Business Plan

May 2020

HomeSlice

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# Confidentiality Agreement

The undersigned reader acknowledges that any information provided by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in this business plan, other than information that is in the public domain, is confidential in nature, and that any disclosure or use of same by the reader may cause serious harm or damage to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. Therefore, the undersigned agrees not to disclose it without express written permission from \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

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Signature

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
Name (typed or printed)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
Date

This is a business plan. It does not imply an offering of securities.

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## 

## Executive Summary

(Write after you’ve completed the rest of the business plan.)

The Executive Summary should briefly explain each of the below.

1. **An overview of your business** idea (one or two sentences).
2. **A description of your product and/or service.** What problems are you solving for your target customers?
3. **Your goals for the business.** Where do you expect the business to be in one year, three years, five years?
4. **Your proposed target market.** Who are your ideal customers?
5. **Your competition and what differentiates your business.** Who are you up against, and what unique selling proposition will help you succeed?
6. **Your management team and their prior experience.** What do they bring to the table that will give your business a competitive edge?
7. **Financial outlook for the business.** If you’re using the business plan for financing purposes, explain exactly how much money you want, how you will use it, and how that will make your business more profitable.

## Company Description Worksheet

|  |  |
| --- | --- |
| **Business Name** | HomeSlice |
| **Company Mission Statement** | Provide homeowners fast access to the cash they’re entitled to while democratizing real estate investing. |
| **Company Philosophy** | Get cash for your home equity in a day, not weeks, no long waits at the bank, no sales pitch, no monthly principle and interest payments. |
| **Company Vision** | The World's Premiere Home Equity Marketplace. |
| **Goals & Milestones** | 1. Clear legal transactional concerns, finalize exchange structure 2. Finalize POC Application 3. Raise Seed Funding 4. 1,000 Monthly Unique Visitors 5. Scale. $1M Annual Revenue, Series A, Profitability early. |
| **Target Market** | **Homeowners**:  Cash-strapped homeowners, homeowners who’ve paid off their mortgage yet need cash as the result of a life event or other need.  Even financially responsible individuals fall on hard times and need access to cash (fast), but obtaining much needed cash can be stressful, time consuming, and costly in the long-term.   * + [CareerBuilder](https://www.forbes.com/sites/zackfriedman/2019/01/11/live-paycheck-to-paycheck-government-shutdown/) found that in **2019 78% of U.S. workers were living paycheck to paycheck**.   + While at the same time, [Statista](https://www.statista.com/statistics/184902/homeownership-rate-in-the-us-since-2003/) published data highlighting the **homeownership rate in the U.S. was 65%** (in 2019).   **Commercial Real Estate Owners**:  <ADD>  **Platform Investors**:  Tech-savvy retail investors, small net worth individuals looking to diversify investment portfolio into real estate, achievable through HomeSlice home equity share purchases.  Institutional investors, expand real estate investment options to fund-holders via new small dollar amount real estate equity shares. |
| **Industry/**  **Competitors** | 1. [Point](https://point.com/) |
| **Legal Structure/**  **Ownership** | LLC <NEED TO CONFIRM> |

