

4. Your Business Plan

"A business plan?," you may ask. "Why do I need a business plan. This is a simple little business, so why even bring up the topic for discussion?"

If you plan to borrow money for your venture, you're probably going to be granted the loan based on your personal credit worthiness and collateral to pledge against the loan. However, your lender isn't interested in you acquiring real estate or selling whatever assets you may be able to tap as collateral for the loan. They'll want to see a proven business plan in order to be comfortable that your venture is reasonable and that there's a good chance it will provide the means by which you can repay the loan with the proceeds of the business.

But even if you don't plan to borrow money to fund your business, there's an even more important reason to have a business plan.

Why Do I Need a Business Plan?

- Some folks believe that a business plan isn't important except to obtain financing from investors. In reality, most small businesses that fail do so because of a lack of business plan and some succeed despite not having one. The U.S. Department of Commerce, Bureau of Economic Analysis, **within the first five**

primary reasons for business failure are:

1. Lack of sufficient working capital;
2. Lack of sufficient knowledge about the industry and/or business;
3. Lack of proper planning or no plan at all

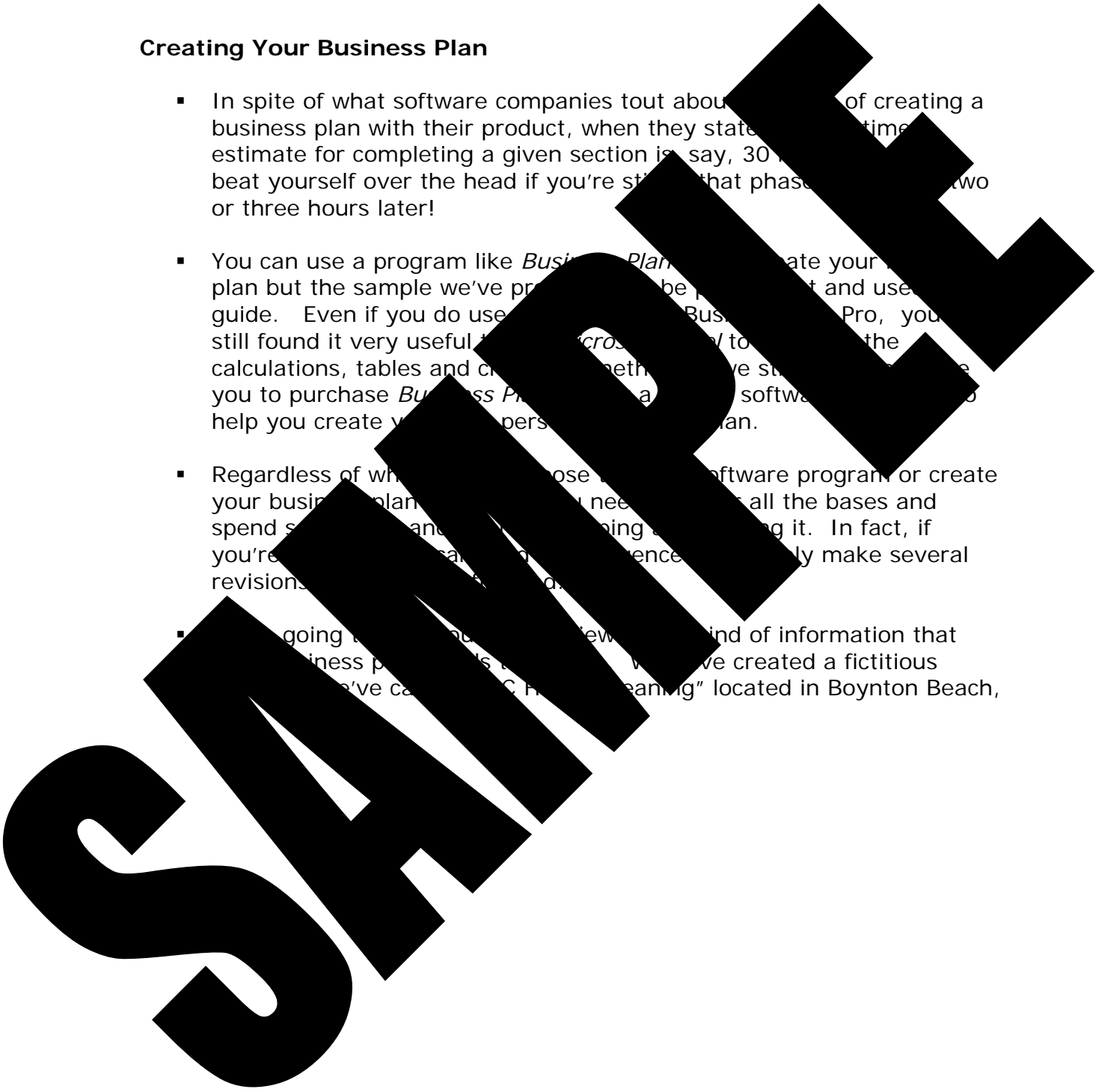
When you get a start-up, written business plan helps to identify the problems in the first two reasons cited for business failure.

