

# How to Start a Software Business

By the [BizMove.com](http://BizMove.com) Team

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## Table of Contents

[1. Determining the Feasibility of Your New Business](#)

[2. Starting Your Business Step by Step](#)

[3. Complete Software Business Plan Template](#)

## 1. Determining the Feasibility of Your New Business

### A. Preliminary Analysis

This guide is a checklist for the owner/manager of a business enterprise or for one contemplating going into business for the first time. The questions concentrate on areas you must consider seriously to determine if your idea represents a real business opportunity and if you can really know what you are getting into. You can use it to evaluate a completely new venture proposal or an apparent opportunity in your existing business.

Perhaps the most crucial problem you will face after expressing an interest in starting a new business or capitalizing on an apparent opportunity in your existing business will be determining the feasibility of your idea. Getting into the right business at the right time is simple advice, but advice that is extremely difficult to implement. The high failure rate of new businesses and products indicates that very few ideas result in successful business ventures, even when introduced by well established firm. Too many entrepreneurs strike out on a business venture so convinced of its merits that they fail to thoroughly evaluate its potential.

This checklist should be useful to you in evaluating a business idea. It is designed to help you screen out ideas that are likely to fail before you invest extensive time, money, and effort in them.

### **Preliminary Analysis**

A feasibility study involves gathering, analyzing and evaluating information with the purpose of answering the question: "Should I go into this business?" Answering this question involves first a preliminary assessment of both personal and project considerations.

### **General Personal Considerations**

The first seven questions ask you to do a little introspection. Are your personality characteristics such that you can both adapt to and enjoy business ownership/management?

1. Do you like to make your own decisions?
2. Do you enjoy competition?
3. Do you have will power and self-discipline?
4. Do you plan ahead?
5. Do you get things done on time?
6. Can you take advice from others?
7. Are you adaptable to changing conditions?

The next series of questions stress the physical, emotional, and financial strains of a new business.

8. Do you understand that owning your own business may entail working 12 to 16 hours a day, probably six days a week, and maybe on holidays?
9. Do you have the physical stamina to handle a business?
10. Do you have the emotional strength to withstand the strain?
11. Are you prepared to lower your standard of living for several months or years?
12. Are you prepared to lose your savings?

### **Specific Personal Considerations**

1. Do you know which skills and areas of expertise are critical to the success of your project?
2. Do you have these skills?
3. Does your idea effectively utilize your own skills and abilities?
4. Can you find personnel that have the expertise you lack?
5. Do you know why you are considering this project?
6. Will your project effectively meet your career aspirations

The next three questions emphasize the point that very few people can claim expertise in all phases of a feasibility study. You should realize your personal limitations and seek appropriate assistance where necessary (i.e. marketing, legal, financial).

7. Do you have the ability to perform the feasibility study?
8. Do you have the time to perform the feasibility study?
9. Do you have the money to pay for the feasibility study done?

#### General Project Description

1. Briefly describe the business you want to enter.

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2. List the products and/or services you want to sell

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3. Describe who will use your products/services

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4. Why would someone buy your product/service?

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5. What kind of location do you need in terms of type of neighborhood, traffic count, nearby firms, etc.?

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6. List your product/services suppliers.

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7. List your major competitors - those who sell or provide like products/services.

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8. List the labor and staff you require to provide your products/services. \_\_\_\_\_

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## **B. Requirements For Success**

To determine whether your idea meets the basic requirements for a successful new project, you must be able to answer at least one of the following questions with a "yes."

1. Does the product/service/business serve a presently unserved need?
2. Does the product/service/business serve an existing market in which demand exceeds supply?
3. Can the product/service/business successfully compete with an existing competition because of an "advantageous situation," such as better price, location, etc.?

### **Major Flaws**

A "Yes" response to questions such as the following would indicate that the idea has little chance for success.

1. Are there any causes (i.e., restrictions, monopolies, shortages) that make any of the required factors of production unavailable (i.e., unreasonable cost, scarce skills, energy, material, equipment, processes, technology, or personnel)?
2. Are capital requirements for entry or continuing operations excessive?
3. Is adequate financing hard to obtain?
4. Are there potential detrimental environmental effects?
5. Are there factors that prevent effective marketing?

## **C. Desired Income**

The following questions should remind you that you must seek both a return on your investment in your own business as well as a reasonable salary for the time you spend in operating that business.

1. How much income do you desire?

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2. Are you prepared to earn less income in the first 1-3 years?

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3. What minimum income do you require?

\_\_\_\_\_

4. What financial investment will be required for your business?

\_\_\_\_\_

5. How much could you earn by investing this money?

\_\_\_\_\_

6. How much could you earn by working for someone else?

\_\_\_\_\_

7. Add the amounts in 5 and 6. If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income just to be your own boss with the only prospects of more substantial profit/income in future years?

\_\_\_\_\_

8. What is the average return on investment for a business of your type? \_\_\_\_\_

#### **D. Preliminary Income Statement**

Besides return on investment, you need to know the income and expenses for your business. You show profit or loss and derive operating ratios on the income statement. Dollars are the (actual, estimated, or industry average) amounts for income and expense categories. Operating ratios are expressed as percentages of net sales and show relationships of expenses and net sales.

For instance 50,000 in net sales equals 100% of sales income (revenue). Net profit after taxes equals 3.14% of net sales. The hypothetical "X" industry average after tax net profit might be 5% in a given year for firms with 50,000 in net sales. First you estimate or forecast income (revenue) and expense dollars and ratios for your business. Then compare your estimated or actual performance with your industry average. Analyze differences to see why you are doing better or worse than the competition or why your venture does or doesn't look like it will float.

These basic financial statistics are generally available for most businesses from trade and industry associations, government agencies, universities and private companies and banks

Forecast your own income statement. Do not be influenced by industry figures. Your estimates must be as accurate as possible or else you will have a false impression.

1. What is the normal markup in this line of business. i.e., the dollar difference between the cost of goods sold and sales, expressed as a percentage of sales?

\_\_\_\_\_

2. What is the average cost of goods sold percentage of sales?

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3. What is the average inventory turnover, i.e., the number of times the average inventory is sold each year?

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4. What is the average gross profit as a percentage of sales?

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5. What are the average expenses as a percentage of sales?

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6. What is the average net profit as a percent of sales?

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7. Take the preceding figures and work backwards using a standard income statement format and determine the level of sales necessary to support your desired income level.

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8. From an objective, practical standpoint, is this level of sales, expenses and profit attainable?

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**ANY BUSINESS, INC.**  
Condensed Hypothetical Income Statement  
For year ending December 31

Item	Amount	Percent
Gross sales	773,888	
Less returns, allowances, and cash discounts	14,872	
Net sales	<hr/> 759,016	100.00
Cost of goods sold	589,392	77.65
Gross profit on sales	<hr/> 169,624	<hr/> 22.35
Selling expenses	41,916	5.52
Administrative expenses	28,010	3.69
General expenses	50,030	6.59
Financial expenses	5,248	0.69
Total expenses	<hr/> 125,204	<hr/> 16.50
Operating profit	44,220	5.85
Extraordinary expenses	1,200	0.16
Net profit before taxes	<hr/> 43,220	<hr/> 5.69
taxes	19,542	2.57
Net profit after taxes	<hr/> 23,678	<hr/> 3.12

### E. Market Analysis

The primary objective of a market analysis is to arrive at a realistic projection of sales. after answering the following questions you will be in a better positions to answer question eight immediately above.

#### Population

1. Define the geographical areas from which you can realistically expect to draw customers.

\_\_\_\_\_

2. What is the population of these areas?

\_\_\_\_\_

3. What do you know about the population growth trend in these areas? \_\_\_\_\_

4. What is the average family size?

\_\_\_\_\_

5. What is the age distribution?

\_\_\_\_\_

6. What is the per capita income?

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7. What are the consumers' attitudes toward business like yours?

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8. What do you know about consumer shopping and spending patterns relative to your type of business?

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9. Is the price of your product/service especially important to your target market?

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10. Can you appeal to the entire market?

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11. If you appeal to only a market segment, is it large enough to be profitable?

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## **F. Competition**

1. Who are your major competitors?

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2. What are the major strengths of each?

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3. What are the major weaknesses of each?

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4. Are you familiar with the following factors concerning your competitors:

Price structure?

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Product lines (quality, breadth, width)?

---

Location?

---



Promotional activities?

---

Sources of supply?

---

Image from a consumer's viewpoint?

---

5. Do you know of any new competitors?

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6. Do you know of any competitor's plans for expansion?

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7. Have any firms of your type gone out of business lately?

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8. If so, why?

---

9. Do you know the sales and market share of each competitor?

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10. Do you know whether the sales and market share of each competitor are increasing, decreasing, or stable?

