



Plan It First

Writing a Business Plan



for a Micro Business

By Carol Topp, CPA

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About the Author

Carol Topp, CPA (www.CarolToppCPA.com) consults with small business start-ups, work-at-home moms, and teenagers launching micro businesses.

She is a member of the Ohio Society of CPAs, the National Associations of Tax Professionals and the Society of Nonprofit Organizations. As a member of the Ohio Society of CPAs Speakers Bureau, Carol has presented numerous workshops on money management, business start up, taxes, budgeting and homeschooling to various community, church and homeschool groups. She has authored *Homeschool Co-ops: How to Start Them, Run Them and Not Burn Out* and several electronic books for homeschool leaders as well as several magazine articles in *The Old Schoolhouse*, *Home Education*, *Homeschool Enrichment* magazines and the National Association of Tax Professionals *TaxPro*.



Her business books include *Teens and Taxes: A Guide for Parents and Teenagers*. She is currently authoring *Information in a Nutshell: Business, Taxes and Tips for Authors and Publishers* and a book series, *Micro Business for Teens*

Carol was born and raised in Wisconsin and graduated from Purdue University with a degree in engineering. She worked ten years for the US Navy as a cost analyst before staying home with her two daughters. While being a stay-at-home mom, Carol took accounting classes via distance learning. In 2000 Carol received her CPA license and opened her own practice.

Carol lives in Cincinnati, Ohio with her husband and two daughters where she runs her micro business from her home .

Plan It First

Writing a Business Plan for a Micro Business

95% of all American businesses can be classified as micro businesses (fewer than 10 employees)

90% of businesses have fewer than 5 employees

There are over 25 million micro businesses in America

At least 49% (more likely 56%) of all businesses are home based

What is a Micro Business?

- Small, no employees
- Easy to start, sole proprietorship
- Home based
- Little or no start up money needed
- Low risk
- Manageable

Ideas of Micro Businesses

Ideas for starting a micro business can come from everywhere. Start with what you already know; your skills, talents and interests. As you evaluate an idea, ask yourself if it meets a need that customers feel. Then do a survey to see if there is market for your product or service. Additionally, gather a few advisors or mentors and ask for their opinion on your idea.

Make a Plan

Making a plan on paper will help you evaluate your idea and anticipate anything that might go wrong. By thinking through issues like who will buy your product and how you will reach them, you will save time, money and frustration.

69% of business owners who created a business plan said that it was a major contributor to their success.

A business plan can be kept short and simple for most micro businesses. A simple business plan should have three main sections and run about five pages. The plan the follows is ten pages, but that is because it allows room for you to write by hand. If you type in your information, it will only run about five pages as in the example at the end of the book.

Business Plan Sections

1. Business Concept

- Description of the product or service
- Description of the industry
- How to measure success

2. Marketing Plan

- Potential customers
- The competition
- How will you be unique?

3. Financial Plan

- Cost of your product or service
- Price you will charge customers
- Break even analysis

You will create a business plan by answering a series of questions. If you cannot answer the questions, you might need to find some experts to help you. Start by asking for advice from an accountant, a current business owner and potential customers. They can help you with pricing decisions and give you marketing ideas as well: their input will be invaluable to you. Listen to their suggestions as wisdom, not criticisms of your ideas. They want you to succeed..

Business Plan for

(name of your micro business)

Business Concept

Product or Service: _____

Describe your product or service:

What makes your product or service unique?

Describe the industry (i.e pet food, clothing, education, auto repair, retail, food etc) and explain the need for your product or service:

What are the new trends in your industry?

Is there opportunity for you in your industry?

How will you measure success? Will it be a financial goal or based on sales/number of customers?

Define your goal in numbers (\$, people or sales units):

Example: I want to make enough profit to finance a family vacation. Total cost \$2,400.

What do you hope to learn by starting this micro business?

What knowledge, experience and skills do you possess that will be helpful in your business?

What knowledge do you lack?

List an accountant who can help you: _____

List a lawyer who can help you: _____

List an insurance agent who can help you: _____

List an experienced business owner who can help you: _____

What licenses and permits are required to operate your business?

Examples include EIN (Employer Identification Number from the IRS), vendors license, sales tax permit, assumed name registration, zoning permit, food preparation permit.