If you spend some time and effort to write a business plan, including financial requirements for the business and cash flow projections, you can prepare yourself to know how much money you'll need to invest in the business to get it to that critical breakeven point and to profitability thereafter.

- It will also force you to put on paper what you do know about the business and help you identify what you need to learn in order to compete and succeed in the marketplace.

Creating Your Business Plan

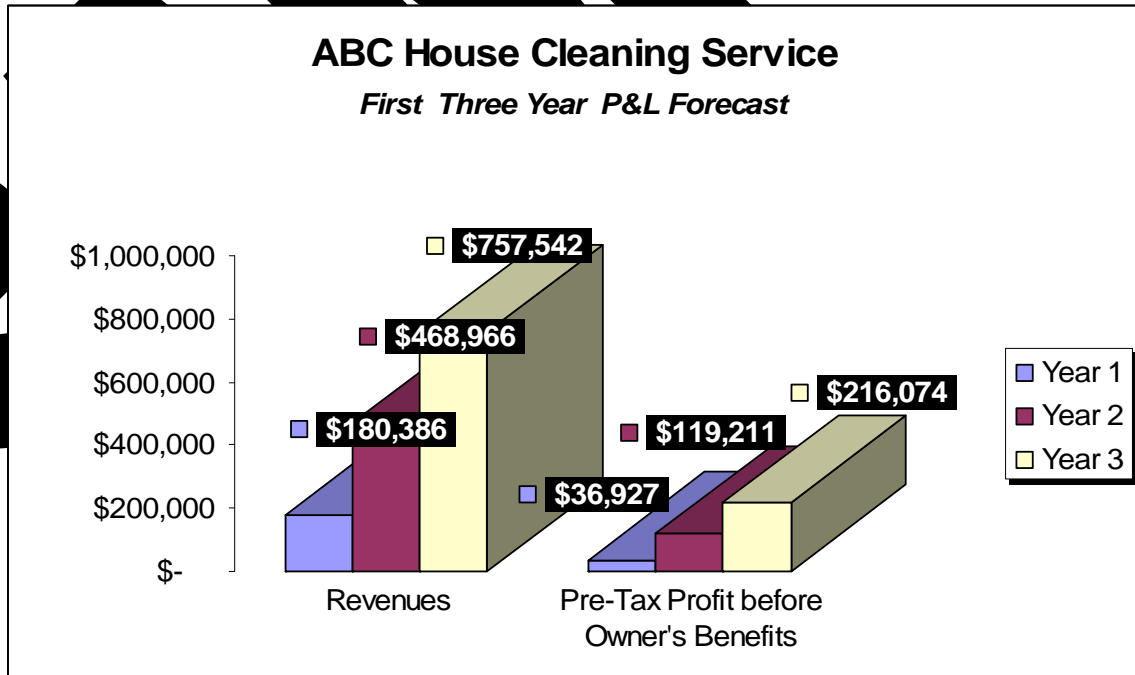
- In spite of what software companies tout about the ease of creating a business plan with their product, when they state the estimated time estimate for completing a given section is, say, 30 minutes, you will beat yourself over the head if you're still working on that phase two or three hours later!
- You can use a program like *Business Plan Wizard* to create your business plan but the sample we've provided will be printed and used as a guide. Even if you do use *Business Plan Wizard Pro*, you will still find it very useful for its *cross-check* tool to verify the calculations, tables and charts. We've also included a sample to help you purchase *Business Plan Wizard* software. We've also help you create your own personal business plan.
- Regardless of whether you use a software program or create your business plan on your own, you need to get all the bases and spend some time and money in planning and writing it. In fact, if you're not a seasoned entrepreneur, you will likely make several revisions to your business plan.
- When going to the bank to get a new kind of information that your business plan needs to include, we've created a fictitious business plan we've called "C.H. 'The Meaning'" located in Boynton Beach,