---

11. Do you know the profit levels of each competitor?

---

12. Are your competitors' profits increasing, decreasing, or stable?

---

13. Can you compete with your competition?

---

## **G. Sales**

1. Determine the total sales volume in your market area.

\_\_\_\_\_

2. How accurate do you think your forecast of total sales is?

\_\_\_\_\_

3. Did you base your forecast on concrete data?

\_\_\_\_\_

4. Is the estimated sales figure "normal" for your market area?

\_\_\_\_\_

5. Is the sales per square foot for your competitors above the normal average?

\_\_\_\_\_

6. Are there conditions, or trends, that could change your forecast of total sales?

\_\_\_\_\_

7. Do you expect to carry items in inventory from season to season, or do you plan to mark down products occasionally to eliminate inventories? If you do not carry over inventory, have you adequately considered the effect of mark-down in your pricing? (Your gross profits margin may be too low.)

\_\_\_\_\_

8. How do you plan to advertise and promote your product/service/business?

\_\_\_\_\_

9. Forecast the share of the total market that you can realistically expect - as a dollar amount and as a percentage of your market.

\_\_\_\_\_

10. Are you sure that you can create enough competitive advantages to achieve the market share in your forecast of the previous question?

\_\_\_\_\_

11. Is your forecast of dollar sales greater than the sales amount needed to guarantee your desired or minimum income?

\_\_\_\_\_

12. Have you been optimistic or pessimistic in your forecast of sales? \_\_\_\_\_

13. Do you need to hire an expert to refine the sales forecast?

\_\_\_\_\_

14. Are you willing to hire an expert to refine the sales forecast?

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## **H. Supply**

1. Can you make a list of every item of inventory and operating supplies needed?
2. Do you know the quantity, quality, technical specifications, and price ranges desired?
3. Do you know the name and location of each potential source of supply?
4. Do you know the price ranges available for each product from each supplier?
5. Do you know about the delivery schedules for each supplier?
6. Do you know the sales terms of each supplier?
7. Do you know the credit terms of each supplier?
8. Do you know the financial condition of each supplier?
9. Is there a risk of shortage for any critical materials or merchandise?
10. Are you aware of which supplies have an advantage relative to transportation costs?
11. Will the price available allow you to achieve an adequate markup?

## **I. Expenses**

1. Do you know what your expenses will be for: rent, wages, insurance, utilities, advertising, interest, etc?
2. Do you need to know which expenses are Direct, Indirect, or Fixed?
3. Do you know how much your overhead will be?
4. Do you know how much your selling expenses will be?

### **Miscellaneous**

1. Are you aware of the major risks associated with your product? Service Business?
2. Can you minimize any of these major risks?
3. Are there major risks beyond your control?
4. Can these risks bankrupt you? (fatal flaws)

## **J. Venture Feasibility**

1. Are there any major questions remaining about your proposed venture?
2. Do the above questions arise because of a lack of data?
3. Do the above questions arise because of a lack of management skills?
4. Do the above questions arise because of a "fatal flaw" in your idea?
5. Can you obtain the additional data needed?

[Go to Top](#)

## **2. Starting Your Business Step by Step**

### **A. Things to Consider Before You Start**

This guide will walk you step by step through all the essential phases of starting a successful service business. To profit in a service based business, you need to consider the following questions: What business am I in? What services do I provide? Where is my market? Who will buy? Who is my competition? What is my sales strategy? What merchandising methods will I use? How much money is needed to operate my firm? How will I get the work done? What management controls are needed? How can they be carried out? When should I revise my plan? And many more.

No one can answer such questions for you. As the owner-manager you have to answer them and draw up your business plan. The pages of this guide are a combination of text and workspaces so you can write in the information you gather in developing your business plan - a logical progression from a commonsense starting point to a commonsense ending point.

It takes time and energy and patience to draw up a satisfactory business plan. Use this Guide to get your ideas and the supporting facts down on paper. And, above all, make changes in your plan on these pages as that plan unfolds and you see the need for changes.

Bear in mind that anything you leave out of the picture will create an additional cost, or drain on your money, when it crops up later on. If you leave out or ignore enough items, your business is headed for disaster.

Keep in mind too, that your final goal is to put your plan into action. More will be said about this near the end of this Guide.

### **What's in this for Me?**

You may be thinking: Why should I spend my time drawing up a business plan? What's in it for me? If you've never drawn up a plan, you are right in wanting to hear about the possible benefits before you do your work.

A business plan offers at least four benefits. You may find others as you make and use such a plan. The four are:

(1) The first, and most important, benefit is that a plan gives you a path to follow. A plan makes the future what you want it to be. A plan with goals and action steps allows you to guide your business through turbulent economic seas and into harbors of your choice. The alternative is drifting into "any old port in a storm."

(2) A plan makes it easy to let your banker in on the action. By reading, or hearing, the details of your plan he will have real insight into your situation if he is to lend you money.

(3) A plan can be a communications tool when you need to orient sales personnel, suppliers, and others about your operations and goals.

(4) A plan can help you develop as a manager. It can give you practice in thinking about competitive conditions, promotional opportunities, and situation that seem to be advantageous to your business. Such practice over a period of time can help increase an owner-manager's ability to make judgments.

### **Why am I in Business?**

Many enterprising people are drawn into starting their own business by the possibilities of making money and being their own boss. But the long hours, hard work, and responsibilities of being the boss quickly dispel and preconceived glamour.

Profit is the reward for satisfying consumer needs. But it must be worked for. Sometimes a new business might need two years before it shows a profit. So where, then, are reasons for having your own business?

Every business owner-manager will have his or her own individual reasons for being in business. For some, satisfaction come from serving their community. They take pride in serving their neighbors and giving them quality work which they stand behind. For others, their business offers them a chance to contribute to their employees' financial security.

There are as many rewards and reasons for being in business as there are business owners. Why are you in business?

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### **What business am I in?**

In making your business plan, the first question to consider is: What business am I really in. At the first reading this question may seem silly. "If there is one thing I know," you say to yourself, "it is what business I'm in." But hold on. Some owner-managers go broke and others waste their saving because they are confused about the business they are in.

The changeover of barbershops from cutting hair to styling hair is one example of thinking about what business you're really in.

Consider this example, also. Joe Riley had a small radio and TV store. He thought of his business as a retail store though he also serviced and repaired anything he sold. As his suburb

grew, appliance stores emerged and cut heavily into his sales. However, there was an increased call for quality repair work.

When Mr. Riley considered his situation, he decided that he was in the repair business. As a result of thinking about what business he was really in, he profitably built up his repair business and has a contract to take care of the servicing and repair business for one of the appliance stores.

Decide what business you are in and write your answer in the following spaces. To help you decide, think of the answers to questions such as: What inventory of parts and materials must you keep on hand? What services do you offer? What services do people ask for that you do not offer? What is it you are trying to do better, more of, or differently from your competitors?

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## **How to Plan Your Marketing**

When you have decided what business you're in, you have made your first marketing decision. Now you are ready for other important considerations.

Successful marketing starts with the owner-manager. You have to know your service and the needs of your customers.

The narrative and work blocks that follow are designed to help you work out a marketing plan for your firm. The blocks are divided into three sections:

Section One - Determining the Sales Potential

Section Two - Attracting Customers

Section Three - Selling to Customers

### **Section One - Determining the Sales Potential**

In the service business, your sales potential will depend on the area you serve. That is, how many customers in this area will need your services? Will your customers be industrial, commercial, consumer, or all of these?

When picking a site to locate your business, consider the nature of your service. If you pick up and deliver, you will want a site where the travel time will be low and you may later install a radio dispatch system. Or, if the customer must come to your place of business, the site must be conveniently located and easy to find.

You must pick the site that offers the best possibilities of being profitable. The following questions will help you think through this problem.

In selecting an area to serve, consider the following:

Population and its growth potential

Income, age, occupation of population

Number of competitive services in and around your proposed location

Local ordinances and zoning regulations

Type of trading area (commercial, industrial, residential, seasonal)

For additional help in choosing an area, you might try the local chamber of commerce and the manufacturer and distributor of any equipment and supplies you will be using.

You will want to consider the next list of questions in picking the specific site for your business:

Will the customer come to your place of business?

How much space do you need?

Will you want to expand later on?

Do you need any special features required in lighting, heating, ventilation?

Is parking available?

Is public transportation available?

Is the location conducive to drop-in customers?

Will you pick up and deliver?

Will travel time be excessive?

Will you prorate travel time to service call?

Would a location close to an expressway or main artery cut down on travel time?

If you choose a remote location, will savings in rent off-set the inconvenience?

If you choose a remote location, will you have to pay as much as you save in rent for advertising to make your service known?

If you choose a remote location, will the customer be able to readily locate your business?

Will the supply of labor be adequate and the necessary skills available?

What are the zoning regulations of the area?

Will there be adequate fire and police protection?

Will crime insurance be needed and be available at a reasonable rate?

I plan to locate in \_\_\_\_\_ because:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Is the area in which you plan to locate supported by a strong economic base? For example, are nearby industries working full time? Only part time? Did any industries go out of business in the past several months? Are new industries scheduled to open in the next several months?

