

## **Writing Your Financial Plan**

**Financial plans meet a variety of needs. For the person contemplating buying or starting a business, the information gained as the process unfolds is invaluable. After the business is started or purchased, the financial plan provides ongoing managerial control. Another important benefit is that it provides important information about the business to potential investors and creditors. For many entrepreneurs who don't realize the value of the financial plan to the business owner, getting the money he or she needs is what a financial plan is all about.**

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Why are you going into business? While you may have a number of good answers to the question, the bottom line is that you want to go into business because you want to make money. The *only* reason investors may be willing to join you in your venture is for the very same reason. They want to make money. They want to make a reasonable return on their investment also. The return they expect must be in proportion to the amount of risk they are taking. If the return is not substantially higher than what is possible by investing in savings bonds and CDs, there is no reason to put their capital at risk.

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Financial plans are used primarily for raising capital and setting measurements for future cash management and business growth. All businesses must have sufficient cash to cover all start-up costs, plus have an amount sufficient to cover the cash flow needs during the first several months/years of business losses. These cash needs must be projected with great accuracy. Not to do so risks the loss of staying power and may result in a quick business failure. This can be reflected in an accurate operating budget and a break-even analysis. A break-even analysis is necessary for you to understand how many units of a given product(s) must be sold in order to cover all your expenses. It's the level of sales at which you don't suffer a loss, but you don't make a profit either.

The financial plan, along with the business plan, helps to convince potential investors and banks that the business has identified a viable opportunity and that the business principals and staff will have the appropriate education, experience, and talent to exploit that opportunity successfully. Just as a blueprint provides a road map for a builder, the business plan does the same.

Additionally the financial plan must lay out a believable system for achieving desired revenue targets and containing accompanying expenses in a coherent and timely manner.

1. Net sales
2. Cost of goods sold
3. Gross profit
4. Operating expenses
5. Other expenses
6. Other income
7. Net income
8. Income after taxes