## Product & Transaction Description Worksheet

|  |  |
| --- | --- |
| **Business Name** | HomeSlice |
| **Product/ Service Idea** | Home equity marketplace.  Home ownership and real estate investing is difficult, especially depending on where you live/what you do. That said, HomeSlice creates a marketplace that’s friendly to small capital investors looking to diversify into real estate, but whom don’t have the funds to make a 20% down payment on a home. HomeSlice opens the door to purchase equity shares (otherwise known as Slices\*) of another persons’ home equity.  The home equity shares can appreciate or depreciate over time, so there is significant investment risk.  For the homeowner, this is an easy way to tap into cash quickly without the burden of monthly principle and interest payments. |
| **Special Benefits** | HomeSlice is a first of it’s kind home equity marketplace connecting homeowners in need of cash to the general investing public. The platform is designed to be incredibly accessible and easy to use across all touch points (desktop, mobile, and other devices). Our product is two-fold. First, we provide a free and seamless opportunity for homeowners to explore the value of their home; providing them with the opportunity to unlock their home equity in exchange for much-needed cash. Second, as home equity slices are obtained by HomeSlice they are listed on the HomeSlice open marketplace where the general investing public can browse home slices and if willing to make an investment, enter into the world of real estate investing by way of purchasing a slice of another person’s home. |
| **Unique Features** | Unlike traditional financial products, HomeSlice enables homeowners to get cash in days, not weeks or months. The way we make this possible is through our advanced data techniques where our algorithm risk adjusts home values in real time and presents qualified homeowner’s with a cash offer in exchange for a Slice (%) of their home equity in minutes.  If the homeowner decides to move forward with the process, HomeSlice will collect critical personal and credit information in order to ensure the homeowner is qualified to enter into the transaction. This includes, but is not limited to, a creditworthiness check, lien query, and confirmation of home ownership. (The transaction is iterated in greater detail in the sections below)  If deemed qualified, HomeSlice will provide cash to the homeowner on the spot, once the contract is signed. HomeSlice will then take care of the documentation, including but not limited to, paying for an appraisal on the property and listing the property on the HomeSlice investor marketplace.  Unique to Investors will be the ability to browse in real time opportunities to invest small dollar amounts in real estate. This is accomplished via an open marketplace where HomeSlice will list Slices (at a premium based on our risk adjustment calculations). Investors’ decisions will be informed by a dynamic dashboard inclusive of a data points to aide in the decision making process. HomeSlice’s advanced data techniques allow us to present investors will critical data points to help inform their decision making. Critical data points include, real-time estimates of the home’s value and other data collected by HomeSlice and provided by third parties such as school district rankings, transportation scores, historical price trends, crime data and more.  Investors are not required to meet high net worth or accredited investor thresholds to use the platform. Those willing to pay for a HomeSlice they believe will appreciate over time on the open HomeSlice marketplace will be able to transact. Our real-time portfolio tracking tools and seamless product delivery will set us apart from the competition. Investors and Homeowners alike will be informed about the risks of investing or transacting in real estate, while there is the opportunity to make money, it will also be made clear that unforeseen events can cause losses on investment.  The transactions will be contract-based and e-signature execution will be offered, this will allow for us to engage customers and investors quickly and easily. |
| **Limits and Liabilities** | The investable portion of a home’s equity will never exceed 30% of the value of the home. Said differently, HomeSlice will never offer a homeowner cash equating to more than 30% of it’s value. Initially the 30% ceiling will be calculated by our risk adjustment algorithm using historical mean sales data for the relevant zip code, Zestimates, and collaborative filtering of similar-style home listings within the zip code; to be later confirmed by an independent appraisal service.  There is significant liability associated with any real estate investment, that is no different for investments on HomeSlice. HomeSlice will provide investors with a variety of datapoints in order to make informed investment decisions. Up-front disclaimers will also be made to investors iterating the risks involved in real estate investments, the typically long-term nature thereof, and the risk of material loss.  Contract law concerns, regulatory compliance issues, Bank dealings, and credit risks also present liability.  Homeowner Contract Considerations:   * Must include language asserting the homeowner will remain current on their mortgage (the contract will be signed and delivered to Lender). Any lapse or significant delinquencies will qualify as a breach of contract. Such a breach would allow HomeSlice to seek collection of the original investment plus any appreciation thereof. If the Slice decreased in value, HomeSlice is entitled to the initial cash investment. HomeSlice will use an independent appraisal service to determine the fair market value of the home. * HomeSlice reserves the right to transfer the Slice in its entirety or a portion thereof to open market participants willing to pay the free market value for the home. The free market value of the home will be equal to the most recent appraised amount plus a HomeSlice premium deemed appropriate based on the risk adjustment algorithm’s prediction. The investor transactions will take place in an auction style format where investors willing to pay the highest amount will be awarded the Slice. * The homeowner shall not have any liens against the home, other than those existing on behalf of the mortgage originator. (The bank/lender will hold a lien on the home until the mortgage P&I is paid in full, typically via a Deed of Trust) * Upon liquidation of a property through foreclosure of similar forfeiture, HomeSlice is entitled to collect the original cash investment plus any appreciation based on the home’s fair market value. The home’s fair market value will be determined through an independent appraisal service. HomeSlice will not take priority on collections of debts through foreclosure as ultimately the Bank own’s that right. HomeSlice will seek alternative methods of collection through a collection service, either in-house or external. * Short selling a home for less than fair market value will be considered a breach of contract. In this instance, HomeSlice will be entitled to return of the original cash investment plus any appreciation. Appreciation will be calculated as the fair market value less the original investment. The fair market value of the home will be derived from an independent appraisal service For HOMEOWNERS: Need to inform homeowners that short selling for less than market value would be a breach of contract and funds would need to be remitted to HomeSlice * Need to market to Banks/Lenders’ interests as well, invite their comfort with our model, understanding our transaction will have no impact on their existing credit obligations (below snippet from sample Deed of Trust [MD]) – (Need to explain further that we will be second in line for collection of any debts upon foreclosure or default.   + If all or any part of the Property or any Interest in the Property is sold or transferred (or if Borrower is not a natural person and a beneficial interest in Borrower is sold or transferred) without Lender’s prior written consent, Lender may require immediate payment in full of all sums secured by this Security Instrument. (per CFPB example, section 18) - potential loop   + Protect Lenders interest in the property   + HomeSlice will need to draft language iterating that the priority of any collection of debts in the event of foreclosure or loss will reside with the Banks/Lenders; HomeSlice will not be first in line in these instances.   + An independent appraisal will be conducted as a part of the contract’s execution   Investor Contract Conisderations:   * Inform investors up front of the risk of real estate investing.   + Language will need to be clear to investors that there are only 3 ways to liquidate an investment and exit: i) Through the owner’s sale of the property ii) Homeowner can buy back the Slice at it’s current market value (appraisal required) ii) If another investor is willing to pay market value (or more) for the existing equity Slice. |