Write your opinion of the area's economic base and your reason for that opinion here.:

\_\_\_\_\_

\_\_\_\_\_

Will you build? \_\_\_\_\_ What are the terms of the loan or mortgage?

\_\_\_\_\_

\_\_\_\_\_

Will you rent? \_\_\_\_\_ What are the terms of the lease?

\_\_\_\_\_

\_\_\_\_\_

Is the building attractive? \_\_\_\_\_ In good repair? \_\_\_\_\_

Will it need remodeling? \_\_\_\_\_ Cost of remodeling? \_\_\_\_\_

What services does the landlord provide?

\_\_\_\_\_

\_\_\_\_\_

What is the competition in the area you have picked?

The number of firms that handle my service \_\_\_\_\_

Does the area appear to be saturated? \_\_\_\_\_

How many of these firms look prosperous? \_\_\_\_\_

Do they have any apparent advantages over you? \_\_\_\_\_

How many look as though they're barely getting by? \_\_\_\_\_

How many similar services went out of business in the area last year? \_\_\_\_\_

Can you find out why they failed? \_\_\_\_\_

How many new services opened up in the last year? \_\_\_\_\_

How much do your competitors charge for your service? \_\_\_\_\_

Which firm or firms in the area will be your biggest competition? \_\_\_\_\_

List the reasons for your opinion here:



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## **Section Two - Attracting Customers**

When you have a location in mind, you should work through another aspect of marketing. How will you attract customers to your business? How will you pull customers away from your competition?

It is working with this aspect of marketing that many service firms find competitive advantages. The ideas which they develop are as good and often better, than those which large companies develop with hired brains. The workblocks that follow are designed to help you think about image, pricing, customer service policies, and advertising.

### **Image**

Whether you like it or not, your service business is going to have an image. The way people think of your firm will be influenced by the way you conduct your business. If people come to your place of business for your service, the cleanliness of the floors, the manner in which they are treated, and the quality of your work will help form your image. If you take your service to the customer, the conduct of your employees will influence your image. Pleasant, prompt, courteous service before and after the sale will help make satisfied customers your best form of advertising.

Thus, you can control your image, Whatever image you seek to develop. It should be concrete enough to promote in your advertising. For example, "service with a smile" is an often used image.

Write out what image you want customers to have of your business.

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### **Pricing**

In setting prices for your service, there are four main elements you must consider:

- (1) Materials and supplies
- (2) Labor and operating expenses
- (3) Planned profit
- (4) Competition

Further along in this Guide you will have the opportunity to figure out the specifics of materials, supplies, labor, and operating expenses. From there you may want the assistance of your accountant in developing a price structure that will not only be fair to the customer, but also fair to yourself. This means that not only must you cover all expenses but also allow enough margin to pay yourself a salary.

One other thing to consider. Will you offer credit? \_\_\_\_\_ Most businesses use a credit card system. These credit costs have to come from somewhere. Plan for them. If you use a credit card system, what will it cost you? \_\_\_\_\_

Can you add to your prices to absorb this cost?

Some trade association have a schedule for service charges. It would be a good idea to check with the trade association for your line of business. Their figures will make a good yardstick to make sure your prices are competitive.

And, of course, your prices must be competitive. You've already found out your competitors' prices. Keep these in mind when you are working with your accountant. If you will not be able to make an adequate return, now is the time to find out.

### **Customer Service Policies**

Customers expect certain services or conveniences, for example, parking. These services may be free to the customer, but not to you. If you do provide parking, you either pay for your own lot or pick up your part of the cost of a lot which you share with other businesses. Since these conveniences will be an expense, plan for them.

List the services that your competitors provide to customers:

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Now list the services that you will provide your customers:

### **Service / Estimated Cost**

_____	_____
_____	_____
_____	_____
_____	_____

### **Planning Your Advertising Activities**

In this section on attracting customers, advertising was saved until last because you have to have something to say before advertising can be effective. When you have an image, price range, and customers services, you are ready to tell prospective customers why they should use your services.

When the money you can spend on advertising is limited it is vital that your advertising be on target. Before you can think about how much money you can afford for advertising, take time to determine what jobs you want advertising to do for your business. The work blanks that follow should be helpful to your thinking.

The strong points about my service business are:

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My service business is different from my competition in the following ways:

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My advertising should tell customers and prospective customers the following facts about my business and services:

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When you have these facts in mind, you now need to determine who you are going to tell it to. Your advertising needs to be aimed at a target audience - those people who are most likely to use your services. In the space below, describe your customers in terms of age, sex, occupation, and whatever else is necessary depending on the nature of your business. This is your customer profile of "male and female automobile owners, 18 years old and above." Thus, for this repair business, anyone over 18 who owns a car is likely to need its service.

The customer profile for my business is

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Now you are ready to think about the form your advertising should take and its cost. You are looking for the most effective means to tell your story to those most likely to use your service. Ask the local media (newspapers, radio and television, and the printers of direct mail pieces) for information about the services and the results they offer for your money.

How you spend advertising money is your decision, but don't fall into the trap that snares many advertisers. As one consultant describes this pitfall: It is amazing the way many managers consider themselves experts on advertising copy and media selection without any experience in these areas.

The following blanks should be useful in determining what advertising is needed to sell your strong points to prospective customers.

Form of Advertising	Size of Audience	Frequency of Use	Cost of A Single Ad	Estimated Cost
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
			Total	<hr/>

When you have a figure on what your advertising for the next 12 months will cost, check it against one of the operating ratios (expenses as a percentage of sales) which trade associations and other organizations gather. If your estimated cost for advertising is

substantially higher than this average for your line of service, take a second look. No single expense item should be allowed to get way out of line if you want to make a profit. Your task in determining comes down to: How much can I afford to spend and still do the job that needs to be done?

### **Section Three - Selling to Customers**

To complete your work on marketing, you need to think about what you want to happen after you get a customer. Your goal is to provide your service, satisfy customers, and put money into the cash register.

One-time customers can't do the job. You need repeat customers to build a profitable annual sales volume. When someone returns for your service, it is probably because he was satisfied by his previous experience. Satisfied customers are the best form of advertising.

If you previously decided to work only for cash, take a hard look at your decision. Americans like to buy on credit. Often a credit card, or other system of credit and collections, is needed to attract and hold customers.

Based on this description and the dollar amount of business you indicated that you intend to do this year, fill in the following workblocks.

### **Fixtures and Equipment**

No matter whether or not customers will come to your place of business, there will be certain equipment and furniture you will need in your place of business which will allow you to perform your service.

### **Parts and Material**

You will probably need some kind of parts or material to provide your service.

I plan to buy parts and material from:

---

Before you make any supply arrangements, examine the supplier's obsolescence policy. This can be a vital factor in service parts purchasing. You also look at the supplier's warranty policy.

Now that you have determined the parts and materials you'll need, you should think about the type of stock control system you'll use. A stock control system should enable you to determine what needs to be ordered on the basis of: (1) what is on hand, (2) what is on order, (3) what has been used. (Some trade associations and suppliers provide systems to members and customers.)

When you have decided on a system for stock control, estimate its cost. My system for stock control will cost me \_\_\_\_\_ for the first year.

### **Overhead**

List the overhead items which will be needed. Examples are: rent, utilities, office help, insurance, interest, telephone, postage, accountant, payroll taxes, and licenses or other local

taxes. If you plan to hire others to help you manage, their salaries should be listed as overhead.

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## **Getting the Work Done**

An important step in setting up your business is to find and hire capable employees. Then you must train them to work together to get the job done. Obviously, organization is needed if your business is to produce what you expect it to produce, namely profits.

Organization is essential because you as the owner-manager cannot do all the work. As your organization grows, you have to delegate work, responsibility and authority. A helpful tool in getting this done is the organization chart. It shows at a glance who is responsible for the major activities of a business.

As an additional aid in determining both what needs to be done and who will do it, list each activity that is involved in your business. Next to the activity indicate who will do it. You may do this by name or some other designation such as "worker #1", Remember that a name may appear more than once.

### **Activity / Name**

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

## **How Much Money Will You Need**

At this point, take some time to think about what your business plan means in terms of dollars. This section is designed to help you put your plan into dollars.

The first question concerns the source of dollars. After your initial capital investment, the major source of money is the sale of your services. What dollar volume of business do you expect to do in the next 12 months? \_\_\_\_\_

### **Expenses**

In connection with your annual dollar volume of business, you need to think about expenses. If, for example you plan to do 100,000 in business, what will it cost you to do this amount of servicing? And even more important, what will be left over as profit at the end of the year? Never lose sight of the fact that profit is your pay. Even if you pay yourself a salary for living expenses, your business must make a profit if it is to continue year after year and pay back the money you invested in it.

The following workblock is designed to help you make a quick estimate of your expenses. To use this formula, you need to get only one figure - the cost of sales figure for your line of business. If you don't have this operating ratio, check with your trade association.

