FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

Using Your Business Plan

Monitor and guide the growth of your business more effectively

Learning Objectives

- At the end of this module, you will be able to:
  - Use your business plan as a blueprint to manage your business.
  - Identify factors that may impede your success.
  - Use your business plan to interpret actual results against your baseline.

About FDIC Small Business Resource Effort

- The Federal Deposit Insurance Corporation (FDIC) recognizes the important contributions made by small, veteran, and minority and women-owned businesses to our economy. For that reason, we strive to provide small businesses with opportunities to contract with the FDIC. In furtherance of this goal, the FDIC has initiated the FDIC Small Business Resource Effort to assist the small vendors that provide products, services, and solutions to the FDIC.
- The objective of the Small Business Resource Effort is to provide information and the tools small vendors need to become better positioned to compete for contracts and subcontracts at the FDIC. To achieve this objective, the Small Business Resource Effort references outside resources critical for qualified vendors, leverages technology to provide education according to perceived needs, and offers connectivity through resourcing, accessibility, counseling, coaching, and guidance where applicable.
- This product was developed by the FDIC Office of Minority and Women Inclusion (OMWI). OMWI has responsibility for oversight of the Small Business Resource Effort.

Executive Summary

- One of the major benefits you'll receive from developing a business plan is getting to know your industry and market thoroughly. A business plan can help you monitor your performance and spot disaster before it occurs.
- A business plan is not a stagnant document; it is an evolving guide that you should refer to throughout the life of your business and modify annually or as your business grows or changes.
- By comparing your business plan projections with actual results, you can understand the business pressure points and the operational components that most affect results.

When Should You Update Your Business Plan?

- Always. Update your business plan whenever you have a change—progressive or disruptive, major or minor. Preferably, monthly, but at a minimum, quarterly. Regular updates make the overall task far less daunting.
- Update:
  - When you lose a long-standing customer or acquire a new customer, whether planned or unexpectedly.
  - When you acquire new skills, technology, or partner-up or divest.
  - When you market to a new geography or demographic.
  - When you add new management or additional funding requirements.
- Remember that all business plans are forward looking; so there are inherent risks of incorrect assumptions.
- Reviewing and updating your business plan can be a quick way to refuel your drive and passion.

Monitoring Business Activity

- Monitoring business activity and comparing it with the road map outlined in your business plan leads to a better understanding of performance and provides a foundation for improvement.
- Monitor your business activity by ensuring you:
  - Review the financial projections monthly to understand the difference between planned results and actual results for your sales, profits, balance and cash flow.
  - Understand any changes in your target market or ideal customer profile.
  - Maintain an updated business plan to share with potential lenders/investors of new projects.
  - Add any new service lines or product offerings.
  - Have the appropriate metrics when measuring key performance indicators.
  - Maintain current competitive information.

Keeping Records

- Keeping detailed records is important when planning and maintaining a business. Your business plan can serve as a framework for record keeping in the following areas:
  - **Sales and Marketing**
    - Track milestones, such as new customers, customer purchases, and location.
    - Track cross-selling opportunities.
    - Track advertising and promotional leads.
    - Track business or market trends, including competitive analysis.
  - **Operations**
    - Track utilization.
    - Track sales cycle, from initial customer contact to contract close.
    - Track product development and service delivery times.
  - **Human Capital**
    - Track employee productivity.
    - Track accession and retention.
  - **Finance**
    - Track monthly/ annual costs.
    - Track margins and other ratios.

Watching for Warning Signs

- Carefully and regularly comparing projections stated in the business plan with actual results will allow you to quickly identify warning signs of potential issues.
  - **Spot trouble early:** Watch for commoditization of your product or services, and/or declining sales, margins, or profits.
  - **Understand pressure points:** Look for rising fixed costs, hiring talented resources, and partnering for growth.
  - **Update your plan:** Check assumptions, validate numbers, and recalculate financial projections.
- When you are running your own business, pay attention to:
  - **Burn rate:** How much money you are burning per unit time.
  - **Fume rate:** When will you run out of money.
  - **Hit rate:** Rate at which you convert proposals to contracts.

Using Business Ratios *(Slide 1 of 2)*

- A business ratio, also referred to as financial or accounting ratios, takes a single number from your financial statements and compares it with other figures, thus allowing you to see the whole picture. They are an integral part of financial statement analysis.
- Business ratios are used by accountants, investors, and creditors.
  - For example, your income statement may show a net profit of $50,000—which sounds quite good.
  - A business ratio will look at your profit in the context of whether you needed $250,000 or $1,000,000 in sales to make that $50,000 profit.
  - This ratio of profit-to-sales gives you a more realistic picture against which to evaluate that $50,000 net profit.

Using Business Ratios *(Slide 2 of 2)*

- Compare changes in your business ratios from period to period, or with other similar businesses, to determine areas for improving your performance or avoiding developing problems.
- Compile data from a number of sources, including trade or business associations and organizations.
- Research or utilize professionals (accountants, bankers, university professors, etc.) to determine how your business compares to similar ones in your particular market.
- The ratios fall into four categories:
  1. Liquidity
  2. Efficiency (or Activity)
  3. Profitability
  4. Solvency

Business Ratio 1: Liquidity

- Liquidity ratios are sometimes called working capital ratios and measure how well a company could pay off short-term debt with current assets, such as cash, receivables and inventories.
- Liquidity ratios are commonly reviewed by banks in evaluating a loan application.
- Most importantly, banks are interested in:
  - **Current Ratio.** The ratio between all current assets and all current liabilities.
  - **Quick Ratio.** The ratio between all assets quickly convertible into cash and all current liabilities.
- Once you obtain the loan, your lender may also require that you continue to maintain a certain minimum ratio, as part of the loan agreement.