| **Production and Delivery** | Transaction flow = Homeowner 🡪 HomeSlice 🡪 Investors  HomeSlice will remit cash to the Homeowner in exchange for an agreed upon percentage of home equity (a ‘Slice’). HomeSlice will either hold on to the Slice as an asset on the books or list the home equity Slices, with the intent to sell to investors at a premium (This is how HomeSlice will make money). HomeSlice built in a risk adjustment premium which is applied to prospective home values to ensure we are investing in properties we (and the algorithm) believe will appreciate over time.   * Investors will be paying a premium for Slices of home equity they believe will appreciate over the long term * The investor platform will be an auction-based model where the investor willing to pay the highest premium for a specific Slice, will ultimately obtain the Slice * The transaction flow is as follows: Upon application submission and acceptance, i) HomeSlice remits cash to homeowner in exchange for a Slice of home equity ii) HomeSlice decides whether or not to list the property on investment platform, iii) Investors browse and select Slices they are interested in iv) Investors will enter into a long-term contract where they can only receive return on investment upon home sale OR purchase of the Slice by another Investor   Transfer of ownership will be executed via signed contract between homeowner and HomeSlice, for the predetermined cash value/home equity percentage. The contract agreement and the connection between homeowner and HomeSlice will all occur and exist on the HomeSlice platform.  HomeSlice will provide the initial cash to homeowners after an application is completed, and a credit and lien check is performed. Once the transaction is completed, HomeSlice will in either, list the Slice on the investment platform, opening the opportunity to the market or keep on the investment on the books.  Homeowners and Investors alike will create log in credentials and be able to track performance and investment values via a dashboard within the application. |
| **Intellectual Property Special Permits** | We will need to credit Zillow for the API calls which retrieves the ‘base’ market value of the home (“Zestimate”). This service will become a paid service once the number of daily API calls is exceeded.  The HomeSlice risk algorithm is proprietary only using the Zestimate as the starting point. The risk adjustment of the home’s value is calculated using a variety of data points including historical home sales prices, crime data, and other macro data points relevant to the property’s zip code. |
| **Product/**  **Service Description** | Transaction structure:  Note: Create FlowChart to visualize the transaction where HomeSlice lists the property slices to back end investors, where a single 30% could be divided up amongst 1 or more investors. HomeSlice could also hold on to the investments/slices.  The transaction is not a Home Equity Line of Credit. There will be no principle and interest payments attached to the contract between the homeowner and HomeSlice.  Transaction Example:  Assumption: Homeowner owns 100% of the home outright, mortgage paid off.  Considerations: Using small dollar amounts to best illustrate the transaction.  Homeowner comes to the site and inputs the address of his/her home. The HomeSlice platform leverages the Zillow API (Zestimate) and our algorithm uses that figure as the basis of the ‘Risk Adjusted Home Value’ calculation, the result of which is then presented to the homeowner as the amount of cash they may be able to receive in exchange for up to 30% of their home’s value.  Upon entering the address, HomeSlice notes the home is worth $100 and our risk algorithm denotes a max cash value available today of $30. The homeowner agrees to move forward and completes a HomeSlice application which includes a variety of personal information including legal name, mailing address, SSN, mortgage information (origination date, principle amount, interest rate, term, etc.), and more. Using the information provided by the borrower, HomeSlice will perform a credit risk analysis to determine whether the homeowner is qualified to enter into this transaction. Generally speaking, a qualified homeowner will have significant equity in their home, be current on their mortgage, have no liens (outside of that of the original lender) against the property, and have an above average credit score.  If the homeowner is deemed qualified, HomeSlice will move forward with the transaction and within minutes of credit risk analysis completion, a final cash offer will be made to the homeowner. The final cash offer may differ from the original cash available amount depending on the result of the credit risk analysis. The Contract documents will then be drafted by HomeSlice and presented to the homeowner for e-signature.  For this example, we assume the agreement is reached for $1 in exchange for 1% of the home equity.  Upon signing, the homeowner’s transaction will be processed and funds remitted from HomeSlice to the homeowner. Once the initial transaction is completed, HomeSlice will utilize an independent appraisal service to assess the home’s value beyond our risk adjusted estimate and that provided by Zillow. The Day 1 value will be trued-up to the independent appraisal value.  At this point and assuming no material adjustment to the home’s value is needed as a result of the appraisal, HomeSlice retains ownership of the agreed upon 1% of home equity worth $1 on Day 1. Most commonly, HomeSlice will turn around and list the Home Equity share on the investment marketplace/platform at a small premium. The listing of the Slice on the home equity marketplace will not occur until the appraisal process has completed, but the homeowner would have the cash immediately. Built into the premium of the listed Slice, will be the cost for the appraisal.  Once listed, Investor ABC (“ABC”) finds the home listed on the platform for $1.50 ($1 cost basis, $0.50 premium), has $1.50 ready to invest and is willing to pay that amount in exchange for 1% of the home’s equity. HomeSlice accepts the offer and the transaction moves forward. HomeSlice turns a 50% profit ($0.50) and ABC now owns 1% of the home’s equity.  Fast forward 5yrs and the home’s value grows to $250 and ABC’s 1% ($1.50 cost basis) is now worth $2.50, a net unrealized gain of $1.00 or 67%. ABC can either hold this investment or sell the slice to another investor willing to pay market value ($2.50 for the 1% share). For this example, investor ABC elects to hold on to the investment.  The homeowner is now ready to sell the home, noting the home has appreciated significantly in recent years. With that, the home is listed and sold for $250. Upon sale and per the HomeSlice investment contract agreement, ABC is remitted the initial investment plus the $1.00 profit and the contract is fulfilled. The contract expires upon sale/liquidation.  Other Transaction Considerations:  Investor ABC has the right to sell their Slice at to another willing investor who sees an opportunity in the Slice. As mentioned previously, the investor in any Slice can only liquidate upon sale of the home or sale to another willing investor.  HomeSlice is designed for long term investors. If a transfer occurs between investors, the price will be determined again, in an auction like system where the price will be determined by the listing investor and the open market. With this model, appraisals are not needed at every transfer point. |
| **Target Market/Customer** | An addressable market exists between those who live paycheck to paycheck (approximately [78% of Americans in 2019](https://www.forbes.com/sites/zackfriedman/2019/01/11/live-paycheck-to-paycheck-government-shutdown/#7e6775c44f10)) and those who own a home (approximately [65% of Americans in 2019](https://www.statista.com/statistics/184902/homeownership-rate-in-the-us-since-2003/)).  This swath of Americans represent HomeSlice’s target market. |