	Expressed in percentage	Expressed in dollars	your percentage	your dollars
1. Sales	100	100,000	100	\$ _____
2. Cost of sales	-61.7	-61,700	_____	-\$ _____
3. Gross margin	38.3	38,300	_____	\$ _____

### Start-Up Costs

If you are starting a new business, list the following estimated start-up costs:

Fixtures and equipment	_____
Starting inventory	_____
Office supplies	_____
Decorating and remodeling	_____
Installation of equipment	_____
Deposits for utilities	_____
Legal and professional fees	_____
Licenses and permits	_____
Advertising for the opening	_____
Operating cash	_____
Owner's withdraw during prep-start-up time	_____
<b>Total</b>	_____

Whether you have the funds (savings) or borrow them, your new business will have to pay back these start-up costs. Keep this fact in mind as you work on the "Expenses" section, and on other financial aspects of your plan.

### Break Down Your Expenses

Your quick estimate of expenses provides a starting point. The next step is to break down your expenses so they can be handled over the 12 months. Use an "Expenses Worksheet" form to make up an expense budget.

### Matching Money and Expenses

A budget helps you to see the dollar amount of your expenses each month. Then from month to month the question is: Will sales bring in enough money to pay the firm's bills on time? The answer is "maybe not" or "I hope so" unless the owner-manager prepares for the "peaks and valleys" that are in many service operations.

A cash forecast is a management tool which can eliminate much of the anxiety that can plague you if your business goes through lean months. Use a worksheet, "Estimated Cash Forecast",

or ask your accountant to use it to estimate the amounts of cash you expect to flow through your business during the next 12 months.

### **Is Additional Money needed?**

Suppose at this point you have determined that your business plan needs more money than can be generated by sales. What do you do?

What you do depends on the situation. For example, the need may be for bank credit to tide your business over during the lean months. This loan can be repaid during the fat sales months when expenses are far less than sales. Adequate working capital is necessary for success and survival.

Whether an owner-manager seeks to borrow money for only a month or so or on a long-term basis, the lender needs to know whether the store's financial position is strong or weak. Your lender will ask to see a current balance sheet.

Even if you don't need to borrow, use it, to draw the "picture" of your firm's financial condition. Moreover, if you don't need to borrow money, you may want to show your plan to the bank that handles your store's checking account. It is never too early to build good relations with your banker, to show that you are a manager who knows where you want to go rather than a store owner who hopes to make a success.

### **Control and Feedback**

To make your plan work you will need feedback. For example, the year-end profit and loss statement shows whether your business made a profit or loss for the past 12 months.

But you can't wait 12 months for the score. To keep your plan on target you need readings at frequent intervals. A profit and loss statement at the end of each month or at the end of each quarter is one type of frequent feedback. However, the income statement or profit and loss statement (P and L) may be more of a loss than a profit statement if you rely only on it. You must set up management controls which will help you to insure that the right things are being done from day to day and from week to week. In a new business, the record-keeping system should be set up before your business opens. After you're in business is too late. For one thing, you may be too busy to give a record-keeping system the proper attention.

The control system which you set up should give you information about: stock, sales, and disbursement. The simpler the system, the better. Its purpose is to give you current information. You are after facts with emphasis on trouble spots. Outside advisers, such as an accountant, can be helpful.

### **Stock Control**

The purpose of controlling parts and materials inventory is to provide maximum service to your customers and to see that parts and materials are not lost through pilferage, shrinkage, errors, or waste. Your aim should be to achieve a high turnover on your inventory. The fewer dollars you tie up in inventory, the better.

In a business, inventory control helps the owner-manager to offer customers efficient service. The control system should enable you to determine what needs to be ordered on the basis of: (1) what is on hand, (2) what is on order, and (3) what has been used.

In setting up inventory controls, keep in mind that the cost of the inventory is not your only cost. You will also have costs such as the cost of purchasing, the cost of keeping control records, and the cost of receiving and storing your inventory.

## **Sales**

In a small business, sales slips and cash register tapes give the owner-manager feedback at the end of each day. To keep on top of sales, you will need answers to questions such as: How many sales were made? What was the dollar amount? What credit terms were given to customers?

## **Disbursements**

Your manager controls should also give you information about the dollars your company pays out. In checking on your bills, you do not want to know what major items, such as paying bills on time to get the supplier's discount, are being handled according to your policies. Your review system will also give you the opportunity to make judgments on the use of funds. In this manner, you can be on top of emergencies as well as routine situations. Your system should also keep you aware that tax moneys such as payroll income tax deductions, are set aside and paid out at the proper time.

## **Break-Even Analysis**

Break-even analysis is a management control device because the break-even point shows how much you must sell under given conditions in order to just cover your costs with No profit and No loss.

Profit depends on sales volume, selling price, and costs. Break-even analysis helps you to estimate what a change in one or more of these factors will do to your profits. To figure a break-even point, fixed costs, such as rent, must be separated from variable costs, such as the cost of sales and the other items listed under "controllable expenses" on the expense worksheet, of this Guide.

The formula is:

Break-even point (in sales dollars) =

$$\frac{\text{Total fixed costs}}{1 - \frac{\text{.....Total variable costs}}{\text{.....Corresponding sales volume}}}$$

An example of the formula is: Bill Jackson plans to open a laundry. He estimates his fixed expenses at about \$9,000, the first year. He estimates his variable expenses at about \$700 for every \$1,000 of sales.



$$\text{BE point} = \frac{\$9,000}{1 - \frac{700}{1,000}} = \frac{\$9,000}{1 - .70} = \frac{\$9,000}{.30} = \$30,000$$

### Is Your Plan Workable?

Stop when you have worked out your break-even point. Whether the break-even point looks realistic or way off base, it is time to make sure that your plan is workable.

Take time to re-examine your plan before you back it with money. If the plan is not workable better to learn it now than to realize 6 months down the road that you are pouring money into a losing venture.

In reviewing your plan, look at the cost figures you drew up when you broke down your expenses for one year. If any of your cost items are too high or too low, change them. You can write your changes in the white spaces above or below your original entries on that worksheet. When you finish making your adjustments, you will have a Revised projected statement of sales and expenses for 12 months.

With your revised figures work out a revised break-even point. Whether the new break-even point looks good or bad, take one or more precaution. Show your plan to someone who has not been involved in working out the details.

Your banker, or other advisor outside of your business may see weaknesses that failed to appear as you pored over the details of your plan. They may put a finger on strong points which your plan should emphasize.

### Put Your Plan into Action

When your plan is as near on target as possible, you are ready to put it into action. Keep in mind that action is the difference between a plan and a dream. If a plan is not acted upon, it is of no more value than a pleasant dream that evaporates over the breakfast coffee.

A successful owner-manager does not stop after he has gathered information and drawn up a plan, as you have done in working through this Guide. He begins to use his plan.

At this point, look back over your plan. Look for things that must be done to put your plan into action.

What needs to be done will depend on your situation. For example, if your business plan calls for an increase in sales, one action to be done will be providing funds for this expansion.

Have you more money to put into this business?

Do you borrow from friends and relatives? From your bank? From your suppliers by arranging liberal commercial credit terms.

If you are starting a new business, one action step may be to get a loan for fixtures, employee salaries, and other expenses. Another action step will be to find and hire capable employees.

In the spaces that follow, list things that must be done to put your plan into action. Give each item a date so that it can be done at the appropriate time. To put my plan into action, I must do the following:

### **Action / Completion Date**

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

### **Keeping Your Plan Up To Date**

Once you put your plan into action, look out for changes. They can cripple the best made business plan if the owner-manager lets them.

Stay on top of changing conditions and adjust your business plan accordingly.

Sometimes the change is made within your company. For example, several of your employees quit their jobs. Sometimes the change is with customers: for example, their desires and tastes shift. Sometimes the change is technological as when raw materials are put on the market introducing the need for new processes and procedures.

In order to adjust your plan to account for such changes, an owner-manager must:

- (1) Be alert to the changes that come in your company, line of business, market, and customers.
- (2) Check your plan against these changes.
- (3) Determine what revisions, if any, are needed in your plan.

The method you use to keep your plan current so that your business can weather the forces of the market place is up to you. Read the trade papers and magazines for your line of business. Another suggestion concerns your time. Set some time - two hours, three hours, whatever is necessary-to review your plan periodically. Once each month, or every other month, go over your plan to see whether it needs adjusting. If revisions are needed, make them and put them into action.