Marketing Plan

Customers

Who are your potential customers?

How will you reach potential customers? Where will you find them?

How much will you spend (in time and money) doing advertising? Be as specific as possible and include website costs.

Competition

Who is your competition?

What are your competitors' strengths? What are your competitors' weaknesses?

How will you stand out? Why will people buy from you and not your competition?

Surveys

Tell at least five people about your product or service. Ask them: Would you buy from me? How much would you pay?

Record what they said:

Name	Would you buy from me?	What price would you pay?

Risks

What are your major areas of risk? What can break? What can go wrong?

Financial Plan

This may be the hardest part of the business plan to complete. If you need help in any part, see the example that follows. An accountant or a business owner mentor can help.

Start Up Expenses:

Equipment

What start up equipment is needed? Will you need a computer, a desk, an oven?

Where will it come from? Does your family already own the equipment? Will you need to buy some equipment? What will it cost to purchase?

Equipment Needed	Family Approval	Own or Need to Buy?	Cost to Buy

Storage

What storage or preparation space is needed? Where will it come from? Does your family have the space? Will you need to rent space? What will it cost to rent?

Space Needed	Family Approval	Own or Need to Rent?	Cost to Rent Space

Other Start Up Expenses

What other startup expenses will you have? Get specific costs.

Item	Cost
Advertising	
Professional advice	
Licenses and permits	
Starting inventory	
Supplies	
Other:	
Total Start Up Expenses	

Initial Funding for Start Up Expenses

Where will your initial funding come from? *Examples: your savings, your other job, investors.*

Source of Start Up Funds	Amount

If you are borrowing money from family or friends, what is the repayment plan? Be specific with dates or milestones and amounts.

Lender	Amount Owed	Payment	Frequency	Pay Off Date

Item Cost

Fixed Costs: List costs that do not vary with the amount of sales. These are spent regardless of how many sales you make. *Examples are your monthly internet charge, loan repayment, cell phone use, rental space, professional advice, advertising, web-site.*

Fixed Costs	Amount each month (or year)
Total Fixed Cost	per month (or per year)

Variable Costs (or Cost of Goods Sold): List costs that vary with the amount of sales. *Examples: material to produce your product, merchant fees per sale, shipping and packaging costs. Do not include your own labor. It comes out of your profit. Variable Cost are also called Cost of Goods Sold*

Variable Costs	Amount per unit sold
Total Variable Cost per Unit	per unit

(Repeat as necessary for each unique product)

Profit

What profit do you hope to make on each item sold or customer serviced? *If you are unsure start by adding 25-50% of the cost to be your profit.*

Pricing

What will you charge?

*If you are unsure try this equation: 1.25 * Variable Cost per Unit = \$_____ / unit (that would be 25% markup on your variable costs)*

Is it reasonable?

What do your competitors' charge?

	Product #1	Product #2	Product #3	Total
1 Number sold in one year				
2 Selling Price per unit				
3 Variable Cost per unit				
4 Fixed Costs				
5 Margin per unit (Line 2 - Line 3)				
6 Break Even Point in units (Line 4/Line 5)				
7 Total Sales (Line 1 * Line 2)				
8 Total COGS(Line 1 * Line 3)				
9 Gross Profit (Line 7 – Line 8)				

Sales

What are your estimated sales for the first three months, the next three months and the first year? *You can start with number of products sold or number of customers serviced, but then calculate the dollars of sales.*

	Sales(in units or customers)	Sales in dollars
First 3 months sales		
3-6 months sales		
Sales for first year		

Break Even Analysis

Add all the Fixed Costs (from above)

Total Start Up Expenses \$ _____

Total Fixed Costs \$ _____

Total Fixed Costs for first year: \$ _____

Total Variable Costs (from above): \$ _____

Margin per unit = Selling Price per Unit – Variable Cost per Unit

This is a measure of how much profit you make for each unit sold.

$$= \$ \underline{\hspace{2cm}} - \$ \underline{\hspace{2cm}}$$

$$= \$ \underline{\hspace{2cm}} \text{ per unit}$$

Break even point = Total Fixed Costs / Unit Contribution Margin

This is how many units you must sell in the first year to break even.

$$= \$ \underline{\hspace{2cm}} / \$ \underline{\hspace{2cm}} \text{ per unit}$$

$$= \underline{\hspace{2cm}} \text{ units}$$

Is it reasonable? Can you sell that much?

