

## Developing Your Business Plan

This is what the Service Corps of Retired Executives (SCORE) has to say about business plans: “The real value of creating a business plan is not in having the finished product in hand; rather, the value lies in the process of researching and thinking about your business in a systematic way. The act of planning helps you to think things through thoroughly, study and research if you are not sure of the facts, and look at your ideas critically. It takes time now, but avoids costly, perhaps disastrous, mistakes later.”

Most banks will require proof that you’ve completed a sound financial plan before they’ll lend you money for your new business venture. This set of documents is a mainstay of your business plan. It is rare that any bank would have someone analyzing your loan request who is familiar with the bookstore business. Any lender has one primary concern — how you will be able to generate the kinds of profits that will help you pay back your loan during the time period in which payments are due. In the Paz & Associates’ online training segment, a career banker and SBA loan officer makes this a much less intimidating and much more doable task.

The Small Business Administration is an invaluable resource for entrepreneurs. SBA offices have a vast number of resources for start-ups, including connections with SCORE. For free, you can have an experienced business professional review your business plan and give you suggestions for improving the document before you begin to meet with potential lenders. Many offices carry “fill-in-the-blank” style software that will help you create a business plan and sponsor workshops on how to fund your business start-up. In many cases, the instructor for the workshop will be on the board of the SBA bank affiliate that reviews and approves loan applications. Attending one of these workshops, then, will help you gain valuable information and make important contacts. The SBA also has software for business plan templates. If you use a software package to help you develop your business plan, make sure to use a template for a retail store. That way, you’ll avoid sifting through many other business categories that don’t apply. Your best bet is to work with our business plan outline presented in this chapter, using your own ideas and words to describe your business concept.

If you’re not planning to borrow money, don’t assume a business plan isn’t necessary. Without the discipline a bank may impose, your own discipline must come into play to avoid costly errors. You should still use the same lending criteria a bank uses to analyze your investment. Working through this book will provide you with the foundation of a business plan, as will viewing our online training segments. To prepare your plan, pretend you are a bank loan-officer, looking for sound financial planning and results that are consistent with similar operations.

If you’ve been worried that a business plan is a daunting task, keep in mind that your

goal is a brief, well-written document. This is not like writing a 250-page novel, but a series of short paragraphs and spreadsheets to spotlight why your community needs a bookstore ... and why you're the one to do it.

Lenders are busy people, so you don't want to overwhelm them by being redundant or adding more than what is necessary. Here are all of the essential sections you need to present:

- 1) Title Page
- 2) Executive Summary
- 3) Management
- 4) Market Analysis
- 5) Location Summary
- 6) Supplier Terms & Conditions
- 7) Financial Projections

### **Business Plan Cover Page**

Make it easy for your prospective lender to identify your business and how to contact you.

Some items to include:

- Business name & tagline (your logo, if it is developed)
- Location (city & state)
- Your name, phone number & email address
- The words "Confidential" and if you feel more comfortable, a short confidentiality statement

### **Executive Summary**

The most critical section of your business plan, the Executive Summary should only be a few paragraphs to present the mission of your business, your sales and profit goals, and a summary of your funding.

Bankers are interested in one thing: "*How will this business repay its loan?*"

A lender will want to know how long you expect it to take before the loan is repaid.

Be clear about the following:

- amount of money that will be required to start the business
- how much you will invest in the business from your personal wealth
- how much you would like to borrow
- the term of the loan

## **Management**

Bankers don't lend to businesses, they lend to people. So, your ability to successfully launch and manage a bookstore business is what is at stake here.

Your task in this section is to summarize all of the related skills and experience you've earned so far and what steps you've taken to learn the business of retail management.

Include any and all of these things since they help predict your ability to pay back the loan:

- professional background, highlighting the skills that relate to the things you'll need to do to run a small business (see the Decision-Reaching chapter for major categories)
- experience in retail (even if it was when you worked at a store during high school or college)
- education and training
- civic memberships
- community volunteer experience (to show your connections within the community)
- steps taken to learn retail bookstore management (like completing our training, using our consulting services, and attending book industry conferences)

List any other people who will be involved with the business and what tasks they will manage or perform. Even if these people are part-time or will work as an independent contractor, show you've got all of the major areas of small business management in capable hands.

## **Market Analysis**

A lender wants to know you've done your homework and you understand:

- 1) where you want to locate the bookstore
- 2) who it is you will serve
- 3) what customers will want when they patronize your store
- 4) how you will generate business
- 5) that there's enough business to help you pay back your loan

Summarize your market area and the reason you believe they will support your bookstore. Identify the ideal location.

Supporting items you can add to help quickly present your market opportunity include:

- map of your area indicating any and all bookstores and stores that sell books
- list of competitors (including online sources)
- population summary (number of people, household income, education level are most important)

End with a section (two to three paragraphs at most) that identifies all of the reasons you'll give people to shop with you and how you'll reach them. This may be your fabulous kids section with a curated selection of books, toys, and educator materials and/or your ability to host birthday parties and book-themed summer camps. Make this part exciting by describing the unique items you'll carry that no one else is offering locally, explaining how your store will be a special gathering place for the community, and pinpointing what someone will find at your store they cannot get online.