# IV. Instructions: Marketing Plan

This section provides details on your industry, the competitive landscape, your target market and how you will market your business to those customers.

### Market research

There are two kinds of research: *primary* and *secondary*. *Primary* market research is information you gather yourself. This could include going online or driving around town to identify competitors; interviewing or surveying people who fit the profile of your target customers; or doing traffic counts at a retail location you’re considering.

*Secondary* market research is information from sources such as trade organizations and journals, magazines and newspapers, Census data and demographic profiles. You can find this information online, at libraries, from chambers of commerce, from vendors who sell to your industry or from government agencies.

This section of your plan should explain:

* The total size of your industry
* Trends in the industry – is it growing or shrinking?
* The total size of your target market, and what share is realistic for you to obtain
* Trends in the target market – is it growing or shrinking? How are customer needs or preferences changing?

### Barriers to entry

What barriers to entry does your startup face, and how do you plan to overcome them? Barriers to entry might include:

* High startup costs
* High production costs
* High marketing costs
* Brand recognition challenges
* Finding qualified employees
* Need for specialized technology or patents
* Tariffs and quotas
* Unionization in your industry

### Threats and opportunities

Once your business surmounts the barriers to entry you mentioned, what additional threats might it face? Explain how the following could affect your startup:

* Changes in government regulations
* Changes in technology
* Changes in the economy
* Changes in your industry

*Use the SWOT Analysis Worksheet on the next page to identify your company’s weaknesses and potential threats, as well as its strengths and the potential opportunities you plan to exploit.*

## SWOT Analysis Worksheet

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Strengths** | **Weaknesses** | **Opportunities** | **Threats** |
| **Product/ Service Offering** | * Differentiated product offering, not a lengthy bank offered HELOC * No discouraging monthly principle and interest payments * Easy to use platform | * Investment risk * Contract law risk * Requirements for lengthy paperwork * Capital intensive model * Fee based model * Complexity of the transactions will require an extremely STRONG contract | * Scalability of a web-based application * Ability to steal market share from traditional banks, pitching ease of use, and fast process – no P&I | * Bank imposed contractual road-blocks * Property transfer limitations * Look a like startups * Consumer protection regulation |
| **Brand/ Marketing** | * Simplicity, speed, ease-of-use * Transactional transparency, ability to track all investments in a single easy to use platform |  | * Access to cash FAST and EASY is attractive, we believe this branding will scale effectively | * Consumer protection regulation |
| **Staff/HR** | * Small nimble team | * Capital intensive model will require very low overhead so funding levels are constantly adequate, this could hamper staff growth if model is initially unsuccessful * Legal costs may be material enough to keep a real estate transactional attorney on retainer, this would be costly | * Attractive FinTech startup with a first of it’s kind business model * Equity compensation is an option | * Competition |
| **Finance** | * Experienced accounting team and financial + real estate network | * Transaction is very technical in nature, will require advanced accounting and regulation knowledge * High Startup costs |  | * Regulation limitations * Contract and legal limitations |
| **Operations/**  **Management** | * Strong data operation, ability to provide actionable insights for the business * Lean management team, tech-based platform | * Data infrastructure will grow costly as business grows * Extremely complex transaction structures, presents need for strong contract * Potential for high legal and compliance costs | * Vast amounts of data presents valuable opportunities to scale effectively and implement successful campaigns at scale | * User data privacy * Data breaches * Regulations and legal limitations |
| **Market** | * Limited competition | * Concept not yet proven, mass adoption could be slower than desired | * Market enjoys fast easy processes, a scalable market like ours is attractive if successful | * Look a like startups * Legal risk leading to potential reputational risk |
| **Can any of your strengths help with improving your weaknesses or combating your threats? If so, please describe how below.** | | | | | |
| Deep existing connections in accounting/finance and real estate will help to accelerate understanding of risks associated with legal/compliance/contracts. Additional existing connections in banking will aide in the relationship building process which will be critical for transactions to move forward. Not only will HomeSlice need to be conscious of consumer interests, but also the loan originators and services (i.e. banks and mortgage banks).  Limited competition will also give HomeSlice an edge when scaling the business, however staying nimble and lean will be critical throughout the growth stage. | | | | | |
| **Based on the information above, what are your immediate goals/next steps?** | | | | | |
| Immediate goals include a front to back transaction review discussion with a qualified transactions attorney. Understanding the legality and feasibility of the proposed model will be make or break for the concept and the startup.  If determined feasible, a detailed financial plan will be established and the funding search will begin. | | | | | |
| **Based on the information above, what are your long-term goals/next steps?** | | | | | |
| Long term goals are achieving profitability at a very early stage while the company is lean and nimble. Profitability is one of the most difficult obstacles to overcome in the startup space, yet arguably, the most important.  In order to become profitable, deep industry and banking relationships will need to be established and the platform must scale efficiently. Being a tech based/web based platform allows for lower overhead through a variety of automation and fast access to market. | | | | | |

### Product/service features and benefits

Describe all of your products or services, being sure to focus on the customer’s point of view. For each product or service:

* Describe the most important features. What is special about it?
* Describe the most important benefits. What does it do for the customer?

In this section, explain any after-sale services you plan to provide, such as:

* Product delivery
* Warranty/guarantee
* Service contracts
* Ongoing support
* Training
* Refund policy

### Target customer

Describe your target customer. (This is also known as the *ideal customer* or *buyer persona*.)

You may have more than one target customer group. For instance, if you sell a product to consumers through distributors, such as retailers, you have at least two kinds of target customers: the distributors (businesses) and the end users (consumers).

Identify your target customer groups, and create a demographic profile for each group that includes:

***For consumers:***

* Age
* Gender
* Location
* Income
* Occupation
* Education level

***For businesses:***

* Industry
* Location
* Size
* Stage in business (startup, growing, mature)
* Annual sales

### Key competitors

One of the biggest mistakes you can make in a business plan is to claim you have “no competition.” Every business has competitors. Your plan must show that you’ve identified yours and understand how to differentiate your business. This section should:

List key companies that compete with you (including names and locations), products that compete with yours and/or services that compete with yours. Do they compete across the board, or just for specific products, for certain customers or in certain geographic areas?