Collect data

Fill in the gray areas in the chart below with the numbers from your business plan. Calculate the other lines as indicated. See the example that follows for help in filling this out.

Projected Income Statement for First Year

Income

Total Sales (from the chart above, Total column)	\$
Other Income (interest on savings, etc)	\$
Total Income	\$
Less: Cost of Goods Sold(COGS from the chart above)	(\$ <u> </u>)
Gross Profit (Income – COGS, from the chart above)	\$
Expenses (list separately)	
Start Up Costs	\$
Advertising	\$
Professional advice	\$
Supplies	\$
Other	\$
Total Expenses	\$
Net Income(Gross Profit- Expenses)	\$

Now that you have completed your business plan, you should show it to an accountant and a small business owner who can be your mentor. After all, starting a micro business is not just about making money, it is about learning something too! These people will help you spot the weaknesses in your plan—they will help you to be successful!

What if you do not know an accountant? Visit my website

<http://MicroBusinessForTeens.com> and send me an email. I will evaluate your business plan for a reasonable fee (add it to your start up expenses!)

What if you do not know a business owner to be a mentor? Visit the SCORE website <http://www.score.org/young.html>. SCORE has retired executives who volunteer their time to help small business startups.

Important Points

A business plan can help you anticipate anything that might go wrong

A business plan for a micro business can be quite short and simple

A business plan has three sections

1. Business Concept

Description of the product or service

Description of the industry

How to measure success

2. Marketing Plan

Potential customers

Describe the competition

How will you be unique?

3. Financial Plan

Cost of your product or service

Price you will charge customers

Break-even analysis

Example Business Plan for Pamela's Piano Teaching Business

Business Concept

Product or Service: *Giving piano lessons*

Describe your product or service: *I will teach beginning piano students in a half-hour weekly lesson from my home.*

What makes your product or service unique? *I really like kids, and they seem to like me. I will charge about half the price of my competitors. I will teach only beginners.*

Describe the industry and explain the need for your product or service: *Most children take music lessons at some point in their life and most start with piano as their first instrument. The market is huge and parents are willing to spend money on piano lessons.*

What are new trends in your industry? *New methods, fun games on the computer*

Is their opportunity for you in your industry? *Yes!*

How will you measure success? Will it be a financial goal or based on sales or number of customers?

I would be successful if I had 5 students that liked me enough to continue after three months.

Define with numbers (\$, people or sales units) your goal: *I hope to earn a little spending money, maybe \$250 a month.*

What do you hope to learn by starting this micro business? *I want to learn how to teach children.*

What knowledge, experience and skills do you possess that will be helpful in your business? *I have been playing piano for 20 years. I took lessons for 10 years. I really like working with children.*

What knowledge do you lack? *Piano teaching methods. Running a business. Marketing. Billing parents. Record keeping*

List an accountant that can help you: *My friend, Carol, is a CPA*

List a lawyer that can help you: *not needed*

List an insurance agent that can help you: *not needed*

List an experienced business owner that can help you: *My friend, Sandy, is a piano teacher*

What licenses and permits are required to operate your business? *None. according to*

my CPA

Examples include EIN (Employer Identification Number), Vendors license, sales tax permit, assumed name registration, zoning permit, food preparation permit.

I will use my name, not a business name. I will use my personal checking account and will not apply for an EIN. Zoning laws permit me to have one client at a time.

Pamela’s Piano Teaching Business Marketing Plan

Customers

Who are your potential customers? *Beginning piano students between 5 and 10 years old*

How will you reach potential customers? Where will you find them? *I will start with my homeschool co-op parents and children in my neighborhood. I could put out an electronic ad on our homeschool forum or e-mail my friends and neighbors.*

How much will you spend (in time and money) doing advertising? Be as specific as possible and include website costs if you will create one. *No website needed. I may spend 2-3 hours sending e-mails looking for students at the start. I won't spend any extra money.*

Competition

Who is your competition? *Experienced piano teachers*

What are your competitors' strengths? What are your competitors' weakness?
Strengths: Experience. Sometimes a music degree. Weaknesses: They will charge more. Some of them don't take beginners

How do you will stand out? Why will people buy from you and not your competition? *I will charge half the going rate. I am personable and really like kids.*

Surveys

Tell at least five people about your product or service. Ask them : Would you buy from me? How much would you pay?