ABC House Cleaning Business Plan

Executive Summary

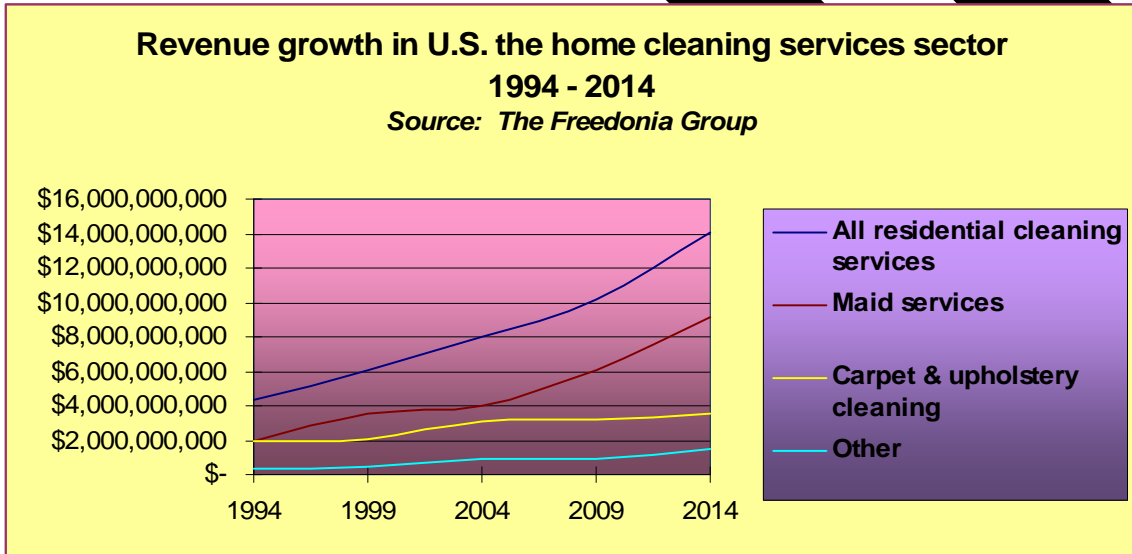
- As a general rule, your first paragraph should include your business name, what it sells, where it is located, and the nature and purpose of the plan. You might also refer to the keys to success and at least summarize them briefly.
- Another paragraph should highlight important points where sales and profits are included. If you're going to be using the contract funding, include the news you don't want to miss. Remember that these details will be revealed in other parts of the plan, so don't think it's redundant. However, if you don't want the reviewer to lose interest in the Executive Summary, you should see it in the body of the document.
- Although this topic appears in the plan, you should actually write it last. That way you can do what you can to obtain highlights. You should cover the most important facts, such as sales growth and profit, and strategies and those factors that may change during the business process.
- When you are finished, you should automatically take your numbers and create a table for your financial statements, Sales and Profit.



The Existing Market and Future Potential

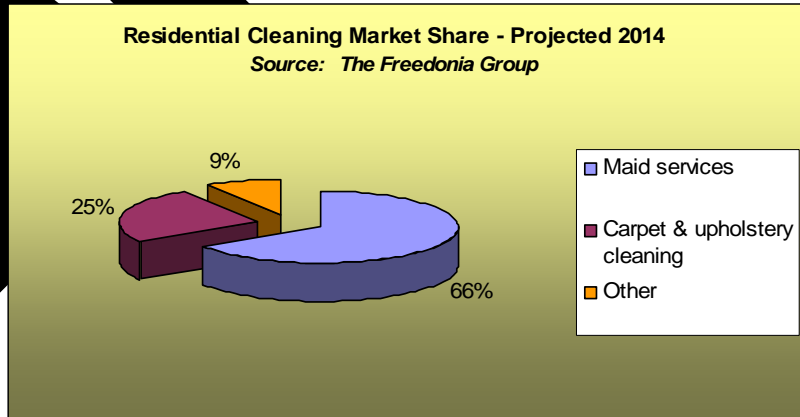
You will describe the current patronage of house cleaning services by consumers, and the projected opportunity for growth in this industry. Here are some interesting statistics that you can use to good advantage here.