[Go to Top](#)

## **3. Complete Software Business Plan Template**

### **Table of Contents**

1.0 Executive Summary .....	29
1.1 Objectives .....	30

1.2 Mission .....	32
1.3 Keys to Success.....	32
2.0 Company Summary.....	32
2.1 Company Ownership.....	32
2.2 Start-up Summary .....	33
Table: Start-up .....	33
3.0 Services .....	35
4.0 Market Analysis Summary.....	36
Emerging trends in social networks.....	36
4.1 Market Segmentation .....	37
Table: Market Analysis .....	38
4.2 Target Market Segment Strategy .....	38
4.3 Service Business Analysis .....	38
4.3.1 Competition and Buying Patterns.....	40
5.0 Web Plan Summary .....	40
5.1 Website Marketing Strategy .....	40
5.2 Development Requirements.....	40
6.0 Strategy and Implementation Summary .....	40
6.1 SWOT Analysis .....	41
6.1.1 Strengths.....	41
6.1.2 Weaknesses.....	41
6.1.3 Opportunities.....	41
6.1.4 Threats .....	41
6.2 Competitive Edge .....	42
6.3 Marketing Strategy .....	42
6.4 Sales Strategy.....	42
6.4.1 Sales Forecast .....	42
Table: Sales Forecast .....	42

6.5 Milestones .....	45
Table: Milestones .....	45
7.0 Management Summary .....	47
7.1 Personnel Plan .....	47
Table: Personnel .....	47
8.0 Financial Plan .....	48
8.0 Financial Plan .....	48
8.1 Start-up Funding .....	48
Table: Start-up Funding .....	48
8.2 Important Assumptions .....	50
8.3 Break-even Analysis .....	50
Table: Break-even Analysis .....	50
8.4 Projected Profit and Loss .....	52
Table: Profit and Loss .....	52
8.5 Projected Cash Flow .....	56
Table: Cash Flow .....	56
8.6 Projected Balance Sheet .....	59
Table: Balance Sheet .....	59
8.7 Business Ratios .....	61
8.7 Business Ratios .....	61
Table: Ratios .....	61

## 1.0 Executive Summary

### Introduction

**COMPANY NAME** develops a photo cataloging system to assist end-users in increasing efficiency through the use of Web based technology. The Company's customers are 1) people who want to upload, organize and document their personal photos and images, and 2) people who want the ease of creating a movie of their images that were uploaded to their account.

**COMPANY NAME** is a photography / picture capture social networking niche site for families to document growth of a child growing up, a home renovation, photo tracking for weight loss, etc. Because of the time it takes to document any event, the end user will keep coming back making it appealing for advertisers to invest advertising dollars in the site. The technology will make it easy to create movies and slide shows for end users to display to family and friends. Comment areas and communities will be available including a comment area under each photo. **COMPANY NAME** will slightly resemble a scrapbooking type of site with a twist. End users can embellish and personalize each photo.

**COMPANY NAME** offers the expertise an end-user needs in order to create a personal photo catalogue system. The Company's ultimate service would be an automated photo image management system and hosting relationship with customers, in which the customer only needs a Web browser to log on to the **COMPANY NAME** site customized to their needs.

Secondary services will be focused on advertisers. **COMPANY NAME** will offer other companies the ability to use the site and customer database to advertise products and services to.

### The Market

**COMPANY NAME**'s customers can be divided into two groups. The first group is familiar with the Internet and desires a progressive and inviting atmosphere where they can upload photo images, catalog them and display as a movie easily for other members, family and friends. The second group is companies providing products and services that wish to advertise them to members using this debut photo cataloging niche social network website.

### Management

The founder, **OWNER'S NAME**, will be managing and operating the day to day activities for the Company.

Initially, everyone will be an independent contractor with the company including outsourced data storage and servers for the website. Later in time, the founders plan to have everything in house, with employees and computer equipment.

### Financial Plan

**COMPANY NAME** will require a \$178,500 investment. Growth will be slow at first, but once the infrastructure is created through branding and positioning, growth will be explosive. **COMPANY NAME** should not need additional funding according to projections, because once advertising revenues are generated, a captive market of media and advertisers will generate a revenue stream that will pay for future acquisition of sales.

### *1.1 Objectives*

The **COMPANY NAME** objectives will evolve in a three-phase concurrent development cycle.

#### **Learning**

Knowing the customer, the product and services offered by the company as well as knowing the competition are imperative for success. Planning, research and development are critical procedures for this cycle. Objectives for this phase are:

- Become experts on the social network website market and have a database of competitors, market analysis, and customer needs.
- Have a trial version completed within three months of capital formation.
- Establish good working relationships with web programmers and developers by meeting with them and plotting a mutual plan for success based on trust, reliability and service.

- Get commitments for support, services and products by May 2011 to support the launch of **COMPANY NAME**.

### **Earning**

Marketing, sales, customer support, execution of action plans and continued learning will ensure **COMPANY NAME** a market position that will generate earnings and promote growth, both in new customers and new products and services.

- Establishing brand awareness and brand recognition that positions **COMPANY NAME** as the market leader for safe, simple, creative and reliable web based electronic photo catalogue system to end users of all ages.
- Many end-users are without comprehensive computer knowledge; **COMPANY NAME 's** easy to use Web based photo catalogue system allows customers to manage personal images and internally document management.
- Market metrics for evaluating market penetration success include, a market presence in the top social network markets in the country, market share, customer satisfaction ratings and click through traffic. **COMPANY NAME** will strive to double this metrics semi-annually until the company reaches market dominance.
- Begin generating positive cash flow by the end of 2011.

### **Returning**

Balancing long-term sustainability and profitability with short-term necessities and change will be the Achilles heel of many Internet companies. Therefore, **COMPANY NAME** believes that with a policy of returning or giving back to the community (employees, customers and shareholders) **COMPANY NAME** will ensure apportionment of resources without excessive waste and redundancy. Objectives for this cycle are:

- Developing a mission statement which reflects the values of the founders while providing a mandate for culture creation that will attract and retain the best and brightest talent.
- Develop a comprehensive holistic internal structure that is responsive to market demands and rapid change. This model is predicated on the idea of "a continuous learning organization" with the training and marketing functionality binding the entire organization.
- Develop value-added modules that will launch **COMPANY NAME** from a niche player to the premier photo catalogue social networking site on the Web by 2012. This means creating features that are action oriented, that is, coming up with

solutions that allow end-users to document via imagery, easily allowing them to upload them to the web, organize them and displays them to family and friends.

- A balanced and focused approach of developing products with the customer in mind by enthusiastic and innovative employees will ensure the success of **COMPANY NAME**, ultimately leading to increased shareholder value.

### *1.2 Mission*

**COMPANY NAME's** mission is listening to our customers' requirements in order to fulfill their individual needs for photo cataloging. In doing so the Company will strive to become the leading provider of secure and simple to use electronic photo filing systems for end-users, using Web technology.

### *1.3 Keys to Success*

The keys to success in this business are:

#### **Marketing:**

- Establishing brand name.
- Creating barriers-to-entry by competitors through the building trust based relations between end-users and **COMPANY NAME**.
- Building credibility.

#### **Simplicity:**

- Create a system that is simple to use.

## **2.0 Company Summary**

**COMPANY NAME** develops a photo cataloging system to assist end-users in increasing efficiency through the use of Web based technology. The Company's customers are 1) people who want to upload, organize and document their personal photos and images, and 2) people who want the ease of creating a movie of their images that were uploaded to their account.

### *2.1 Company Ownership*

**COMPANY NAME** is a sole proprietorship company owned by **OWNER'S NAME** (60%) and **CO-OWNER'S NAME** (40%). The Company plans to file for a limited liability corporation in the State of California shortly before product launch.



## 2.2 Start-up Summary

After the trial version is completed, salaries, operating overhead and marketing expenses will kick in. **COMPANY NAME** anticipates this happening in the second half of 2011. Seed funding will be sought from angel investors.

Table: Start-up

<b>Start-up</b>	
Requirements	
Start-up Expenses	
Legal	\$4,000
Stationery/Business Cards	\$500
Brochures	\$2,000
Consultants	\$3,000
Insurance	\$6,000
Rent	\$18,000
Research and Development	\$95,000
Expensed Equipment	\$10,000
Website Creation	\$15,000
Total Start-up Expenses	\$153,500
Start-up Assets	
Cash Required	\$25,000
Other Current Assets	\$0
Long-term Assets	\$0
Total Assets	\$25,000

Total Requirements	\$178,500

### 3.0 Services

**COMPANY NAME** is a photography / picture capture social networking niche site for families to document growth of a child growing up, a home renovation, photo tracking for weight loss, etc. Because of the time it takes to document any event, the end user will keep coming back making it appealing for advertisers to invest advertising dollars in the site. The technology will make it easy to create movies and slide shows for end users to display to family and friends. Comment areas and communities will be available including a comment area under each photo. **COMPANY NAME** will slightly resemble a scrapbooking type of site with a twist. End users can embellish and personalize each photo.

**COMPANY NAME** offers the expertise an end-user needs in order to create a personal photo catalogue system. The Company's ultimate service would be an automated photo image management system and hosting relationship with customers, in which the customer only needs a Web browser to log on to the **COMPANY NAME** site customized to their needs.

Secondary services will be focused on advertisers. **COMPANY NAME** will offer other companies the ability to use the site and customer database to advertise products and services to.

