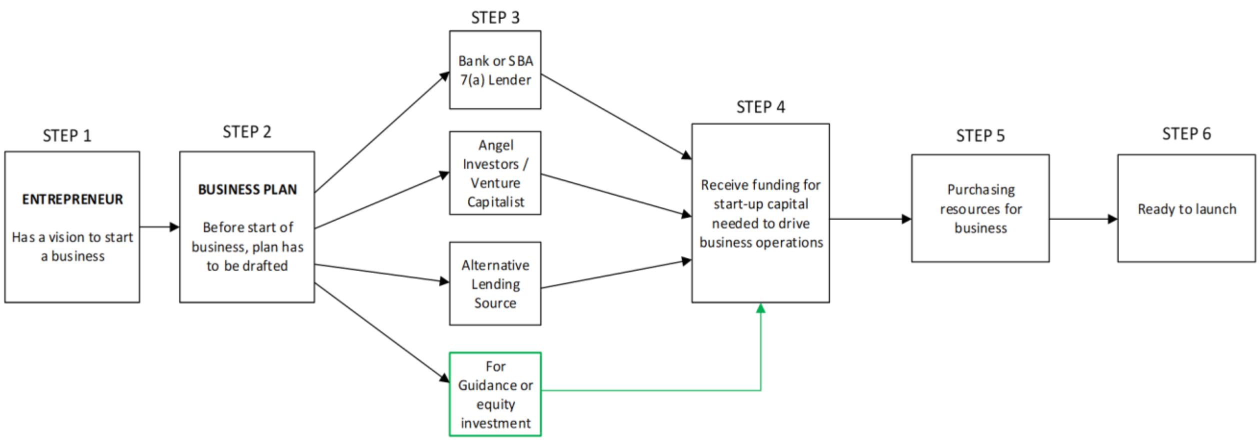


Figure 5

Step 1

As discussed on page 7, nothing commences without having a clear long-term vision for your business idea. You, the entrepreneur, have a desire to start a business from a passion and love for what you are doing as a hobby or "side gig". Not all hobbies become thriving businesses, but the vision you have and how you develop your plan from this foresight is critical to driving success for your new venture. Think of Microsoft, Facebook, Uber, etc. They all evolved into successful global brands from a basic idea, that "ah-ha" moment. So, everything begins with a clear vision.

Step 2

After understanding the vision for your business, the next step is to develop the business plan. The plan encompasses all related key components when seeking investment to fund your vision. It is also a roadmap which sets the direction you take for a successful journey. Your plan should consist of several key components, to include your:

- Executive Summary
- Vision statement
- Mission statement
- SMART Goals
- Start-up requirements and capital needed
- Organizational chart with a list of all officers and experience

- Business name
- Business formation (i.e. LLC or type of incorporation)
- Applying for appropriate business licenses
- Operations plan (including technology/I.T. plan, accounting system, human resources plan, supply chain, point-of-sales system, inventory tracking, bricks-and-mortar vs. home office needs, etc.). It should include all aspects of your operations needed to conduct business successfully
- Marketing plan
- Sales strategy (i.e. sales projections, sales quota, win ratios, etc.)
- Exit strategy (i.e. how you plan to sell the business, determine its value, succession planning transfer to children, etc.)
- At least a 3 Year (36 month) Financial analysis (i.e. the profit and loss, balance sheet, statement of cash flows, sales projections, break-even, profitability ratios, quarterly and annual growth percentage, etc.). Some investors request a 5-year analysis.
- Use of funds – How you plan to use the capital
- Assumptions

Step 3

Traditional Banks

Subsequent to the completion of your written business plan, you are now ready to submit it to various funding sources. As a common practice, banks refrain from lending to start-up businesses, especially from those they identify as risky business models. Entrepreneurs in this phase of the lifecycle lack the credit and revenue history required to give banks the confidence to lend. However, it is still recommended to find out if a local community bank may consider lending. Each banking institution has its own lending criteria, so it is always advantageous to inquire with your smaller local community banks to determine if they will qualify you. The bank will require you to invest 20% equity in the business for the amount you need, and they will provide the remaining 80% in debt financing. When borrowing capital from the bank, you are securing debt at a cost in the form of an interest added to the principle (amount you are borrowing). The repayment amount, including interest, must also be appropriately accounted for in your profit and loss statement, balance sheet, and statement of cash flows.