Also include indirect competitors. For instance, if you’re opening a restaurant that relies on consumers’ discretionary spending, then bars and nightclubs are indirect competitors.

*Use the Competitor Data Collection Plan on the next page to brainstorm ways you can collect information about competitors in each category.*

## Competitor Data Collection Plan

|  |  |  |
| --- | --- | --- |
|  | **Point (**[**point.com**](https://point.com/)**)**  Palo Alto, California  Privately Held  Founded: 2015 |  |
| **Price** | *<Unknown – Currently looks like funding is halted due to Coronavirus restrictions as of 5/7>* |  |
| **Benefits/Features** | * *Get up to $350K with no monthly payments, ever.* * *Banks require a lot to qualify for their home loans, Point makes it easy to apply/qualify* |  |
| **Size/profitability** | * *51-200 Employees (146 on LinkedIn)* * *$30.4M funding, Latest round Series B* * *4 funding rounds* * *Lead investors: Prudential Financial, DAG Ventures* * *Notable investors: Andreessen Horowitz, Bloomberg Beta* * *Profitability: <unknown>* |  |
| **Market strategy** | * *Point is the first home finance product aligned with homeowners. ‘We do well when you do well’.* * *Pitch themselves as better than a loan. They say they ‘don’t lend money’, they ‘buy into your property as a partner’* * *We pay you today for a share of your home’s future appreciation. There are no monthly payments; there is no interest rate; you can buy Point out or sell the home at any time; we can lose money if the home depreciates. We do well when you do well. Now, that’s quite revolutionary.* * *Pitch to the consumer as ‘Partners’ not customers* |  |

### Positioning/Niche

Now that you’ve assessed your industry, product/service, customers and competition, you should have a clear understanding of your business’s niche (your unique segment of the market) as well as your positioning (how you want to present your company to customers). Explain these in a short paragraph.

### How you will market your product/service

In this section, explain the marketing and advertising tactics you plan to use.

Advertising may include:

* Online
* Print
* Radio
* Cable television
* Out-of-home

Which media will you advertise in, why and how often?

Marketing may include:

* Business website
* Social media marketing
* Email marketing
* Mobile marketing
* Search engine optimization
* Content marketing
* Print marketing materials (brochures, flyers, business cards)
* Public relations
* Trade shows
* Networking
* Word-of-mouth
* Referrals

What image do you want to project for your business brand?

What design elements will you use to market your business? (This includes your logo, signage and interior design.) Explain how they’ll support your brand.

### Promotional budget

How much do you plan to spend on the marketing and advertising outreach above:

* Before startup (These numbers will go into your startup budget)
* On an ongoing basis (These numbers will go into your operating plan budget)

*Use the Marketing Expenses Strategy Chart on the next page to help figure out the cost of reaching different target markets.*

## Marketing Expenses Strategy Chart

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Target Market 1** | **Target Market 2** | **Target Market 3** |
| **One-Time Expenses** |  |  |  |
| **Monthly or Annual Expenses** |  |  |  |
| **Labor Costs** |  |  |  |

Download the [Annual Marketing Budget Template](https://www.score.org/resource/annual-marketing-budget-template). Using the information you’ve gathered, create your annual marketing budget.

### Pricing

You explained pricing briefly in the “Products & Services” section; now it’s time to go into more detail. How do you plan to set prices? Keep in mind that few small businesses can compete on price without hurting their profit margins. Instead of offering the lowest price, it’s better to go with an average price and compete on quality and service.

* Does your pricing strategy reflect your positioning?
* Compare your prices with your competitors’. Are they higher, lower or the same? Why?
* How important is price to your customers? It may not be a deciding factor.
* What will your customer service and credit policies be?

*Use the Pricing Strategy Worksheet on the next page to help with your pricing.*

## Pricing Strategy Worksheet

|  |  |  |  |
| --- | --- | --- | --- |
| **Business Name** |  | | |
| **Which of the following pricing strategies will you employ? Circle one.** | | | |
| **Cost Plus**  *The costs of making/obtaining your product or providing your service, plus enough to make a profit* | | **Value Based**  *Based on your competitive advantage and brand (perceived value)* | **Other:** |
| **Provide an explanation of your pricing model selection.**  Include strategy info on your major product lines/service offerings. List industry/market practices and any considerations to be discussed with your mentor. | | | |

### Location or proposed location

If you have a location picked out, explain why you believe this is a good location for your startup.

If you haven’t chosen a location yet, explain what you’ll be looking for in a location and why, including:

* Convenient location for customers
* Adequate parking for employees and customers
* Proximity to public transportation or major roads
* Type of space (industrial, retail, etc.)
* Types of businesses nearby

Focus on the location of your building, not the physical building itself. You’ll discuss that later, in the Operations section.

### Distribution channels

What methods of distribution will you use to sell your products and/or services? These may include:

* Retail
* Direct sales
* Ecommerce
* Wholesale
* Inside sales force
* Outside sales representatives
* OEMs

If you have any strategic partnerships or key distributor relationships that will be a factor in your success, explain them here.

*If you haven’t yet finalized your distribution channels, use the Distribution Channel Assessment Worksheet on the next page to assess the pros and cons of each distribution channel you are considering.*

## Distribution Channel Assessment Worksheet

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Distribution Channel 1** | **Distribution Channel 2** | **Distribution Channel 3** |
| **Ease of Entry** |  |  |  |
| **Geographic Proximity** |  |  |  |
| **Costs** |  |  |  |
| **Competitors’ Positions** |  |  |  |
| **Management Experience** |  |  |  |
| **Staffing Capabilities** |  |  |  |
| **Marketing Needs** |  |  |  |

### 12-month sales forecast

Download the [Sales Forecast](https://www.score.org/resource/sales-forecast-12-months) spreadsheet and use it to create a month-by-month sales projection.

