Chapter 9

E-Commerce: Digital Markets, Digital Goods

LEARNING TRACK 3: BUILD AN E-COMMERCE BUSINESS PLAN

There are lots of different ways to lay out a business plan. The sample outline below is just one of many outlines. After the outline, we'll flesh out each of the elements listed to give you an idea of what is entailed in creating an effective business plan.

Elements of a Business Plan: Outline

1. Cover sheet
2. Executive summary
3. Table of contents
    - I. The Business
        - A. Description of business, customer value proposition and competitive advantages, if any
        - B. Market Opportunity
        - C. Competition
        - D. Marketing
        - E. Management Team
    - II. Financial Data/Revenue Model
        - A. Balance sheet
        - B. Breakeven analysis
        - C. Pro-forma income projections (profit & loss statements)
            - Three-year summary
            - Detail by month, first year
            - Detail by quarters, second and third years
            - Assumptions upon which projections were based
        - D. Pro-forma cash flow
            - Follow guidelines for letter C.
    - III. Supporting Documents/Appendices: tax returns; personal financial statements of principals; copies of relevant legal documents, etc.

Cover Sheet, Executive Summary and Table of Contents

The first page of the business plan is a cover sheet that includes the name, address and telephone number of the business and the names of all principals. The cover sheet can be also be combined with the executive summary, with the information that would appear on the cover sheet being place instead at the top of the executive summary.

The second page of the business plan is a one-page executive summary that summarizes each of the main elements of the business plan. In straightforward prose you should answer the following questions:

What sort of company is it?
What's the product/service, and what's special about it?
Who are the managers?
How much money do you need? In what stages? What will you use it for?

The first paragraph of the executive summary should be a compelling description of company's mission--one that grab's readers' attention and encourages them to read further.

The table of contents follows the executive summary and lists the major headings and subheadings of the business plan. A word about length: the business plan should not exceed 25-30 pages if at all possible!

I. THE BUSINESS

A. DESCRIPTION OF THE BUSINESS

In this section, provide a detailed description of the business. Include your products, market and services as well as a thorough description of what makes your business unique. The description of the business should have two main sections: the first section describes the business, while the second section describes the product or service you will be offering.

The description of the business should clearly identify the business's goals and objectives (its "mission"). When describing the business, generally you should also explain:

1. The legal form of the business: proprietorship, partnership, corporation.
2. Business type: merchandizing, manufacturing or service.
3. What the product or service is.
4. Why the business will be profitable. What are the growth opportunities?

Include a description of what makes the business unique and how or why its unique aspects will appeal to consumers. Emphasize any special features that you feel will appeal to customers and explain how and why these features are appealing.
Next give a detailed description of the product/service. Try to describe the benefits of goods or services from your customers' perspective. More specifically, describe:

1. What you are selling.
2. How your product or service will benefit the customer.
3. What is different about the product or service your business is offering.

B. MARKET OPPORTUNITY

In this section of the business, you demonstrate to potential investors that you have done your "homework" and know the industry you are seeking to enter. An analysis of the market opportunity includes a discussion of industry characteristics and trends, projected growth, customer behavior, complementary products/services, barriers of entry, and so on. You should talk about how similar products/services have done in the market, how you're fulfilling an obvious need, and exactly whom you expect to purchase your products/services.

C. THE COMPETITION

It is important to know your competitors. Questions like these can help you:

1. Who are your five nearest direct competitors?
2. Who are your indirect competitors?
3. How are their businesses: steady? increasing? decreasing?
4. What have you learned from their operations? from their advertising?
5. What are their strengths and weaknesses?
6. How does their product or service differ from yours?

Start a file on each of your competitors. Take note of their advertising and promotional materials and their pricing strategy techniques. Review these files periodically, determining when and how often they advertise, sponsor promotions and offer sales. Study the copy used in the advertising and promotional materials, and their sales strategy. Using this technique can help you to understand your competitors better and how they operate their businesses.

D. MARKETING

Marketing plays a vital role in successful business ventures. How well you market you business, along with a few other considerations, will ultimately determine your degree of success or failure. The key element of a successful marketing plan is to know your customers--their likes, dislikes, expectations. By identifying these factors, you can develop a marketing strategy that will allow you to arouse and fulfill their needs. Identify your customers by their age, sex, income/educational level and residence. At first, target only those customers who are more likely to purchase your product or service. As your customer base expands, you may need to consider modifying the marketing plan to include other customers.

Develop a marketing plan for your business by answering these questions. Your marketing plan should be included in your business plan and contain answers to the questions outlined below.