Actual and projected revenues for residential cleaning services	1994	2004	2014	% Change 1994 - 2004	% Change 2004 - 2014
	\$2 billion	\$4 billion	\$9 billion	100%	200%



According to research compiled by Market Research DATA ENTERPRISES, their estimates of the residential cleaning industry will grow at approximately twice the projected

growth rate for commercial cleaning services (janitorial and building maintenance) and residential cleaning services. This is due to the fact that the residential cleaning market is outpacing commercial cleaning due to the large population increase and the fact that many households are now including hardware and other stone tile flooring in today's households. (*note: "Other" consists of services like air duct cleaning, window cleaning, blind cleaning, etc.)



ABC Cleaning Service's Target Market Area:

Following is the type of information you should include in your business plan. This example represents the number of households of \$100,000 - \$250,000 in five ZIP code areas in Boynton Beach, Florida along with actual numbers and selected demographic criteria as provided by www.infousa.com at the time of this writing:

Boynton Beach, Florida

33426 33435 33436 33437 33472

In the above 5 contiguous ZIP code areas there is a total of 10,000 households with the following demographics identified historically as being excellent candidates for residential home cleaning service:

- Actual age range: 35 – 65
- Household Income: \$100,000 – \$250,000 annually
- Marital Status: Married
- Own their Home: Yes
- Housing Type: Single Family Dwelling

Note: This count does not include mobile homes, condominiums or any rural addresses.

You could, of course, target other neighborhoods, including family dwellings such as condominiums, townhomes and single professional adults. We chose not to do so for this example because there are more than enough households about in the Boynton Beach, Florida area.

Competitive Advantage

- **Competitive Advantage** includes doing a competitive survey in your market. It's important in order to evaluate what they offer to determine your strengths and weaknesses relative to the service you're providing.

Using the survey results, you need to state why clients should choose you over your competitors. While price may be in your favor with some competitors, in most cases your prices are likely to be higher. It's important to identify the "value-added" features and benefits you bring to the marketplace. We provide good examples in our sample business plan for you to use as a guide.

Marketing Strategy

- Your marketing strategy normally involves target market focus, emphasis on certain services or media, or ways to position your organization and your service uniquely. This will force you to think through your advertising strategy and formulate a plan to launch your business. In the sample business plan at the end of this chapter, you will note that we stipulate the exclusive use of NEVER CLEAN YOUR HOME AGAIN brochure as either a door hanger or direct mail piece. This is because we can determine and distribute specific neighborhoods and even streets in those neighborhoods to target. If you choose to use other media in addition to distribution of brochures, this should be indicated in your business plan.
- Understand, of course, that your business plan as laid in granite will be an ongoing "work in progress" that will need to be modified and subjected to modification. Your marketing strategy almost always has to be altered from its original intent. However, your marketing strategy and implementation are critical to the success and growth of your business and is an area that you should spend a lot of time on creating and analyzing.
- Before tackling this business plan, be sure to review the chapters on *MPs*, *Marketing*, and *Schedule Your Advertising Options*. If you're not sure what you're doing what "Schedule Your Advertising Options" chapter, this chapter will make the difference.
- For the "Marketing Strategy" with "Sales Strategy." To help differentiate marketing strategy and sales strategy, think of marketing as a large-scale effort of generating leads on a large scale, and sales as bringing those sales leads into the system as individual clients. Marketing might affect image and create a renewed openness to buy, while sales involves making a personal appointment and turning the prospect into a client.
- Again, you want to spend some time with *Telephone Technique* and *How to Present*. Since the sales process will involve pricing the product, you'll also need to be familiar with *Pricing for Profit* and *Establishing the Price*.