Record what they said:

	Person's name you pay?	Would you buy from me?	What price would
1.	<i>Mrs. Jones</i>	<i>Yes</i>	<i>\$10/lesson</i>
2.	<i>Mrs Lucas</i>	<i>Yes</i>	<i>\$5/lesson</i>

3.	<i>Mrs Lamb</i>	<i>Yes</i>	<i>\$7/lesson</i>
4.	<i>Mrs Tann</i>	<i>Yes</i>	<i>\$6/lesson</i>

Risks

What are your major areas of risk? What can go wrong? I won't be a good teacher. My inexperience will show. The kids won't like me. Students could cancel and not pay me. I could get sick and have to cancel a lesson. Parents might not like my methods. Students won't practice. Students might disobey me. I might get too busy and have to quit teaching. My piano might break and I have to quit teaching. I could break a finger and not be able to teach!

Pamela's Piano Teaching Business Financial Plan

Start Up Expenses

Equipment Needed	Family Approval	Own or Need to Buy?	Cost to Buy
<i>Piano</i>	<i>Yes</i>	<i>Own</i>	<i>\$0.00</i>

Space Needed	Family Approval	Own or Need to Rent?	Cost to Rent Space
<i>Living room</i>	<i>In the afternoons only</i>	<i>own</i>	<i>zero</i>

What other startup expenses will you have? Get specific costs.

Item	Cost
Advertising	<i>Free email</i>
Professional advice	<i>Fee \$100)</i>
Licenses and permits	<i>None needed</i>
Starting inventory	<i>Music books for \$20.00</i>
Supplies	<i>Reward stickers for \$5.00</i>
Other:	
Total Start Up Expenses	<i>\$125.00</i>

Where will your initial funding come from? *My savings*

Item Cost

Fixed Costs	Amount each month (or year)
<i>Piano tuning twice a year</i>	<i>\$180 a year</i>
Total Fixed Cost	<i>\$180 per year</i>

Variable Costs	Amount per unit sold
<i>none</i>	

Profit

What profit do you hope to make on each item sold or customer serviced? If you are unsure, start by adding 25-50% of the cost to be your profit. *Almost 100% profit, since teaching piano has very few expenses*

Pricing:

What will you charge? *\$7 for a 30 minute lesson*

Is it reasonable? *Yes; I will still make \$15/hour which is better than working in at the mall.*

What do your competitors' charge? *\$15-\$30 for a half hour lesson*

Sales

What are your estimated sales for the first 3 months, the next three month and the first year? You can start with products sold or customers serviced, but then calculate the dollars of sales.

	Sales(in units or customers)	Sales in dollars
First 3 months sales	<i>3 students</i>	<i>\$21/week or \$84/month</i>
3-6 months sales	<i>5 students</i>	<i>\$35/week or \$140/month</i>
Sales for first year	<i>At most 7 students</i>	<i>\$200/month or \$2,400/year</i>

Break-Even Analysis

Break-even analysis is not applicable to services like piano lessons, but as an example, Pamela wants to sell Beethoven T shirts to her students. She can buy them for \$5.50 each.

Add all the Fixed Costs (from above)

Start Up Expenses:

Equipment \$0

Space \$0

Other Fixed Costs: \$50 to the printer for the Beethoven design set up

Total Fixed Costs for first year: \$50

Total Variable Costs (from above): \$5.50

Margin per unit = Selling Price per Unit – Variable Cost per Unit

$$= \$8.00 - \$5.50$$

$$= \$2.50 \text{ per unit}$$

Break even point = Total Fixed Costs / Unit Contribution Margin

$$= \$50 / \$2.50 \text{ per unit}$$

$$= 20 \text{ units}$$

This is how many units you must sell in the first year to break even.