Business Ratio 2: Efficiency

- Efficiency or activity ratios demonstrate how efficiently your business uses its assets and where improvements can be made. They measure how quickly a firm converts non-cash assets to cash assets.
- The following are commonly used efficiency ratios:
  - **Days in Receivables.** The average number of days to collect your accounts receivable.
  - **Days in Inventory.** The average number of days to sell your inventory.
  - **Inventory Turnover.** The number of times inventory turns during the year.
  - **Sales to Total Assets.** How efficiently your business generates sales on each dollar of assets.
  - **Days in Accounts Payable.** The average length of time your trade payables are outstanding before they are paid.
  - **Accounts Payable Turnover.** The number of times trade payables turn the year.

Business Ratio 3: Profitability

- Profitability ratios show how profitable your business is and indicate changes in profit performance. They measure the use of assets and control of expenses to generate an acceptable rate of return.
- Profitability ratios demonstrate the performance and growth potential of your business, especially for investors.
- The following are commonly used profitability ratios:

Return on Equity: Determines the rate of return on your investment in the business.	**Return on Assets:** Measures how effectively assets are used to generate a return.
Net Profit Margin: Shows how much profit comes from every dollar of sales.	**Gross Profit Margin:** Indicates how much profit is earned on your products without considering selling and administration costs.
COGS to Sales: Shows percentage of sales that pay for direct sales expenses.	**SG&A to Sales:** Shows percentage of selling, general, and administrative costs to sales.
Sales Growth: Shows percentage of change (+/-) in sales between two time periods.	

Business Ratio 4: Solvency

- Solvency ratios help you measure the degree of financial risk that your business faces. Financial risk, in this context, means the extent to which you have debt obligations that must be met, regardless of your cash flow.
- By using these ratios, you can assess your level of debt and decide whether this level is appropriate for your company's sustainability.
- The following are commonly used solvency ratios:
  - **Debt to Equity.** Shows the ratio between capital invested by the owners and the funds provided by lenders.
  - **Debt to Assets.** Measures the percentage of business assets financed by debt.
  - **Debt Coverage.** Indicates how well your cash flow covers debt and your business's capacity to take on additional debt.
  - **Interest Coverage.** Shows the ratio of your operating income and interest expense to demonstrate your ability to make interest payments.

When Things Go According to Plan

- Your performance measurement system generates data that shows if you are meeting the goals and objectives in your business plan.
- You should:
  - Extend your planning horizon.
    - Firm up the numbers for periods beyond the initial planning window.
    - Fine tune the plan to get a better picture of where you're heading.
    - Keep the plan current.
  - Look for ways to improve on what you've done.
    - Build a track record of success.
    - Think about opportunity to expand, refine, and innovate.
    - Consider the long-term future of your business.
  - Consider what you will have if your business stays on track for the next five years. Most importantly, keep moving forward. Resting now may have a negative impact on your progress.

When Things Go Better Than Planned

- Feel great when you succeed better than you planned.
- Success means two additional jobs for you:
  1. Examine your original assumptions and projections, and find out why your business is doing better than expected. Determine if this is a one-time occurrence or if you can identify ways to repeat this activity.
  2. Assess the impact this success has had on your business by considering these questions:
     - Can you meet the demand and maintain service levels?
     - Does the better-than-expected business require that you adjust your marketing plan by changing your price structure, your promotional or advertising plans, or sales force?
     - Are there new opportunities open to you that were not available before?
- As stated on the previous slide, keep moving forward. Resting now may have a negative impact on your success.

When Things Go Wrong

- Despite your best efforts, sometimes your business does not go the way you expected. A lost customer, low sales, or personal reasons can hit a small business hard.
- When developing your business plan, you should have identified and evaluated the factors likely to have a negative impact on your business.
- Review the contingencies in your business plan. Assess the adverse results and determine the best way to respond. Can you recover?
- How much cash will you need over what time period to sustain your business? Is this a quick fix or a long-term solution?
- Consider options that minimize incurred debt. A common mistake made by struggling businesses is to worsen the situation with increased debt.
- After careful consideration, if closing your business is the best option, enlist professional help from lawyers, accountants, business brokers, tax experts, bankers, and the IRS.

Common Approaches to Goals and Analysis

- **SMART Goals:** Specific, Measurable, Attainable, Relevant, and Time-Based.
  - Helps you develop well-defined goals with measurable results.
  - State your goal, then break it down into a specific set of tasks and activities to accomplish your goals. Example: Obtain two new $10,000+ government contracts by fiscal year-end through networking and marketing activities.
- **SWOT Analysis:** Strengths, Weaknesses, Opportunities, and Threats.
  - Use this planning tool to define more comprehensive marketing strategies.
  - Strengthen your business plan, increase your opportunities, and minimize weaknesses and threats by defining and understanding each.
  - Set SMART goals for each SWOT opportunity defined to establish measurable results.

Key Takeaways from This Module

- Don’t leave your business plan on the shelf—use it, monitor it, and keep it current.
- Monitoring business activity helps you identify early signs of progress or distress.
- Regularly monitoring business ratios will inform you if things are going according to plan, going better, or going wrong.
- Continually updating your business plan helps you better develop and adjust your expectations and projections. You will be prepared to meet your targets, exceed your targets, or have a contingency plan in place.

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