Here are two important numbers to consider for your business. They are used to identify your business, as your personal social security number is used to identify you.

1. **E.I.N Number** – Apply for your Employer Identification Number (E.I.N), also known as your Federal Tax I.D. Number. It is a 9-digit number used when opening a business bank account, filing your business taxes, and applying for your legal business structure and business license. It is strongly recommended that you apply for your E.I.N number during Step 2 of the TMCLLC Business Planning Model. You **will not** be able to conduct business officially, legitimately, and credibly without your E.I.N. Applying for your E.I.N can be satisfied by accessing the IRS website at www.irs.gov. It is free to apply for and secure your number.

2. **D.U.N.S Number** – When you initially launch as a new start-up, you will not have business credit. Your personal credit score and history will be leveraged against any solicitation for accessing credit (cash). As you grow your business, establish credit history, and establish a business banking relationship, apply for your D.U.N.S (Data Universal Numbering System) number. This is needed especially if your plan is to contract with local, state, and federal government. You cannot secure government contracts without it. A D.U.N.S number is a 9-digit number issued and used by Dun & Bradstreet, one of the largest global credit bureaus, which rates companies based on their business credit history and activity.

   Begin building your business credit history in your start-up phase with a business credit card, on which you make timely payments. This will help to establish your business credit history as a new start-up. As you experience successful and sustained growth, you may wish to apply for a business loan to expand your operations, and possibly open a new location. Your D.U.N.S number will be used by lending institutions to determine the risk of lending capital (debt) to your business. At this point, you are no longer using your personal credit history. Your business will be reviewed for its creditworthiness using your D.U.N.S number. Therefore, be sure to build your business credit history from the onset of launching your start-up. You can access the Dun & Bradstreet website at www.dnb.com to learn more about applying for your D.U.N.S number. The application cost varies.

SBA 7(a) Preferred Lender

An SBA preferred lender is a bank which has been identified as a "preferred" lending institution by the SBA. An entrepreneur approaches the SBA to qualify for the 7(a) program, if he or she lacks the qualifying credit history required from a traditional bank. The SBA guarantees or backs the loans for which you apply and the bank lends the capital required to fund your operations. You must contact your local SBA office to discuss this program or log on to www.SBA.gov.

Angel Investor

An angel investor is someone who may be in a great financial position, and from whom you leverage capital to fund your business operations. The benefit of pursuing this path is greater for start-ups, as the angel may be a family member, friend, or someone who connects with your vision and business model. In addition, the angel may agree to provide you funding as a grant or offer you favorable loan terms. Just remember that an angel investor is just that, an investor. Make sure to negotiate terms you can manage and seek a licensed business attorney to assist with all legal matters.

Alternative Lending Sources

As an option to traditional lenders and angels, there are alternative lenders. These are usually lending services providing start-up working capital to new businesses which cannot leverage from banks. Interest rates are usually a bit higher with some of these sources, but they can offer some flexibility which enhances their favorability. With the explosion of fintech lending platforms such as Kabbage, entrepreneurs are privy to an expansion of online options outside the traditional pathway to accessing capital. Other options are platforms popular for fundraising, known as Crowdfunding, such as GoFundMe, Kickstarter, Patreon, and others, on which capital can be leveraged in the form of a "fund raising campaign" to finance business ideas and ventures. PayPal and banks which operate solely online as cloud-based services are examples of fintech companies, which uses software to offer financial services to small businesses. Many are specifically focused on providing access to funding solely to start-up ventures. They may be a favorable alternative to the traditional bricks-and-mortar models on which we have come to rely. So, do your research and determine which of these platforms work best for you and offers the best advantages you seek. You can also identify and register for "shark tank" style business plan competitions, which offers its winners reasonable start-up funding, if declared the winner. Another non-traditional funding source is your home church. Many faith-based organizations have small business ministries which, in addition to offering financial literacy and business classes, provide funding for their members who are seeking seed money or expansion funding to sustain business operations.

<u>Equity Investment</u>

Many banking institutions require the business owner to place a 20% stake, or equity, in the start-up funding process. Entrepreneurs who are challenged with leveraging loans from banks or investors have the option of investing 100% equity in the start-up, whereby, they are investing their own money (personal savings) to finance the start-up of their business. This is not unusual, as start-up capital can be difficult to secure. The business has no history of activity, creditworthiness, or revenue generation, so confidence from investors is low. Once the business can survive the start-up phase of the lifecycle and begin to experience growth, it has a better chance of securing funding to support its growth strategy, as it has established history and creditworthiness to support the investment with greater confidence.