If you’ve already made some sales, you can use those as a basis for your projections. If, like most startups, you haven’t sold anything yet, you’ll need to create estimates based on your market research, your proposed marketing strategies and your industry data.

Create two forecasts: a “best guess” scenario (what you really expect) and a “worst case” scenario (one you’re confident you can reach no matter what).

Keep notes on the research and assumptions that go into developing these sales forecasts. Financing sources will want to know what you based the numbers on.

After reading the Marketing Plan section, the reader should understand who your target customers are, how you plan to market to them, what sales and distribution channels you will use, and how you will position your product/service relative to the competition.

*A SCORE mentor can help you complete your Marketing Plan tailored for your business****.*** [***Find a SCORE mentor***](https://www.score.org/find-mentor)*.*

# V. Instructions: Operational Plan

This section explains the daily operation of your business, including its location, equipment, personnel and processes.

### Production

How will you will produce your product or deliver your service? Describe your production methods, the equipment you’ll use and how much it will cost to produce what you sell.

### Quality control

How will you maintain consistency? Describe the quality control procedures you’ll use.

### Location

Where is your business located? You briefly touched on this in the Company Overview. In this section, expand on that information with details such as:

* 1. The size of your location
  2. The type of building (retail, industrial, commercial, etc.)
  3. Zoning restrictions
  4. Accessibility for customers, employees, suppliers and transportation if necessary
  5. Costs including rent, maintenance, utilities, insurance and any buildout or remodeling costs
  6. Utilities

### Legal environment

What type of legal environment will your business operate in? How are you prepared to handle legal requirements? Include details such as:

* 1. Any licenses and/or permits that are needed and whether you’ve obtained them
  2. Any trademarks, copyrights or patents that you have or are in the process of applying for
  3. The insurance coverage your business requires and how much it costs
  4. Any environmental, health or workplace regulations affecting your business
  5. Any special regulations affecting your industry
  6. Bonding requirements, if applicable

### Personnel

What type of personnel will your business need? Explain details such as:

* 1. What types of employees? Are there any licensing or educational requirements?
  2. How many employees will you need?
  3. Will you ever hire freelancers or independent contractors?
  4. Include job descriptions.
  5. What is the pay structure (hourly, salaried, base plus commission, etc.)?
  6. How do you plan to find qualified employees and contractors?
  7. What type of training is needed and how will you train employees?

*Download the* [*Job Analysis Worksheet*](https://www.score.org/resource/job-analysis-worksheet) *and use it to help you answer the questions above.*

### Inventory

If your business requires inventory, explain:

* What kind of inventory will you keep on hand (raw materials, supplies, finished products)?
* What will be the average value of inventory (in other words, how much are you investing in inventory)?
* What rate of inventory turnover do you expect? How does this compare to industry averages?
* Will you need more inventory than normal during certain seasons? (For instance, a retailer might need additional inventory for the holiday shopping season.)
* What is your lead time for ordering inventory?

### Suppliers

List your key suppliers, including:

* Names, addresses, websites
* Type and amount of inventory furnished
* Their credit and delivery policies
* History and reliability
* Do you expect any supply shortages or short-term delivery problems? If so, how will you handle them?
* Do you have more than one supplier for critical items (as a backup)?
* Do you expect the cost of supplies to hold steady or fluctuate? If the latter, how will you deal with changing costs?
* What are your suppliers’ payment terms?

### Credit policies

If you plan to sell to customers on credit, explain:

* Whether this is typical in your industry (do customers expect it)?
* What your credit policies will be. How much credit will you extend? What are the criteria for extending credit?
* How will you check new customers’ creditworthiness?
* What credit terms will you offer?
* Detail how much it will cost you to offer credit, and show that you’ve built these costs into your pricing structure.
* How will you handle slow-paying customers? Explain your policies, such as when you will follow up on late payments, and when you will get an attorney or collections agency involved.

After reading the Operational Plan section, the reader should understand how your business will operate on a day-to-day basis.

# VI. Instructions: Management & Organization

This section should give readers an understanding of the people behind your business, their roles and responsibilities, and their prior experience. If you’re using your business plan to get financing, know that investors and lenders carefully assess whether you have a qualified management team.

1. **Biographies**

Include brief biographies of the owner/s and key employees. Include resumes in the Appendix. Here, summarize your experience and those of your key employees in a few paragraphs per person. Focus on the prior experience and skills that have prepared your team to succeed in this business. If anyone has previous experience starting and growing a business, explain this in detail.

1. **Gaps**

Explain how you plan to fill in any gaps in management and/or experience. For instance, if you lack financial know-how, will you hire a CFO or retain an accountant? If you don’t have sales skills, will you hire an in-house sales manager or use outside sales reps?

1. **Advisors**

List the members of your professional/advisory support team, including:

* 1. Attorney
  2. Accountant
  3. Board of directors
  4. Advisory board
  5. Insurance agent
  6. Consultants
  7. Banker
  8. Mentors and other advisors

If they have experience or specializations that will increase your chances of success, explain. For instance, does your mentor have experience launching and growing a similar business?

1. **Organization Chart**

Develop and include an organization chart. This should include both roles that you’ve already filled and roles you plan to fill in the future.

After reading the Management & Organization section, the reader should feel confident that you have a qualified team leading your business.