A third goal is to not necessarily directly compete with large social networking sites such as Facebook, Twitter, Friendster and MySpace but to partner with them as a specialized extension. **COMPANY NAME** will provide the option to not only post and organize photos and images on the home site; activities can be simultaneously posted to Facebook or Twitter as well.

#### Description of What **COMPANY NAME** Can Do

When end-users upload a photo to the site the image will also be saved as a frame for a constant ongoing movie. The end-user will have the ability to select the entire image as a frame or just select the child's face. The more ongoing images uploaded, the longer the video will be. Because of this fact, people that become members to the site will have to keep uploading their pics to keep the movie going. Friends and families will encourage each other to continue uploading images in order to continue the movie. No one wants to miss their child or grandchild growing up. Because of this fact, **COMPANY NAME** can expect a high level of return users on a weekly to daily rate.

**COMPANY NAME** also will be developing an app for smart phones that will enable members to add photos to the site. This will be another added tool to provide convenience for members so that they will keep returning to the site again and again.

The basic membership on the site will be free. Members will be allowed to upload and save photos as well as make the continuous movie from each pic they upload. The Paid Premium site member will be able to embellish pics utilizing the scrapbook aspect of the site as well as offering an e-mail address for members. The Premium Membership will be inexpensive at \$3-\$4 dollars a month, approximately.

## 4.0 Market Analysis Summary

Web based social network services make it possible to connect people who share interests and activities across political, economic, and geographic borders. Through e-mail and instant messaging, online communities are created where a gift economy and reciprocal altruism are encouraged through cooperation. Information is particularly suited to gift economy, as information is a nonrival good and can be gifted at practically no cost.

Facebook and other social networking tools is increasingly the object of scholarly research. Scholars in many fields have begun to investigate the impact of social networking sites, investigating how such sites may play into issues of identity, privacy, social capital, youth culture, and education

Several websites are beginning to tap into the power of the social networking model for philanthropy. Such models provide a means for connecting otherwise fragmented industries and small organizations without the resources to reach a broader audience with interested users. Social networks are providing a different way for individuals to communicate digitally. These communities of hypertexts allow for the sharing of information and ideas, an old concept placed in a digital environment.

### *Emerging trends in social networks*

As the increase in popularity of social networking is on a constant rise, new uses for the technology are constantly being observed.

At the forefront of emerging trends in social networking sites is the concept of "real time" and "location based." Real time allows users to contribute content, which is then broadcasted as it is being uploaded - the concept is similar to live television broadcasts. Twitter set the trend for "real time" services, where users can broadcast to the world what they are doing, or what is on their minds within a 140 character limit. Facebook followed suit with their "Live Feed" where users' activities are streamed as soon as it happens. While Twitter focuses on words, Clixtr, another real time service, focuses on group photo sharing where users can update their photo streams with photos while at an event. Friends and nearby users can contribute their own photos and comments to that event stream, thus contributing to the "real time" aspect of broadcasting photos and comments as it is being uploaded. In the location based social networking space, Foursquare gained popularity as it allowed for users to "check-in" to places that they are frequenting at that moment. Gowalla is another such service which functions in much the same way that Foursquare does, leveraging the GPS in phones to create a location-based user experience. Clixtr, though in the real time space, is also a location based social networking site since events created by users are automatically geotagged, and users can view events occurring nearby through the Clixtr iPhone app. Recently, Yelp announced its entrance into the location based social networking space through check-ins with their mobile app; whether or not this becomes detrimental to Foursquare or Gowalla is yet to be seen as it is still considered a new space in the internet technology industry.

One popular use for this new technology is social networking between businesses. Companies have found that social networking sites such as Facebook and Twitter are great ways to build their brand image. According to Jody Nimetz, author of Marketing Jive, there are five major uses for businesses and social media: to create brand awareness, as an online reputation management tool, for recruiting, to learn about new technologies and competitors, and as a lead gen tool to intercept potential prospects. These companies are able to drive traffic to their own online sites while encouraging their consumers and clients to have discussions on how to improve or change products or services.

One other use that is being discussed is the use of Social Networks in the Science communities. Julia Porter Liebeskind et al. have published a study on how New Biotechnology Firms are using social networking sites to share exchanges in scientific knowledge. They state in their study that by sharing information and knowledge with one another, they are able to "increase both their learning and their flexibility in ways that would not be possible within a self-contained hierarchical organization." Social networking is allowing scientific groups to expand their knowledge base and share ideas, and without these new means of communicating their theories might become "isolated and irrelevant".

Social networks are also being used by teachers and students as a communication tool. Because many students are already using a wide-range of social networking sites, teachers have begun to familiarize themselves with this trend and are now using it to their advantage. Teachers and professors are doing everything from creating chat-room forums and groups to extend classroom discussion to posting assignments, tests and quizzes, to assisting with homework outside of the classroom setting. Social networks are also being used to foster teacher-parent communication. These sites make it possible and more convenient for parents to ask questions and voice concerns without having to meet face-to-face.

#### *4.1 Market Segmentation*

**COMPANY NAME**'s customers can be divided into two groups. The first group is familiar with the Internet and desires a progressive and inviting atmosphere where they can upload photo images, catalog them and display as a movie easily for other members, family and friends. The second group is companies providing products and services that wish to advertise them to members using this debut photo cataloging niche social network website.

Table: Market Table

#### *4.2 Target Market Segment Strategy*

The target market for **COMPANY NAME** is the entire social network online community. Referral marketing is the key type of marketing strategy utilized. Maintaining and further enhancing its reputation in the community is crucial to gaining additional market share of this target market.

#### *4.3 Service Business Analysis*

Social Networking Statistics as of 2009

MySpace - **345,130,806**

Facebook - **722,434,829**

Hi5 - **8,491,287**

Friendster - **6,896,127**

Orkut - **9,396,000**

Bebo - **14,368,423**

Tagged - **5,100,000**

Perhaps, it can finally put to rest the popular belief by some that only teenagers and adults below 40 of age are keen users of social networking Websites. This is because a UK study has found that almost half of women aged over 55 regularly log on to social networking Websites such as Facebook and Twitter. There are obviously quite a few reasons for this trend, for example, while some appear to use social networks to keep in

touch with family members or research their family tree, others, particularly those who are single, are said to be keen on using these sites as a way of finding new love.

The research, which was conducted by *Mintel*, also found that of the 2,000 participants in the study, more than a third of men and women over 55 also visited Websites such as YouTube in order to watch free videos on the Web. Overall, the study estimates that nearly 100,000 older people have logged on to social networking sites for the first time in the past year and almost a fifth of all Britons who visited these sites for the first time in September were over 55 years old. Also, the results show that when compared to older men, women tend to use social networking Websites more, especially for family oriented reasons.

This provides **COMPANY NAME** the perfect timing to enter into the market and meet the demand. **COMPANY NAME** will offer the ease of not only cataloging images for members but the entertainment of providing the means to make short movies with those images that have been uploaded over a period of time. The Company is excited to provide this unique tool that can help end-users document and track via imagery for a vast variety of uses:

- \* Documenting a child growing up
- \* Tracking the progress of weight loss
- \* Viewing the transitions of a home renovation
- \* Documenting a pet growing up
- \* Tracking the progress of an art project

The possibilities are endless with the use of **COMPANY NAME**'s soon to debut service.

#### 4.3.1 Competition and Buying Patterns

The data doesn't deny that Facebook has come to dominate social networking in the US, and overtook MySpace in 2009. But MySpace's 57 million US unique users are nothing to sneeze at – it's still a top web property with users who are highly engaged. The second tier networks, such as Tagged, Hi5, MyYearbook and Bebo, still receive an impressive 3-6 million uniques per month, and users spend a fair amount of time on those sites. BlackPlanet users spent 3.6 minutes longer interacting with the site than the average Facebook visitor. MyYearbook and Tagged users were on these sites more than 3 minutes longer than the average MySpace visitor. There is definitely addictive behavior occurring on these other sites.

Nielsen published stats showing that three of the world's most popular brands online are social-media related (Facebook, YouTube and Wikipedia) and the world now spends over 110 billion minutes on social networks and blog sites. This equates to 22 percent of all time online or one in every four and half minutes. For the first time ever, social network or blog sites are visited by three quarters of global consumers who go online, after the numbers of people visiting these sites increased by 24% over last year. The average visitor spends 66% more time on these sites than a year ago, almost 6 hours in April 2010 versus 3 hours, 31 minutes last year.

### 5.0 Web Plan Summary

The Company website is an opportunity to offer a niche social networking website with premiere online technology for uploading, managing, editing, commenting/tagging, organizing and making short movies of pictures and images for the average internet user.

#### 5.1 Website Marketing Strategy

**COMPANY NAME** will be working with an experienced and high quality SEO marketing expert to promote the new site online. In addition, **COMPANY NAME** will be contacting a handful of "major" social networking sites, namely Facebook, Twitter, MySpace etc. to offer a possible partnership.