As a note of caution, I do not recommend entrepreneurs access their 401(K) and/or IRA retirement accounts for seed capital or any form of business leverage. Doing so will risk diminishing or depleting your retirement funds, while incurring heavy tax penalties, if not repaid by the recommended time. So, it <u>is not</u> an advisable option.

If not for securing funding, the other option is to use the business plan as a road map for understanding how you will establish, develop, and grow your business. As a road map, it is a tool to offer guidance, because you have done all the research and pro-forma projections to use the plan as a measuring tool for success.

Step 4

In this step of the process, you now have the money you need to finance your business operations. The capital secured shall be used as planned and predicated on the extensive projections made in Step 2.

Step 5

Capital is used to purchase resources and pay for services to drive your operations. Resources are, but not limited to:

- Equipment used to perform the work needed to produce your products or execute services
- Computer systems
- Phones (mobile and land line)
- Vehicles
- Rent
- Utilities
- Website
- Marketing
- Employee salaries (if you begin with employees)
- Insurance
- Furniture and other fixtures
- All other required resources as documented in your start-up needs analysis

Step 6

This is the day for which you have waited. This is the day you envisioned long before embarking on the business planning process. It is the day you open for business, your launch date. There is much fanfare, local press coverage, champagne, a ribbon cutting ceremony, and probably local political figures. There is no turning back now. With meticulous planning, preparation, and with the right resources in reach, you are on your way to success.

ESSENTIAL ADVISORS

Below, Figure 6, I have identified three essential advisors every entrepreneur in the seed and start-up phase should have. These advisors should be working with you along your journey and beyond your start-up phase as you begin to grow and expand your business. It is a valuable investment, and one which can save you much time and heartache. As a business owner, you can't do it all alone.

Figure 6

<u>Licensed Attorney</u>

The licensed attorney shall assist you in setting up your legal structure of the business. He or she shall work with you to identify which structure is advantageous for you, such as an LLC, C-Corp, S-Corp, Sole Proprietorship, whether you are a for-profit or non-profit. You should strongly consider contacting an attorney to begin this discussion before start-up. Your attorney should be licensed in the state where your business is located, and when offering advisement.

<u>Certified Public Accountant (CPA)</u>

A CPA will assist you in setting up your accounting system and offer you tax advisement, especially at filing time with the IRS. He or she will help you navigate the system of documentation needed for completion as a legal entity, and especially if you have employees. Assistance with Quick Books and other accounting systems for your business should be discussed with your CPA.

<u>Business and Strategy Planning Consultant</u>

The Business and Strategy Planning Consultant assists with identifying all the key aspects of your business to which you must pay attention. He or she will guide you to determine your operations, marketing, help with business plan research and writing, forecasting and financial analysis, and the most advantageous strategy to ensure sustained business success. This individual has access to a plethora of resources you will need as far as human resources, web and I.T. development, advertising, strategic planning and development, growth strategies, navigating through the start-up stage of the lifecycle, conducting feasibility studies, and much more.