Sales Forecast

- Here's another area where you should plan to spend considerable time. It's not enough to set forth a "wish" number in sales that you "hope" to achieve for your business. Before you can even begin this process you need to become comfortable with the marketing and sales strategy you laid out.
- In the model business plan we've provided we use the assumptions that can help you create your own forecast. **DO NOT TAKE FOR GRANTED THESE ASSUMPTIONS AND CALCULATIONS. THERE IS NO GOSPEL OR THAT YOU WILL ACHIEVE THE SAME RESULTS AS WE SHOWED IN OUR BUSINESS PLAN MODEL.** These figures are for illustration purposes only. Your actual results will depend on several factors, including:

Factors that will influence your sales level

- How well your plan is thought out
- How well your plan is implemented
- The type of advertising you do
- The frequency/reach of your advertising
- The effectiveness of the media used
- Targeting
- Geographic
- The use of technology
- Quality of goods/services
- How well employees are trained
- Ability to employ
- Effective management practices
- Quantity of competition
- Ability to compete with competitors
- Meeting customer expectations
- How well you nurture existing clients
- Ability to retain clients over time
- Economic factors in the marketplace
- Adequate financial resources
- Financial management ability
- The reputation your company develops

...the relation between dollars invested and inquiries received. For the factors we just discussed will influence what that ratio rate is. This is discussed at length in *Your Advertising Ratio*. Our model uses a ratio of 5: \$450, or 5 inquiries per \$450 of advertising. It anticipates converting 4 of those inquiries into cleaning appointment appointments and in turn converting 3 out of 4 of those prospects into clients. This gives us a projected sales ratio of 1: \$150, or 1 new client for every \$150 expended on advertising.

- We use this number because over the years we have found that the CAC (Client Acquisition Cost) has generally ranged between \$100 and \$150. Sometimes more, sometimes less, but generally in that range. Our business plan model uses \$150 as our projected CAC.
- Our plan calls for a first-month launch budget of \$2,000 in advertising, with the expectation of getting 20 new clients. We based \$200 as our anticipated average first-time cleaning fee, which would result in \$4,000 in revenues forecast for the first month in our model.
- Our plan only retains 8 out of 10 new customers for the following reasons:
 1. Some people will only use the service one time; and
 2. As much as we'd like to have a larger number of clients, we will lose clients for a variety of reasons.
- Rather than trying to accommodate a client's request for a further discount, we elected to do the right thing by having a standard price. It's complicated enough to figure out the first month sales forecast, let alone when adding first-time, bi-weekly, and monthly cleanings.
- Our model was based on the assumption that 8 out of 20 first-time clients being cleaned in the first month would be repeat clients. However, we expect that 10% of the following clients will be cleaned again until month two.
- The regular rate of service is based on the average cleaning price of \$150. Please do not assume that this is the price of service. In that matter, make a decision on it using the average price of service based on *Pricing for Profit* and *Pricing for Profit*. The average price may be higher or lower than the price of service.
- In month two, we reduced our advertising budget to \$1,000. We assumed 10 new first-time/one-time cleanings (1 new client per week). This gives us \$2,000 in first-time/one-time cleaning revenues in month two (based on an average of \$200 per one-time cleaning).
- Repeating that we assumed only 16 of the 20 first-time cleanings in month one would become repeat clients. Our model assumes a split of repeat clients as follows:
 - 35% will be biweekly
 - 45% will be weekly
 - 15% will be monthly
- Using those assumptions then, in **month two** our cleaning revenues would be as follows

First-Time Cleanings (10 clients X 1 time)	10 cleanings X \$200	\$2,000
Weekly Cleanings (3 clients X 4 weeks)	12 cleanings X \$100	\$1,200
Biweekly Cleanings (10.5 clients X 2 weeks)	21 cleanings X \$120	\$2,510
Monthly Cleanings (2 clients X 1 week)	2 cleanings X \$150	\$ 300
Total Month 2	45 cleanings	<u>\$6,010</u>

- We now have 24 regular weekly, biweekly and monthly cleanings leading into month three and \$10,000 in cumulative revenue to-date for the first two months
- In month 3 we reduce our price to \$150 per cleaning, we'll maintain it throughout the balance of the year. Our clients will look like:

First-Time Cleanings (10 clients X 1 time)	10 cleanings X \$200	\$2,000
Weekly Cleanings (4 clients X 4 weeks)	16 cleanings X \$100	\$1,600
Biweekly Cleanings (16 clients X 2 weeks)	32 cleanings X \$120	\$3,840
Monthly Cleanings (4 clients X 1 week)	4 cleanings X \$150	\$ 600
Total Month 3	62 cleanings	<u>\$8,040</u>

Our business plan software will assume that you have 10 new clients a month and continues to assume that you will maintain them on a regular weekly, biweekly and monthly basis.