1. Who are your customers? Define your target market(s).
2. Are your markets growing? steady? declining?
3. Is your market share growing? steady? declining?
4. Are your markets large enough to expand?
5. How will you attract, hold, increase your market share?
6. What pricing strategy have you devised?

How you advertise and promote your goods and services may make or break your business. Having a good product or service and not advertising and promoting it is like not having a business at all. Many business owners operate under the mistaken concept that the business will promote itself, and channel money that should be used for advertising and promotions to other areas of the business. Advertising and promotions, however, are the lifeline of a business and should be treated as such.

Devise a plan that uses advertising and networking as a means to promote your business. Develop short, descriptive copy (text material) that clearly identifies your goods or services, its location and price. Use catchy phrases to arouse the interest of your readers, listeners or viewers. Remember the more care and attention you devote to your marketing program, the more successful your business will be.

Your pricing strategy is another marketing technique you can use to improve your overall competitiveness. Get a feel for the pricing strategy your competitors are using. That way you can determine if your prices are in line with competitors in your market area and if they are in line with industry averages.

The key to success is to have a well-planned strategy, to establish your policies and to constantly monitor prices and operating costs to ensure profits.
Appendix 1 includes a questionnaire that can be used to help you create a marketing plan.

E. MANAGEMENT TEAM

Managing a business requires dedication, persistence, the ability to make decisions and the ability to manage both employees and finances. Employees and staff play an important role in the total operation of a business. Consequently, it's imperative that you know what skills you possess and those you lack since you will have to hire personnel to supply the skills that you lack. The management section of the business plan should answer questions such as:

How does your background/business experience help you in this business?
Who will be on the management team?
What are their duties?
What are your current personnel needs?
What are your plans for hiring and training personnel?

II. FINANCIAL DATA/REVENUE MODEL

Sound financial management is one of the best ways for your business to remain profitable and solvent. How well you manage the finances of your business is the cornerstone of every successful business venture. Each year thousands of potentially successful businesses fail because of poor financial management.

To effectively manage your company's finances, plan a sound, realistic budget by determining the actual amount of money needed to open the business (start-up costs) and the amount needed to keep it open (operating costs). The first step to building a sound financial plan is to devise a start-up budget. The start-up budget will usually include such one-time-only costs as major equipment, utility deposits, down payments, etc.

An operating budget is prepared when you are actually ready to open for business. The operating budget will reflect your priorities in terms of how you spend your money, the expenses you will incur and how you will meet those expenses (income). Your operating budget also should include money to cover the first three to six months of operation.

The financial section of your business plan should include any loan applications you've filed, a capital equipment and supply list, balance sheet, breakeven analysis, pro-forma income projections (profit and loss statement) and pro-forma cash flow. The income statement and cash flow projections should include a three-year summary, detail by month for the first year, and detail by quarter for the second and third years. Other questions that you will need to consider are:

What will your sales goals and profit goals for the coming year be?
What financial projections will you need to include in your business plan?

Your plan should include an explanation of all projections. Unless you are thoroughly familiar with financial statements, get help in preparing your cash flow and income statements and your balance sheet. Your aim is not to become a financial wizard, but to understand the financial tools well enough to gain their benefits. Your accountant or financial advisor can help you accomplish this goal.

Sample balance sheets, income projections (profit and loss statements) and cash flow statements are included in Appendix 2, Financial Data.

Appendix 1: The Marketing Plan

I. MARKET ANALYSIS

A. Target Market--Who are the customers?

1. We will be selling primarily to (check all that apply):

	Total	Percent of Business
a. Private sector	_______	_______
b. Wholesalers	_______	_______
c. Retailers	_______	_______

d. Government ______ ______
e. Other ______ ______

2. We will be targeting customers by:
a. Product line/services.
We will target specific lines: ________________
b. Geographic area? Which areas? ________________
c. Sales? We will target sales of ________________
d. Industry? Our target industry is: ________________
e. Other? ________________

3. How much will our selected market spend on our type of product or service this coming year?
$________________

B. Competition

1. Who are our competitors?

NAME ____
ADDRESS ____
____

Years in Business ___________________
Market Share ___________________
Price/Strategy ___________________
Product/Service Features ___________________

2. How competitive is the market?

High ____________________
Medium ____________________
Low ____________________

3. List below your strengths and weaknesses compared to your competition (consider such areas as location, size of resources, reputation, services, personnel, etc.):