Last, explain how you will generate sales. Revenue powers the entire financial performance of a business, so tell them how you plan to let people know there's a new bookstore in town and motivate them to come in and buy.

You'll find more in the Marketing chapter and during our workshop retreat where we have a bookseller who outperforms her bookselling colleagues 2:1 when it comes to generating sales.

### **Location Summary**

Tell them where you want to locate your business ... and why.

Include:

- a city map with any and all favorable locations noted
- add a circle illustrating the market or catchment area
- add photos or any visuals that will help them understand how your store will look and feel

Some lenders may be persuaded with additional traffic count information and foot traffic details, which you may obtain from your Chamber of Commerce. If your community is a tourist destination, the number and seasonality of this influx of business is helpful for making the case for increased sales projections during certain months of the year.

### **Supplier Terms & Conditions**

This is the section that becomes very book industry specific.

Lenders want to know that you know who your primary vendors will be and what terms they will require.

With bookstore start-ups, you'll typically need to pay for your orders in advance. Since you're a new business, vendors will not extend payment terms until you're open for business.

*Book Wholesalers* - Start-ups usually get their initial inventory from a book wholesaler since

you can acquire your books from a variety of publishers from one source. Your initial order will need to be paid in full before it is shipped. Payment terms on orders you place once you are in business are typically net 30 days (payment due 30 days from the invoice date) with early pay discounts available for payments made within 10 days of the invoice date. Discounts can range from 40 to 43 percent of retail price, depending on the quantity purchased per item and whether the book is ordered prior to its release. Booksellers may return only a small portion of what they purchase annually to wholesalers and will not only pay a restocking fee, but pay freight on return shipments.

*Book Publishers* - Publishers offer discounts that can sometimes reach 50 percent on special offers, so there is a financial incentive to purchase directly from them. Publishers also offer payment terms of 30 days, but offer return privileges on any unsold merchandise, which is unique to the book industry. There is typically no cap on returns or restocking fee, but booksellers need to pay the freight on books shipped back to the publisher ... and wait for their credit to appear on their statements.

*Gift and Greeting Card Vendors* - There are just so many vendors that offer non-book merchandise, but all will require pre-payment for your first order. Return of unsold merchandise is uncommon, except for greeting cards, and discounts are typically 50% of retail prices. The beauty of offering non-book merchandise is that unlike books, the merchandise is generally not priced, so the retailer gets to decide the mark-up. Booksellers not only look to non-book merchandise to make the shopping experience more interesting, but to boost profit margins.

*Local Authors & Artists* - Some booksellers will take merchandise on consignment, which means you get to carry and sell the merchandise before you pay the vendor. This is only typical for individual authors and artists who may live locally and be able to restock the bookstore and want their items in your bookstore.

For lists of book wholesalers and favorite vendors who offer non-book merchandise that sell well in bookstores, see the Inventory chapter.

*Bookstore Fixtures* - Typically fixture manufacturers will need to be paid in full prior to shipping your fixtures.

*Bookstore Computerized Management Systems* - After you review the systems noted in the chapter on Computerizing, contact the vendor to discuss payment terms. You may wish to pay for your hardware and software with a turn-key package up front, or consider leasing.

*Website Hosting* - The American Booksellers Association offers an e-commerce solution for their members that includes a book database and the ability to customize your website. Describe here who you will use and their payment terms.

## **Financial Projections**

If you've registered for the Paz online workshop, you'll have dynamic excel spreadsheets to use for all of the reports listed below that should appear in your business plan. Once you enter in assumptions, the spreadsheets fill in the projections. You can also build spreadsheets yourself or ask the SBA for help.

Include these documents in your business plan:

- Assumptions - Hours of operation, pay scales, payroll, rent and occupancy expenses, industry statistics that serve as the basis for your revenue projections
- Industry Averages - We suggest using the ABACUS income statement summary from the American Booksellers Association (presented later in this chapter)
- Funding Summary - How much you need, what you will invest, any amount your landlord will cover if you've gotten that far in negotiating a lease, what you'll need for working capital and your best estimates for your loan payments
- Start-up Investment
- Proforma Income Statements - Bankers will request at least three years
- Cash Flow Projections - Again, for at least three years
- Balance Sheet

This is such a valuable exercise on so many different levels. You will learn about the business, pick up some new skills, see what you think you can earn, and get a sense of your comfort level with risk.

## **Profit & Loss Projections**

The heart of your business plan is your profit and loss (P&L) projection also known as an Income Statement. This is another report lenders will carefully scrutinize. Called your Pro Forma Income Statement before you open, these figures represent extremely valuable reference points. We recommend you use the averages provided in this chapter to help you create a P&L for your business plan. You'll notice that all figures are presented as a percent of total sales. Line by line, you'll learn what booksellers typically pay for rent, payroll, advertising, and other expenses as a percent of sales.