#### 5.2 Development Requirements

The **COMPANY NAME** site will be initially developed with an experienced social network web developer. The Company will maintain a simple, classy yet Internet focused site. The website logos and graphics will be the same artwork throughout the website. A hosting company and development firm will maintain the website. As the website rolls out future development options, an additional technical resource may be required. **COMPANY NAME** will also look into pre-packaged solutions through various web hosting resources.

### 6.0 Strategy and Implementation Summary

**COMPANY NAME** will focus on developing and bringing to market the photo catalog-to-movie technology that will set the Company apart from other social networking sites.



## 6.1 SWOT Analysis

The following SWOT analysis captures the key strengths and weaknesses within the company, and describes the opportunities and threats facing **COMPANY NAME**.

### 6.1.1 Strengths

- Premiere photo cataloging-to-movie online service; no other social network site offers this to date.
- Strong merchandising and production presentation.
- Good referral relationships with experienced business professionals that have successfully started up and run companies.
- An inviting social network platform that will keep high customer loyalty, keeping them coming back for years.

### 6.1.2 Weaknesses

**A dependence on quickly changing technology.** **COMPANY NAME** is a place for people to experience the photo catalog-to-movie technology of the Internet. The technology that is the Internet changes rapidly. Product lifecycles are measured in weeks, not months. **COMPANY NAME** needs to keep up with the technology because a lot of the **COMPANY NAME** experience is technology.

### 6.1.3 Opportunities

- **Growing population of daily Internet users.** The importance of the Internet almost equals that of the telephone. As the population of daily Internet users increases, so will the need for the services **COMPANY NAME** offers.
- **Social bonds fostered by the new Internet communities.** The Internet is bringing people from across the world together unlike any other communication medium. **COMPANY NAME** will capitalize on this social trend by providing a place for families and friends to share images and short creative photo catalog-to-movie files with each other. **COMPANY NAME** will grow some of these communities on its own by establishing chat areas and community programs. These programs will be designed to build customer loyalty.

### 6.1.4 Threats

- **Rapidly increase of social networking websites.** The number of social networking sites has been exploding over the last few years. **COMPANY NAME** will have to be sure to market the Company's site as a specialized niche market social network with general appeal.
- **Emerging local competitors.** Currently, **COMPANY NAME** will be enjoying a first-mover advantage in the photo catalog-to-movie market. However, additional competitors are on the horizon, and **COMPANY NAME** needs to be prepared for

their entry into the market. Many of the programs will be designed to build customer loyalty, and it is **COMPANY NAME**'s hope that its quality service and user friendly applications won't be easily duplicated.

## *6.2 Competitive Edge*

Clearly, the Company's competitive edge is the customer service experience and approach that the management team will bring to the table. Technology that is not readily available to the average novice user will now be presented to the world so that anyone, from children to senior citizens, can make a short movie of their photo memories.

## *6.3 Marketing Strategy*

Positioning and branding will be key in establishing **COMPANY NAME** as the online photo catalog-to-movie leader for the general public. This will be achieved through a focused and targeted marketing communications plan. **COMPANY NAME** will focus through a direct sales campaign aimed at building relationships and trust with potential clients for advertising revenue. The second phase of the marketing is to a "drive to the Web" strategy that is designed to automate sales from a very well planned Search Engine Optimization (SEO) campaign. Though this part of the process is automated, **COMPANY NAME** will maintain a one-to-one service model and a mass customization website.

## *6.4 Sales Strategy*

Few social networks currently charge money for membership. In part, this may be because social networking is a relatively new service, and the value of using them has not been firmly established in customers' minds. Companies such as MySpace and Facebook sell online advertising on their site. Their business model is based upon large membership count, and charging for membership would be counterproductive. Some believe that the deeper information that the sites have on each user will allow much better targeted advertising than any other site can currently provide.

Social networks operate under an autonomous business model, in which a social network's members serve dual roles as both the suppliers and the consumers of content. This is in contrast to a traditional business model, where the suppliers and consumers are distinct agents. Revenue is typically gained in the autonomous business model via advertisements, but subscription-based revenue is possible when membership and content levels are sufficiently high.

### *6.4.1 Sales Forecast*

See Sales Strategy.

Table: Sales Forecast

<b><i>Sales Forecast</i></b>			
	2011	2012	2013
Sales			
Advertising Revenue	\$568,499	\$585,554	\$603,121
Premium Memberships	\$4,061,611	\$4,183,459	\$4,308,963
Total Sales	\$4,630,110	\$4,769,013	\$4,912,084
Direct Cost of Sales	2011	2012	2013
Hosting	\$421	\$434	\$447
Merchant Services	\$575,684	\$592,955	\$610,743
Subtotal Direct Cost of Sales	\$576,105	\$593,389	\$611,190



## 6.5 Milestones

Detailed milestones are shown in the following table and chart. The related budgets are included with the expenses shown in the projected Profit and Loss statement, which is in the financial analysis that comes in Chapter 7 of this plan.

Table: Milestones

<b>Milestones</b>					
Milestone	Start Date	End Date	Budget	Manager	Department
Incorporation	12/25/2010	1/30/2011	\$2,000	INSERT NAME	Co-Owner
Business Plan	12/1/2010	12/15/2010	\$1,800	INSERT NAME	Co-Owner
Seed Money- For Programming	1/1/2011	2/1/2011	\$15,000	INSERT NAME	Co-Owner
Create Board of Directors	1/1/2011	3/1/2011	\$2,200	INSERT NAME	Co-Owner
Finalize Investment	12/15/2010	1/30/2011	TBD	INSERT NAME	Co-Owner
Investigate Alliances	1/1/2011	4/1/2011	\$1,000	INSERT NAME	Co-Owner
Launch Product	1/1/2011	4/30/2011	TBD	INSERT NAME	Co-Owner
Totals			\$22,000		



## 7.0 Management Summary

The founders, **OWNER'S AND CO-OWNER'S NAME**, will be managing and operating the day to day activities for the Company.

Initially, everyone will be an independent contractor with the company including outsourced data storage and servers for the website. Later in time, the founders plan to have everything in house, with employees and computer equipment.

[INSERT BIO]

### 7.1 Personnel Plan

Initially **COMPANY NAME** will offer a standardized pay structure to all its employees. The difference in pay scale will be made up in stock options. This is a performance based incentive system and is designed to elicit equality among all employees and generate ownership among all employees. When the Company does start hiring, an office manager, sales team, and marketing group will be recruited.

Table: Personnel

<b>Personnel Plan</b>			
	2011	2012	2013
CEO	\$36,000	\$37,800	\$39,690
Sales Consultants	\$28,401	\$29,253	\$30,131
Programmers/ Technicians	\$56,004	\$58,804	\$61,744
Customer Service	\$50,004	\$52,504	\$55,129
Total People	6	8	12
Total Payroll	\$170,409	\$178,361	\$186,694

## 8.0 Financial Plan

**COMPANY NAME** will require a \$178,500 investment. Growth will be slow at first, but once the infrastructure is created through branding and positioning, growth will be explosive. **COMPANY NAME** should not need additional funding according to projections, because once advertising revenues are generated, a captive market of media and advertisers will generate a revenue stream that will pay for future acquisition of sales.

### 8.1 Start-up Funding

**COMPANY NAME's** start-up costs are detailed above, in the Start-up Table. The following table shows how these start-up costs will be funded by investor capital.

Table: Start-up Funding

<b>Start-up Funding</b>	
Start-up Expenses to Fund	\$153,500
Start-up Assets to Fund	\$25,000
Total Funding Required	\$178,500
Assets	
Non-cash Assets from Start-up	\$0
Cash Requirements from Start-up	\$25,000
Additional Cash Raised	\$0
Cash Balance on Starting Date	\$25,000
Total Assets	\$25,000



Liabilities and Capital	
Liabilities	
Current Borrowing	\$0
Long-term Liabilities	\$0
Accounts Payable (Outstanding Bills)	\$0
Other Current Liabilities (interest-free)	\$0
Total Liabilities	\$0
Capital	
Planned Investment	
Investor	\$0
Investor	\$0
Additional Investment Requirement	\$178,500
Total Planned Investment	\$178,500
Loss at Start-up (Start-up Expenses)	(\$153,500)
Total Capital	\$25,000
Total Capital and Liabilities	\$25,000
Total Funding	\$178,500

## 8.2 Important Assumptions

Since the Company will not be financed by debt, interest rates will not be of great importance to **COMPANY NAME**. Further, **COMPANY NAME** will not have a significant Accounts Receivable burden as the Company will, in essence, have cash transactions. Services will be paid for at the time of performance. **COMPANY NAME** will also assume an economy without further major recession, however, since the service is transaction based and in a sector of the economy that is generally recession proof this is not a major concern for **COMPANY NAME**.

These factors make this venture extremely attractive, and once a self-sustaining revenue stream through advertising revenue is achieved, the Company could conceivably function as a cash machine.