*Use the Management Worksheet and Organization Chart on the next two pages to highlight your management team.*

## Management Worksheet

|  |  |
| --- | --- |
| **Bio/s** |  |
| **Gaps in Management or Experience** |  |
| **Advisors** |  |

## Organization Chart

**TITLE**

**TITLE**

**TITLE**

**TITLE**

**TITLE**

**TITLE**

**TITLE**

**TITLE**

**TITLE**

**TITLE**

**TITLE**

**TITLE**

**TITLE**

# VII. Instructions: Startup Expenses & Capitalization

In this section, detail the expenses involved in opening for business and how much capital you’ll need. (Do not include ongoing expenses after your business opens; those are listed in the Financial Plan.) Estimating startup expenses as accurately as possible helps you gather enough startup capital.

1. **Start-Up Expenses**

Download and complete the [Start-Up Expenses](https://www.score.org/resource/start-expenses) template. In working on this Business Plan, you should already have gathered most, if not all, of the information you need. In the body of this section, be sure to explain all of the assumptions behind the figures. How did you come up with these expenses? If you’ve secured or expect to secure loans, explain the source/s, amount/s and terms. If you’ve secured or expect to secure investors, explain how much each investor will contribute and what percentage of ownership each receives in return.

Be sure to include extra capital for unexpected expenses. Opening a new business almost always ends up costing more than expected, and you need to be prepared. List this figure in the Start-Up Expenses template under “Reserve for Contingencies.” How much should you set aside for contingencies? You can talk to other business owners in your industry to get a ballpark figure. If you can’t come up with a figure this way, a good rule of thumb is to set aside 20% to 25% of your total startup costs for contingencies.

1. **Opening Day Balance Sheet**

Download and complete the [Opening Day Balance Sheet](https://www.score.org/resource/opening-day-balance-sheet). Use it to detail the expected state of your business finances on opening day. As with the Start-Up Expenses sheet, be sure to explain the assumptions behind the figures.

1. **Personal Financial Statement**

If you are using the business plan to seek financing, include personal financial statementsfor each owner and each major stockholder. The personal financial statements should detail each person’s assets and liabilities outside of the business and their personal net worth. Investors and/or lenders typically expect business owners to use personal assets to finance a startup, and they’ll want to see how much capital you have available from your personal finances.

After reading the Startup Expenses & Capitalization section, the reader should know how much money is needed to start the business and how well capitalized you are.

# VIII. Instructions: Financial Plan

Your financial plan is perhaps the most important element of your business plan. Lenders and investors will review it in detail. Developing your financial plan helps you set financial goals for your startup and assess its financing needs. Include the following:

1. **12-month profit & loss projection**

Also known as an *income statement* or *P&L*, the 12-month profit and loss projection is the centerpiece of your business plan. Download the [12-Month Profit and Loss Projection](https://www.score.org/resource/12-month-profit-and-loss-projection) and fill in your projected sales, cost of goods sold and gross profit. (Refer to the Sales Forecast you created in Section IV). Then list your expenses, net profit before taxes, estimated taxes and net operating income.

Be sure to explain the assumptions behind the numbers in your P&L. Keep detailed notes about how you came up with these figures; you may need this information to answer questions from potential financing sources.

1. **Optional: 3-year profit & loss projection**

A three-year profit and loss projection is not essential to a business plan. However, you may want to create one if you expect your business’s financials to change substantially after the first year, or if investors or lenders require it. Download the [3-Year Profit and Loss Projection](https://www.score.org/resource/3-year-profit-and-loss-projection-0) template, and use it to create your projection.

1. **Cash flow projection**

The cash flow statement tracks how much cash your business has on hand at any given time. Once your business is up and running, you’ll want to keep close tabs on your cash flow statement. For now, however, you’re creating a cash flow *projection*. Think of the cash flow projection as a forecast for your business checking account. It details when you need to spend money on things such as inventory, rent and payroll, and when you expect to receive payments from customers and clients. For example, you may make a sale, have to buy inventory to fulfill the sale, and not collect payment from the customer for 30, 60 or 90 days. The cash flow projection takes these factors into account, helping you budget for upcoming expenses so your business doesn’t run out of money.

Download the [12-Month Cash Flow Statement](https://www.score.org/resource/12-month-cash-flow-statement) and use it to create your projections.

1. **Optional: 3-year cash flow statement**

Depending on your needs and the purpose of your business plan, you may also want to include a 3-year cash flow statement. If so, download the [3-Year Cash Flow Statement](https://www.score.org/resource/3-year-cash-flow-statement)and use it to create your projections. This is a much simpler document than the 12-month cash flow statement, but can still be useful in making plans.

1. **Projected balance sheet**

A balance sheet subtracts the company’s liabilities from its assets to arrive at the owner’s equity. You already created an opening day balance sheet in Section 1. Now, download the [Balance Sheet (Projected)](https://www.score.org/resource/balance-sheet-template), and create a projected balance sheet showing the estimated financial condition of your business at the end of its first year. The major difference between the two is that the projected balance sheet includes any owner’s equity resulting from the business’s first year in operation. Lenders and investors may want to see this projection.

1. **Break-even calculation**

The break-even analysis projects the sales volume you need in order to cover your costs. In other words, when will the business break even? Download the [Break-Even Analysis](https://www.score.org/resource/break-even-analysis-template) template and, using your profit and loss projections, enter your expected fixed and variable costs. Adjust the categories to reflect your own business.

You can even create a couple of different break-even analyses for different scenarios. For example, your payroll costs will vary depending on whether you hire full-time employees or use independent contractors. Creating different break-even analyses can help you determine the best option.

1. **Use of capital**

If you’re using the business plan to seek financing from lenders or investors, provide a breakdown of how you will the capital and what results you expect. For example, perhaps you will use the money to buy new equipment and expect that to double your production capacity.