- Our business plan software example sets a target of \$180K in revenues for year one.

Business Plan Pro has a rudimentary method of calculating revenue. As your business grows and your revenue increases, we recommend you use a spreadsheet program like *Excel* to come up with your numbers and then plug them into the business plan software. This will give you the flexibility in doing various scenarios and calculations.

- When you've completed your sales forecast for Year One, the software will then ask you to plug in a forecast for the following two years (if you're doing a three-year plan rather than the five-year option).
- The software will automatically produce a Table and Chart as follows:

Table: Sales Forecast

Frequency	Year 1	Year 2	Year 3
1st time	\$ 26,000	\$ 24,000	
Weekly	\$ 36,960	\$ 560	
Biweekly	\$ 103,488	\$ 68	
Monthly & One Time	\$ 13,860		\$
Total	\$ 180,308	\$ 24,568	\$ 757,000

Personnel Plan

- Our business plan calls for one employee to be hired in the first month. Although there are some cleanings in our projections, they are the large cleanings. Although we have used a firm to do the cleanings of \$200, in reality many will be higher than that, such as \$400 and sometimes higher. The third and fourth quarters will be equivalent to doing 50 to 60 repeat cleanings.
- The third employee will be hired in the second month of operation. The fourth employee will be pretty close to doing maximum work. The fifth employee will be hired and the fourth new employee will be hired and the house cleaner will be hired in Month 8, in January.
- We will have to hire some office help in the fourth quarter of the first year. We budgeted for a month for the position and figure on one person working about four to six hours a day.
- You will have to budget for direct cleaning costs. While we don't use a commission, paying a percentage of the cleaning invoice, you are paying for the firm's cleaning wages (net of payroll burden) ranging between 38% and 40% of the invoice. We have used 38% in our business plan.

	Year 1	Year 2	Year 3
Direct Cleaning Labor Payroll	\$ 68,517	\$ 178,177	\$ 287,836

- Using 38% as our cost of cleaning labor, these are the numbers that the business plan churned out. You need to do this exercise as these

figures will be automatically inserted into your pro-forma profit and loss.

- **CAUTION:** If you're using *Business Plan Pro*, **DO NOT** enter office wages or your salary into this slot. You can list those items as separate expense line items. Calculate payroll burden (taxes and workers' compensation costs) separately.

Milestones

- You will also set milestones for your business plan similar to the following illustration:

Pre-Launch and months 1 st 12	-1	1	2	3	4	5	6	7	8	9	10	11	12
Business Plan Completion													
Pre-Launch Activities (see 46 point action plan)													
Launch Advertising Campaign (\$2,000)													
Recruit and Train Staff													
Acquire and clean 1 st time for													
Launch 2 nd month advertising campaign													
Launch 3 rd month advertising campaign													
Acquire additional inventory													
Continue to Invest in Marketing													
Celebrate 1 st month anniversary													
1 st month anniversary													
Employ two 2-person office staff													
Install and set up office space													
Recruit and Train employees (including making)													
Celebrate 2 nd month anniversary													
Office assistant													
Finish business plan for Year 2													