Strengths	Weaknesses
1.______________________	1.______________________
2.______________________	2.______________________
3.______________________	3.______________________
4.______________________	4.______________________

C. Environment

1. The following are some important economic factors that will affect our product or service (such as trade area growth, industry health, economic trends, taxes, rising energy prices, etc.):

____
____
____

2. The following are some important legal factors that will affect our market:

____
____
____

3. The following are some important government factors:

____
____
____

4. The following are other environmental factors that will affect our market, but over which we have no control:

____
____
____

II. PRODUCT OR SERVICE ANALYSIS

A. Description

1. Describe here what the product/service is and what it does:

____
____
____

B. Comparison

1. What advantages does our product/service have over those of the competition (consider such things as unique features, patents, expertise, special training, etc.)?

____
____
____

2. What disadvantages does it have?

____
____
____

C. Some Considerations

1. Where will you get your materials and supplies?

____

2. List other considerations:

____
____

III. MARKETING STRATEGIES--MARKET MIX

A. Image

1. First, what kind of image do we want to have (such as cheap but good, or exclusiveness, or customer-oriented or highest quality, or convenience, or speed, or...)?

____

B. Features

1. List the features we will emphasize:

a. ____
b. ____
c. ____

C. Pricing

1. We will be using the following pricing strategy:

a. Markup on cost ____ What % markup? _____

b. Suggested price ____
c. Competitive ____
d. Below competition ____
e. Premium price ____
f. Other ____

2. Are our prices in line with our image?
YES___ NO___
3. Do our prices cover costs and leave a margin of profit?
YES___ NO___

D. Customer Services
1. List the customer services we provide:
a.____
b. ____
c. ____

2. These are our sales/credit terms:
a. ____
b. ____
c. ____

3. The competition offers the following services:
a. ____
b. ____
c. ____

E. Advertising/Promotion
1. These are the things we wish to say about the business:
____
____
____

2. We will use the following advertising/promotion sources:
1. Internet ________
2. Television/Radio ________
3. Direct mail ________
4. Personal contacts ________
5. Trade associations ________
6. Newspaper ________
7. Magazines ________
8. Yellow Pages ________
9. Billboard ________
10. Other ________

3. The following are the reasons why we consider the media we have chosen to be the most effective:
____
____
____

Appendix 2: Financial Data

INCOME PROJECTION STATEMENT

The income projections (profit and loss) statement is valuable as both a planning tool and a key management tool to help control business operations. It enables the owner/manager to develop a preview of the amount of income generated each month and for the business year, based on reasonable predictions of monthly levels of sales, costs and expenses.

As monthly projections are developed and entered into the income projections statement, they can serve as definite goals for controlling the business operation. As actual operating results become known each month, they should be recorded for comparison with the monthly projections. A completed income statement allows the owner/manager to compare actual figures with monthly projections and to take steps to correct any problems.

Industry Percentage

In the industry percentage column, enter the percentages of total sales (revenues) that are standard for your industry, which are derived by dividing

(Costs/expenses items x 100%) / (total net sales)

These percentages can be obtained from various sources, such as trade associations, accountants or banks. Industry figures serve as a useful benchmark against which to compare cost and expense estimates that you develop for your firm. Compare the figures in the industry percentage column to those in the annual percentage column.
Total Net Sales (Revenues): Determine the total number of units of products or services you realistically expect to sell each month at the prices you expect to get. Use this step to create the projections to review your pricing practices.

Cost of Sales: The key to calculating your cost of sales is that you do not overlook any costs that you have incurred. Calculate cost of sales of all products and services used to determine total net sales. Also include any direct labor.

Gross Profit: Subtract the total cost of sales from the total net sales to obtain gross profit.

Gross Profit Margin: The gross profit is expressed as a percentage of total sales (revenues). It is calculated by dividing gross profits by total net sales.

Controllable (also known as Variable) Expenses: Include salary expenses, payroll expenses, outside services, supplies, repairs, marketing/advertising, accounting and legal.

Fixed Expenses: Include rent, depreciation, utilities, insurance, loan repayments, etc.

Net Profit (loss) (before taxes): Subtract total expenses from gross profit.

Taxes: Enter federal, state and local income taxes.

Net Profit (loss)(after taxes): Subtract taxes from net profit (before taxes).

Annual Total: For each of the sales and expense items in your income projection statement, add all the monthly figures across the table and put the result in the annual total column.

Annual Percentage: Calculate the annual percentage by dividing
(Annual total x 100%) / (total net sales)
Compare this figure to the industry percentage in the first column.