After reading the Financial Plan section, the reader should understand the assumptions behind your financial projections and be able to judge whether these projections are realistic.

*A SCORE mentor can help you complete your Financial Plan**tailored for your business.*[***Find a SCORE mentor***](https://www.score.org/find-mentor)*.*

# IX. Instructions: Appendices

Don’t slow your readers down by cluttering your business plan with supporting documents, such as contracts or licenses. Instead, put these documents in the Appendices, and refer to them in the body of the plan so readers can find them if needed.

Below are some elements many business owners include in their Appendices.

1. Agreements (Leases, contracts, purchase orders, letters of intent, etc.)
2. Intellectual property (trademarks, licenses, patents, etc.)
3. Resumes of owners/key employees
4. Advertising/marketing materials
5. Public relations/publicity
6. Blueprints/plans
7. List of equipment
8. Market research studies
9. List of assets that can be used as collateral

You can also include any other materials that will give readers a fuller picture of your business or support the projections and assumptions you make in your plan. For instance, you might want to include photos of your proposed location, illustrations or photos of a product you are patenting, or charts showing the projected growth of your market.

After reviewing the Appendices, the reader should feel satisfied that the assumptions throughout the plan are backed up by documentation and evidence.

# X. Instructions: Refining the Plan

Modify your business plan for your specific needs, audience and industry. Here are some guidelines to help:

**For Raising Capital from Bankers**

Bankers want to know that you’ll be able to repay the loan. If the business plan is for bankers or other lenders, include:

* How much money you’re seeking
* How you’ll use the money
* How that will make your business stronger
* Requested repayment terms (number of years to repay)
* Any collateral you have and a list of all existing liens against your collateral

**For Raising Capital from Investors**

Investors are looking for dramatic growth, and they expect to share in the rewards. If the business plan is for investors, include:

* Investment amount you need short-term
* Investment amount you’ll need in two to five years
* How you’ll use the money and how that will help your business grow
* Estimated return on investment
* Exit strategy for investors (buyback, sale or IPO)
* Percentage of ownership you will give investors
* Milestones or conditions you will accept
* Financial reporting you will provide to investors
* How involved investors will be on the board or in management

**For a Manufacturing Business**

* **Explain the operations involved in manufacturing your product/s.**
* **What equipment is needed?** What are the production/capacity limits of the equipment?
* What are the production/capacity limits of the proposed physical plant?
* **Is specialized labor needed?**
* **What raw materials do you need for manufacturing? Are there any special requirements for storing these?**
* **What quality control procedures will you use?**
* **How will you manage inventory levels?**
* **What is your supply chain?**
* **Explain any new products you’re developing, or products you plan to begin developing after startup.**

**For a Service Business**

* Explain your prices and the methods used to set them.
* What systems and processes will you use for ensuring consistent delivery of services?
* What quality control procedures will you use?
* How will you measure employee productivity?
* Will you subcontract any work to other businesses? If so, what percentage of work will be subcontracted? Will you make a profit on subcontracting?
* Explain your credit, payment and collections policies and procedures.
* How will you maintain your client base and get long-term contracts?
* **Explain any new services you’re developing or services you plan to add after startup.**

**For a Retail Business**

* List specific brands you plan to carry that will give you a competitive advantage.
* How will you manage inventory? What inventory management software will you use?
* What forms of payment will you accept? What payment processing service will you use?
* What point-of-sale software and hardware will you use?
* Explain your markup policies. Your prices should be profitable, competitive and in line with your brand.
* Initial inventory level: Find the industry average annual inventory turnover rate (available in the [RMA](http://www.rmahq.org/publications-and-tools/) book). Multiply your initial inventory investment by the average turnover rate. The result should be at least equal to your projected first year's cost of goods sold. If not, you may need to budget more for startup inventory.
* What are your customer service policies?
* How will you handle returns and exchanges?
* Will your retail store also have an ecommerce site, or is one planned for the future?

**For an Ecommerce Business**

* Will you sell a physical product, a service, a digital product (such as eBooks) or some combination of these?
* If you’re selling physical products, how will you brand and package them?
* Will you sell on your own website, online marketplaces (such as Amazon) or both?
* What technology providers and platforms will you use to run your ecommerce site?
  + Web hosting service
* Web design service
* Shopping cart provider
* Payment processing service
* Fulfillment & shipping services
* Email marketing services
* Can the solutions you’ve chosen quickly scale up or down as needed?
* Where will you get your products? Will you manufacture them in-house, buy them from manufacturers or use drop shippers?
* How will you handle returns and exchanges?
* What are your customer service policies? How will you provide customer service?
* Will you use any proprietary technology of your own and if so, what advantages does that give you?

**For a Software or SaaS business**

* What is your pricing structure? Will you use a free trial, “freemium” or paid business model?
* If you offer free services or a free trial option, how will you upsell customers to a payment model? What percentage of customers are expected to become paying customers?
* Have you tested your software? Are any “early adopters” already using the product?
* How will you encourage long-term contracts in order to create recurring revenues?
* How will you manage rapidly changing markets, technologies and costs?
* How will you keep your company competitive?
* Will you use in-house developers or outsource this function?
* How will you provide customer support?
* How will you retain key personnel?
* Are you using any proprietary or exclusive software that will give you a competitive edge?
* How will you protect your intellectual property?
* What additional products or updates to current products are you planning after launch?

# Now That You’re (Almost) Finished . . .

Remember to go back, and complete the [Executive Summary](#_I._Instructions:_Executive).

*After you’ve filled out all the worksheets and executive summary, print them out and you have a business plan. Work with a* [*SCORE mentor*](http://www.score.org/find-mentor) *to review and refine your plan.*