## 8.3 Break-even Analysis

The Break-even Analysis is based on the average of the first-year figures for total sales by units, and by operating expenses. These are presented as per-unit revenue, per-unit cost, and fixed costs. These conservative assumptions make for a more accurate estimate of real risk.

Table: Break-even Analysis

<b>Break-even Analysis</b>	
Monthly Revenue Break-even	\$27,913
Assumptions:	
Average Percent Variable Cost	12%
Estimated Monthly Fixed Cost	\$24,440



#### 8.4 Projected Profit and Loss

Current projection shows that **COMPANY NAME** will become profitable by the fourth quarter of its first year. However, this does not mean that **COMPANY NAME** will have recovered any of its investment. While these projections are far from perfect, they do highlight financial trends; for instance, gross margins will increase as direct sales costs fall over time. The captive market of online social network website members is a windfall and helps the Company reach profitability sooner than most other Internet start-ups.

Table: Profit and Loss

<b>Pro Forma Profit and Loss</b>			
	2011	2012	2013
Sales	\$4,630,110	\$4,769,013	\$4,912,084
Direct Cost of Sales	\$576,105	\$593,389	\$611,190
Other Costs of Sales	\$0	\$0	\$0
Total Cost of Sales	\$576,105	\$593,389	\$611,190
Gross Margin	\$4,054,005	\$4,175,624	\$4,300,894
Gross Margin %	87.56%	87.56%	87.56%
Expenses			
Payroll	\$170,409	\$178,361	\$186,694
Sales and Marketing and Other Expenses	\$21,379	\$22,662	\$24,021
Depreciation	\$996	\$996	\$996
Rent	\$18,000	\$18,540	\$19,096
Utilities	\$3,220	\$3,317	\$3,416
Insurance	\$31,392	\$32,334	\$33,304
Leased equipment	\$6,276	\$6,464	\$6,658

Hosting/Data Storage	\$3,481	\$3,585	\$3,693
Web Developer	\$21,287	\$21,926	\$22,583
Telephone/Cell	\$6,651	\$6,851	\$7,056
Travel	\$8,251	\$8,499	\$8,753
Subscriptions and Dues	\$1,932	\$1,990	\$2,050
Total Operating Expenses	\$293,274	\$305,525	\$318,320
Profit Before Interest and Taxes	\$3,760,731	\$3,870,099	\$3,982,574
EBITDA	\$3,761,727	\$3,871,095	\$3,983,570
Interest Expense	\$0	\$0	\$0
Taxes Incurred	\$1,128,219	\$1,161,030	\$1,194,772
Net Profit	\$2,632,512	\$2,709,069	\$2,787,802
Net Profit/Sales	56.86%	56.81%	56.75%





### 8.5 Projected Cash Flow

The cash flow projection shows that provisions for ongoing expenses are adequate to meet the needs of the company as the business generates sufficient cash flow to support operations.

Table: Cash Flow

<b>Pro Forma Cash Flow</b>			
	2011	2012	2013
Cash Received			
Cash from Operations			
Cash Sales	\$4,630,110	\$4,769,013	\$4,912,084
Subtotal Cash from Operations	\$4,630,110	\$4,769,013	\$4,912,084
Additional Cash Received			
Sales Tax, VAT, HST/GST Received	\$0	\$0	\$0
New Current Borrowing	\$0	\$0	\$0
New Other Liabilities (interest-free)	\$0	\$0	\$0
New Long-term Liabilities	\$0	\$0	\$0
Sales of Other Current Assets	\$0	\$0	\$0
Sales of Long-term Assets	\$0	\$0	\$0
New Investment Received	\$178,500	\$0	\$0
Subtotal Cash Received	\$4,808,610	\$4,769,013	\$4,912,084
Expenditures	2011	2012	2013
Expenditures from Operations			



Cash Spending	\$170,409	\$178,361	\$186,694
Bill Payments	\$1,605,033	\$1,947,178	\$1,931,989
Subtotal Spent on Operations	\$1,775,442	\$2,125,539	\$2,118,683
Additional Cash Spent			
Sales Tax, VAT, HST/GST Paid Out	\$0	\$0	\$0
Principal Repayment of Current Borrowing	\$0	\$0	\$0
Other Liabilities Principal Repayment	\$0	\$0	\$0
Long-term Liabilities Principal Repayment	\$0	\$0	\$0
Purchase Other Current Assets	\$10,000	\$0	\$0
Purchase Long-term Assets	\$15,000	\$0	\$0
Dividends	\$0	\$0	\$0
Subtotal Cash Spent	\$1,800,442	\$2,125,539	\$2,118,683
Net Cash Flow	\$3,008,168	\$2,643,474	\$2,793,401
Cash Balance	\$3,033,168	\$5,676,642	\$8,470,043



### 8.6 Projected Balance Sheet

The following table shows the projected balance sheet.

Table: Balance Sheet

<b>Pro Forma Balance Sheet</b>			
	2011	2012	2013
Assets			
Current Assets			
Cash	\$3,033,168	\$5,676,642	\$8,470,043
Other Current Assets	\$10,000	\$10,000	\$10,000
Total Current Assets	\$3,043,168	\$5,686,642	\$8,480,043
Long-term Assets			
Long-term Assets	\$15,000	\$15,000	\$15,000
Accumulated Depreciation	\$996	\$1,992	\$2,988
Total Long-term Assets	\$14,004	\$13,008	\$12,012
Total Assets	\$3,057,172	\$5,699,650	\$8,492,055
Liabilities and Capital	2011	2012	2013
Current Liabilities			
Accounts Payable	\$221,160	\$154,569	\$159,172
Current Borrowing	\$0	\$0	\$0
Other Current Liabilities	\$0	\$0	\$0
Subtotal Current Liabilities	\$221,160	\$154,569	\$159,172

Long-term Liabilities	\$0	\$0	\$0
Total Liabilities	\$221,160	\$154,569	\$159,172
Paid-in Capital	\$357,000	\$357,000	\$357,000
Retained Earnings	(\$153,500)	\$2,479,012	\$5,188,081
Earnings	\$2,632,512	\$2,709,069	\$2,787,802
Total Capital	\$2,836,012	\$5,545,081	\$8,332,883
Total Liabilities and Capital	\$3,057,172	\$5,699,650	\$8,492,055
Net Worth	\$2,836,012	\$5,545,081	\$8,332,883

### 8.7 Business Ratios

Business ratios for the years of this plan are shown below. Industry profile ratios based on the Standard Industrial Classification (SIC) code 518210, Web Hosting, are shown for comparison.

Table: Ratios

<b>Ratio Analysis</b>				
	2011	2012	2013	Industry Profile
Sales Growth	0.00%	3.00%	3.00%	8.82%
Percent of Total Assets				
Other Current Assets	0.33%	0.18%	0.12%	57.79%
Total Current Assets	99.54%	99.77%	99.86%	87.32%
Long-term Assets	0.46%	0.23%	0.14%	12.68%
Total Assets	100.00%	100.00%	100.00%	100.00%
Current Liabilities	7.23%	2.71%	1.87%	29.39%
Long-term Liabilities	0.00%	0.00%	0.00%	18.55%
Total Liabilities	7.23%	2.71%	1.87%	47.94%
Net Worth	92.77%	97.29%	98.13%	52.06%
Percent of Sales				
Sales	100.00%	100.00%	100.00%	100.00%
Gross Margin	87.56%	87.56%	87.56%	100.00%
Selling, General & Administrative Expenses	105.65%	66.26%	36.95%	76.02%
Advertising Expenses	0.00%	0.00%	0.00%	1.21%

Profit Before Interest and Taxes	81.22%	81.15%	81.08%	2.50%
Main Ratios				
Current	13.76	36.79	53.28	2.10
Quick	13.76	36.79	53.28	1.66
Total Debt to Total Assets	7.23%	2.71%	1.87%	57.58%
Pre-tax Return on Net Worth	132.61%	69.79%	47.79%	11.55%
Pre-tax Return on Assets	123.01%	67.90%	46.90%	4.90%

<b>Additional Ratios</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	
Net Profit Margin	56.86%	56.81%	56.75%	n.a
Return on Equity	92.82%	48.86%	33.46%	n.a
Activity Ratios				
Accounts Payable Turnover	8.26	12.17	12.17	n.a
Payment Days	27	36	30	n.a
Total Asset Turnover	1.51	0.84	0.58	n.a
Debt Ratios				
Debt to Net Worth	0.08	0.03	0.02	n.a
Current Liab. to Liab.	1.00	1.00	1.00	n.a
Liquidity Ratios				
Net Working Capital	\$2,822,008	\$5,532,073	\$8,320,871	n.a
Interest Coverage	0.00	0.00	0.00	n.a
Additional Ratios				
Assets to Sales	0.66	1.20	1.73	n.a
Current Debt/Total Assets	7%	3%	2%	n.a
Acid Test	13.76	36.79	53.28	n.a
Sales/Net Worth	1.63	0.86	0.59	n.a
Dividend Payout	0.00	0.00	0.00	n.a

[Go to Top](#)