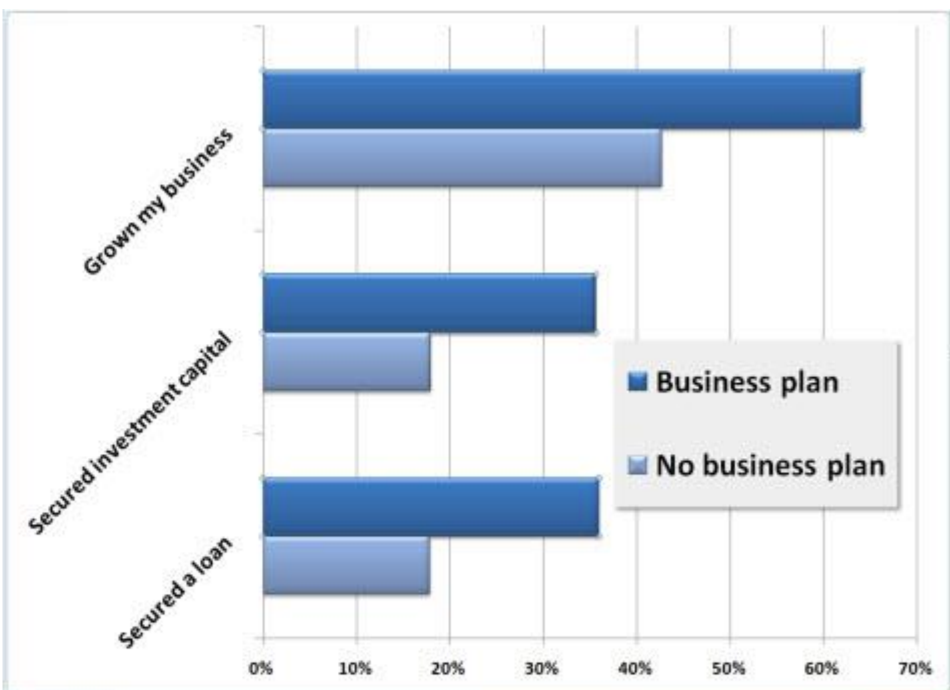
These advisors should be listed in your business plan, along with their qualifications.

Other essential resources to consider are the following, which you can find in your local area:

- The Small Business Administration (SBA)
- The Small Business Development Centers (SBDC)
- Local Chambers of Commerce – *Research chambers which are established to serve specific target groups (i.e. The Womens Chamber of Commerce, The Hispanic and/or Latin American Chamber of Commerce, The Black Chambers or African-American Chamber of Commerce, The Veterans Chamber of Commerce, The LGBTQ Chamber of Commerce, The Asian-American Chamber of Commerce, The Caribbean-American Chamber of Commerce, etc.)*
- S.C.O.R.E
- Industry Business and Trade Associations or Alliances
- National Federation of Independent Businesses

Utilize these resources in the beginning of your entrepreneurial journey, and beyond your start-up phase. Successful businesses leverage key resources to advise them throughout their business journey. Advisors in key disciplines can be a tremendous value-add to a young start-up, as well as those who are planning for successful growth and expansion.

Finally, the graph below illustrates the success rate for entrepreneurs who consider having a business plan to secure funding from a lending institution or private investor and chart the necessary steps to grow successfully. The graph represents results from a survey featured in a Small Business Trends online article and facilitated by Palo Alto, a leading business planning software company, with validation from the University of Oregon, Department of Economics.



CLOSING

As you can see, the business plan initiative is a thorough and involved process, which requires attention to detail and immense investment of time and effort. Is a business plan important and relative to starting a business? Yes, it is, and without it, you are clearly charting a course of uncertainty without knowing how you shall arrive at your destination. Do not set yourself up for failure. Invest in seeing your vision to fruition. In the book, The Lean Start-Up (Ries, 2011, p.20) ***"The goal of a start-up is to figure out the right thing to build, the thing customers want and will pay for, as quickly as possible."*** If you have a product or service for your target market, and supported by a clear vision, take the risk and embark on your path to entrepreneurship. Plan well and enjoy your journey. Much success to you.

About the Author:

Austin E. Thompson, Jr. is Principal Consultant and CEO of Thompson Management Consulting, LLC (TMCLLC), with over 10 years of small business independent consulting experience. TMCLLC is a Better Business Bureau (BBB) A+ accredited firm, in which Austin serves as a business and strategic planning authority for sole proprietors, micro enterprises, and small businesses. Austin was an Adjunct Professor for 8 years in undergraduate business lecturing at Shorter University's College of Adult and Professional Programs, and regularly conducts workshops for entrepreneurs. He is founder of the annual Entrepreneurship and Small Business Summit (ESBS). His ideal clients are for-profit entrepreneurs in the start-up space, but also those over 5 years in the business lifecycle. As a civic and community leader, Austin serves on the Lawrenceville Architectural Review Board, the Lawrenceville Neighborhood Alliance, the Development Advisory Committee of the Gwinnett County Board of Commissioners, the Entrepreneurship Advisory Board of Discovery High School, and is a 2021 candidate for Lawrenceville City Council. He is currently pursuing his accreditation as a certified business consultant and holds MBA and Master of Project Management degrees with honors from Keller Graduate School of Management, DeVry University. You are invited to access his full bio HERE. Austin can be reached at austin@tmconsultingllc.com or by visiting www.tmconsultingllc.com.

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