SALES

Financial Plan

Three Year P&L Pro Forma

	Year 1	%	Year 2	%	Year 3	%
Total Revenue	\$ 180,308	100.0%	\$ 468,888	100.0%	\$ 757,464	100.0%
Expenses						
Cleaning Payroll	\$ 68,517	38.0%	\$ 178,177	38.7%	\$ 287,836	38.0%
Cleaning Payroll taxes (FICA, FUTA, SUTA)	\$ 5,242	2.9%	\$ 13,600	2.9%	\$ 20,019	2.9%
Workers Comp @ 17% of cleaning payroll	\$ 11,648	6.5%	\$ 30,290	6.6%	\$ 48,932	6.5%
Office Payroll (part time person last quarter of year 1)	\$ 2,400	1.3%	\$ 25,000	5.3%		
Office Payroll Burden (FICA, FUTA, SUTA)	\$ 184	0.1%	\$ 1,913	0.4%	\$ 3,060	0.4%
Sales and Marketing Expenses	\$ 19,500	10.8%	\$ 25,000	3.9%	\$ 25,000	2.4%
Depreciation	\$ 300	0.2%	\$ 300	0.1%	\$ 300	0.0%
Auto Expense (employee auto allowance @ \$4/job)	\$ 6,100	3.4%	\$ 6,100	1.3%	\$ 6,100	0.8%
Cleaning Equipment & Supplies	\$ 3,606	2.0%	\$ 9,378	2.0%	\$ 15,149	2.0%
Identify Tennant Rent (executive office first 6 months)	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%
Rent (commercial space starting month 7)	\$ 9,000	5.0%	\$ 18,000	3.9%	\$ 18,000	2.4%
Telephone & Utilities	\$ 2,400	1.3%	\$ 2,500	0.5%	\$ 2,500	0.6%
Insurance (property damage/general liability/bonding)	\$ 3,426	1.9%	\$ 8,909	1.9%	\$ 14,392	1.9%
Client refunds and out of pocket on claims	\$ 3,426	1.9%	\$ 4,689	1.0%	\$ 7,575	1.0%
Recruiting Expense	\$ 3,606	2.0%	\$ 9,378	2.0%	\$ 15,149	2.0%
Office Supplies	\$ 1,200	0.3%	\$ 1,200	0.3%	\$ 2,272	0.3%
Uniforms (T-shirts and cleaning aprons)	\$ 500	0.3%	\$ 1,500	0.3%	\$ 3,000	0.4%
Professional Fees (audit, payroll services)	\$ 1,200	0.7%	\$ 1,200	0.8%	\$ 6,060	0.8%
Employee meetings, incentives and awards	\$ 902	0.5%	\$ 2,344	0.5%	\$ 3,787	0.5%
Miscellaneous	\$ 1,500	0.8%	\$ 3,517	0.8%	\$ 5,681	0.8%
Total Expenses	\$ 143,381	79.5%	\$ 349,677	75.9%	\$ 541,390	71.5%
Net Income	\$ 36,927	20.5%	\$ 119,211	25.4%	\$ 216,074	28.5%
Benefit						

Specific Objectives

- Use the business plan objectives, which should be specific goals whose achievements can be measured. Normally you'll use a number of a few selected objectives. Keep the list to a few because long lists make it hard to focus.
- Follow the specific objectives we state in our model business plan.
- Use Cleaning's objective for the first three years of operations are:

1. To develop the reputation as the premiere house cleaning service in Boynton Beach whose goal is to exceed clients' expectations.
2. To generate \$180,000 in revenues in Year 1, and to increase sales to \$468,000 in Year 2 and \$757,000 in Year 3.
3. To average \$3,000/year/client at an average cleaning price of \$118.
4. To convert 80% of all inquiries into cleaning appointments and 75% of all consultation appointments into regular clients who will use our services on a weekly, bi-weekly, or monthly basis.

Keys to Success

1. Using a quantifiable 5-Step recruitment process to attract the best employment candidates, hire highly capable employees, thoroughly train them to work quickly and effectively, and use efficient resource methods to manage and retain the workforce.
2. Implement an aggressive and effective marketing campaign to build awareness that will establish a professional image of ABC House Cleaning and make our services stand apart from the competition. We will focus on value rather than quoting prices and will take jobs over the telephone when prospects call. We will set up "cleaning consultations" with the prospect to determine the scope of work, the time to be required and make a personal in-home presentation to the client.

Summary

If you use a software program like *Business Plan Pro* (\$99 from Entrepreneur Software) or choose to draft it on your own, the sample we've provided should only serve as a guideline. The plan must be **your own**, carefully thought-out document that will serve as the roadmap to where **you** want to go with **your business**.

Sample Business Plan

SAMPLE