BALANCE SHEET

Figures used to compile the balance sheet are taken from the previous and current balance sheet as well as the current income statement. The income statement is usually attached to the balance sheet. The following text covers the essential elements of the balance sheet.

At the top of the page, fill in the legal name of the business, the type of statement and the day, month and year.

Assets: List anything of value that is owned or legally due the business. Total assets include all net values. These are the amounts derived when you subtract depreciation and amortization from the original costs of acquiring the assets.

Current Assets: Include cash and resources that can be converted into cash within 12 months of the date of the balance sheet (or during one established cycle of operation); an accounts receivable (the amounts due from customers in payment for merchandise or services); inventory (raw materials on hand, work in progress and all finished goods, either manufactured or purchased for resale); short-term investments (also called temporary investments or marketable securities, these include interest- or dividend-yielding holdings expected to be converted into cash within a year); and prepaid expenses (goods, benefits or services a business buys or rents in advance).

Long-term Investments: Also called long-term assets, these are holdings the business intends to keep for at least a year and that typically yield interest or dividends. Included are stocks, bonds and savings accounts earmarked for special purposes.
Fixed Assets: Also called plant and equipment. Includes all resources a business owns or acquires for use in operations and not intended for resale. Fixed assets may be leased. Includes land, buildings, improvements, equipment, furniture and automobile/vehicles.

Liabilities: Include both current liabilities and long-term liabilities.
Current Liabilities: Include all debts, monetary obligations and claims payable within 12 months or within one cycle of operation. Typically they include accounts payable (amounts owed to suppliers for goods and services purchased in connection with business operations); notes payable (the balance of principal due to pay off short-term debt for borrowed funds and the current amount due of total balance on notes whose terms exceed 12 months); interest payable (any accrued fees due for use of both short- and long-term borrowed capital and credit extended to the business); taxes payable (amounts estimated by an accountant to have been incurred during the accounting period); and payroll accrual (salaries and wages currently owed).

Long-term Liabilities: Include note, contract or mortgage payments due over a period exceeding 12 months or one cycle of operation.

Net Worth: Also called owner's equity, net worth is the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, equity is each owner's original investment plus any earnings after withdrawals.

Total Liabilities and Net Worth: The sum of these two amounts must always match that for total assets.

CASH FLOW PROJECTION

A cash flow projection helps the entrepreneur understand the cash needs of the business. It should be prepared for each month for at least an entire year period.

1. It begins with an accounting of (1) the cash on hand at the beginning of a particular month.

2. To this amount is added expected (2) cash receipts, which includes

a. all cash sales
b. collections from credit accounts
c. loans or other cash injection
3. Total cash receipts (2a+2b+2c=3)
4. Total cash available (before cash out)(1+3)
5. Cash paid out typically includes the following:
a. Purchases (merchandise)--Merchandise for resale or for use in product (paid for in current month).
b. Gross wages (including withdrawals)
c. Payroll expenses (taxes, etc.)
d. Outside services
e. Supplies (office and operating)
f. Repairs and maintenance
g. Advertising
h. Car, delivery and travel
i. Accounting and legal
j. Rent--Real estate only (Use 5(p) for other rentals)
k. Telephone
l. Utilities
m. Insurance
n. Taxes
o. Interest
p. Other expenses
q. Miscellaneous
r. Subtotal--This subtotal indicates cash out for operating costs
s. Loan principal payment
t. Capital purchases
u. Other start-up costs
v. Reserve and/or escrow
w. Owner's withdrawal
6. Total cash paid out (add 5a through 5w)
7. Cash position (end on month) (4 minus 6)--Enter this amount in (1) Cash on hand following month.

Essential Operating Data (non-cash flow information)--This is basic information necessary for proper planning and for proper cash flow projection. Also with this data, the cash flow can be evolved and shown in the above form.

A. Sales volume (dollars)--This is a very important figure and should be estimated carefully, taking into account size of facility and employee output as well as realistic anticipated sales (actual sales, not orders received).

B. Accounts receivable (end of month)--Previous unpaid credit sales plus current month's credit sales, less amounts received current month (deduct "C" below).

C. Bad debt (end on month)--Bad debts should be subtracted from (B) in the month anticipated.

D. Inventory on hand (end on month)--Last month's inventory plus merchandise received and/or manufactured current month minus amount sold current month.

E. Accounts payable (end of month) Previous month's payable plus current month's payable minus amount paid during month.

F. Depreciation--Established by your accountant, or value of all your equipment divided by useful life (in months) as allowed by Internal Revenue Service.