To help you compare your figures with those provided on the *ABACUS Survey*, structure your P&L exactly as they are reported. You can obtain a free copy of the ABA's Standard Chart of Accounts through their website ([www.bookweb.org](http://www.bookweb.org)), or by calling the ABA at 800/637-0037. The Standard Chart of Accounts provides a detailed list of categories and what kinds of information is contained in each account. Use the Chart of Accounts when setting up your accounting system. For a brief outline of account definitions, see Quick Reference 5.2.

When creating your sales and profit projections, understand that the effort you invest in managing your inventory, promoting the store, developing niche markets, and

controlling expenses will in part determine how quickly you can become profitable and achieve higher average sales and inventory turns. Although other factors such as new competition, changing consumer buying habits, the economy, and even the weather will also influence sales, it is important to begin with financial goals and make financial management an important part of operating your business.

The sample P&L noted on the next page illustrates how the ABACUS Survey reports P&L financial data. Operating expenses can vary greatly, so we've provided a column to let you know when to use the ABACUS averages and when to estimate expenses based on your area and the choices you'll make while running your bookstore.

Why are 30% of bookstores showing a loss? Among other possible dynamics, it could be due to the following:

- 1) the number of outlets now selling books makes it more challenging to get all of your customers' book purchases
- 2) increasing rent costs due to property appreciation
- 3) owners taking additional profits as personal income; and
- 4) increasing costs of technology and other business expenses

### **Cash Flow Forecasting**

This report shows five years of cash flowing in and out of the business month-by-month. The spreadsheet begins with your sales projections and factors in all of the expenses involved in running the bookstore. It should be amended each month to show actuals as they happen. Most lenders will want to see this report frequently during the life of the loan — and so should you. This report will let you know whether you can meet your financial obligations and estimate the cash that will be available for purchasing inventory, marketing the business, or making improvements.

Almost all business failures are largely due to cash flow troubles. Even a strong business with high sales and profits can struggle here. Lenders want to know how you will meet your fixed monthly obligations even though sales (and net income) will fluctuate seasonally. Use a Cash Flow report to show seasonal sales patterns. For example, in bookselling nearly 25% of annual sales occur during November and December — some stores report percentages as high as 40%.

Stores in tourist areas often have two peak seasons. What this means is that cash flow is likely to fluctuate monthly, especially before and during peak seasons. Retailers need additional cash to pay for the seasonal merchandise before sales take place. Your task will be to monitor cash flow and identify periods when you may need short term loans.

Establishing a revolving line of credit with your banker can help you through unsteady times. You'll want to secure a line of credit at the same time you establish your business loan. A revolving line of credit allows you to draw on the loan during lean months and

pay it back during the healthy months. Since access to money is pre-approved, the funds are easier to use than if you had to apply for a brand new loan later on. You do not want to finance your merchandise purchases on your credit card unless you are able to pay off the balance of your credit card to avoid paying interest. The high rates associated with credit cards are deadly to retail profits and this unhealthy strategy of buying inventory on credit cards has been known as one of the fastest ways to go out of business.

Keep in mind that lenders want to help your business succeed. They want to tailor their lending to meet your specific business needs so that you can improve sales, pay back their loans, and borrow more for future growth and expansion. Providing accurate cash flow information to your lender is essential to establish your credibility and obtain their support. Avoid surprises that will jeopardize your relationship with your banker. Provide your banker with regular financial statements and progress reports. If necessary, your lender can restructure your loan or make adjustments if the store does not perform as expected.

### **Balance Sheet**

Your balance sheet is a snapshot in time of your bookstore business. It shows all of your assets (what you own) and liabilities (what you owe) and the resulting equity you may have. This is where you will show lenders the amount of capital and collateral available to finance your new bookstore. Assets include things like cash (a liquid or easily accessible asset) and fixtures and equipment (fixed assets). Fixed assets are depreciated over a certain time period. Liabilities include things like short-term and long-term debt and unpaid vendor bills (accounts payable).

Lenders will apply particular “ratios” to your balance sheet to ensure that you have sufficient ability (“liquidity”) to navigate your bookstore start-up. A strong balance sheet will show more assets than liabilities with a resulting “equity” in the business capable of handling potential future cash flow requirements. If most of your assets are fixed and can’t be turned to cash quickly, or you have little in cash reserves, lenders may express concern that you can’t meet cash flow shortages from outside the actual day-to-day sales of your business. This may result in a smaller loan amount to bring the bank’s acceptable ratios in line.

We strongly urge you to retain an accountant familiar with advising retail business owners in your area. An accountant can work with you to evaluate your personal financial situation, help you understand local and federal business tax requirements, assist you in creating documents for your business plan, advise you on local funding sources, and provide financial guidance on an ongoing basis. Many bookstore owners retain an accountant to compile or review their monthly financial statements and assist with tax preparation. Differences in city, county, and state regulations make finding a local accounting professional an important part of forming your support network.