Is it reasonable? *No way! 20 shirts when Pamela only has 5 students! Forget the shirt idea!*

Projected Income Statement for First Year

Pamela expects 7 students a week for about 40 weeks a year, allowing breaks for vacation and holidays

Income

Sales	\$2,000
Cost of Goods Sold	<i>none for a service business</i>
Gross Profit	\$2,000
Expenses (list separately)	
Start Up Costs	\$125
Advertising	
Professional advice	
Supplies	
Piano Tuning	\$180
Total Expenses	\$ 305
Net Income	\$1,695

Product Businesses Example

Pamela had a service business, which can be very simple to manage financially. On the other hand, if you have some products to sell, the finances get more complicated. Here is a portion of the financial section of the business plan for a micro business that sells products.

Ted cares for dogs and cats when the owners are away. He also wants to expand his business and sell a few products.

Doggie biscuits. Ted thinks he can sell 100 bags this year at \$10 each. He has done some research and calculates that it will cost him \$4.75 to make and package a box of doggie biscuits.

Cat Chow. Ted thinks he can sell 200 bags of Cat Chow this year at \$7 each. He has done some research and calculates that it will cost him \$3.25 to make and package a bag of Cat Chow.

Electronic book titled *How to Pet Sit for Fun and Money*. Ted knows from a website that it will cost him \$400 to get his ebook published, and he thinks he can sell 50 copies this year at \$12 each.

Financial Plan

Ted's Pet Care Business

	Product #1 Doggie Biscuits	Product #2 Cat Chow	Product #3 Ebook	Total
1 Number sold in one year	100	200	50	
2 Selling Price	\$10.00	\$7.00	\$12.00	
3 Variable Cost per unit	\$4.25	\$3.75	\$0.00	
4 Fixed Costs	\$50.00	\$50.00	\$400.00	\$500.00
5 Unit Contribution Margin	\$5.75	\$3.25	\$12.00	
6 Break Even units	8.7	15.38	33.33	
7 Total Sales	\$1,000.00	\$1,400.00	\$600.00	\$3,000.00
8 Total COGS	\$425.00	\$750.00	\$0.00	\$1,175.00
9 Gross Profit	\$575.00	\$650.00	\$600.00	\$1,825.00

Ted filled in the gray area from his business plan after doing a lot of research. Then, he calculated his margin for each product and feels pretty happy with the profit he can make on each item (\$5.75 for the biscuits; \$3.25 for the chow and \$12 for each ebook).

He also calculated his break even point and was thrilled that he can cover his fixed expenses with only a few sales of the Doggie Biscuits and the Cat Chow. The ebook will

take 34 sales to break even, but that is OK with Ted; he thinks that he will sell 50 books.

Then, Ted totals his Sales, COGS and Gross Profit. He is pretty happy with the figures. It looks impressive to see a Gross Profit from his products of \$1,825!

Next, Ted completes his Projected Income Statement for his first year

Income	
Sales of Products	\$3,000.00 <i>Line 7 from the chart</i>
Sales of Services (Pet Sitting)	\$800.00
Total Income	\$3,800.00
Cost of Goods Sold	-\$1,175.00 <i>Line 8 from the chart</i>
Gross Profit	\$2,625.00
Expenses	
Start Up Costs	\$500.00 <i>Line 4 from the chart</i>
Advertising	\$45.00
Professional advice	\$50.00
Other	\$100.00
Total Expenses	\$695.00
Net Income	\$1,930.00

As you can see, his income statement includes income from the product sales and his regular pet-sitting service. There are some additional expenses, like advertising and professional advice that Ted plans to pay in his first year (very smart of Ted to get some professional advice in the beginning!). All in all, Ted looks like he has a great plan and will have \$1,930 of profit at the end of the year.

Dear reader,

Thank you for reading *Plan It First: Writing a Business Plan for A Micro Business*. I hope it was helpful.

Now that you have completed your business plan, you should show it to an accountant who can advise you. If you do not know an accountant, visit my website

<http://www.CarolToppCPA.com> or <http://MicroBusinessForTeens.com> and send me an email. I will evaluate your business plan for a reasonable fee.

You have a lot to learn and my website <http://MicroBusinessForTeens.com> has a lot to offer (even if you are not a teenager!).

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I wish you success,

Carol Topp, CPA