

Building the Business Plan For Making and Selling Value-Added Food Products

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Objectives of Presentation

To walk you through the steps needed to create a business plan.

It is critical to prove that there is a demand for your product, and to support your assumptions with facts.

What is a Business Plan?

- A business plan is a blueprint of your business that can help you manage your company,
- A business plan will keep you focused,
- Use the business plan to compare expectations against results so you can take corrective action,
- A business plan helps potential partners and lenders understand your strategy and likelihood of success.

Why are You Starting a New or Another Business?

- This is not a part of the plan but about you,
- Take the “self assessment”
- What do you expect to accomplish?
- Is making a product the next logical step for you?
- Can you use existing resources to create a product and increase profitability?
- Are you ready to dedicate more time and money?

Who is Your Audience for the Plan?

While preparing your business plan, identify who needs to read the document and tailor the presentation to suit their decision making criteria:

- Commercial lenders?
- Government agencies?
- Potential investors?
- You?

What is the Industry & Market?

- Describe your industry (the big picture):
 - How large is the industry in annual sales?
 - What are the trends?
 - What stage of the life cycle is the product in?
 - What is the industry outlook?
 - How well are publically traded companies doing?

Who is Your Target Market?

- Who is your most important customer?
Wholesaler/Distributor? Retailer? Consumer?
- Who is the end-user?
- What is the size of your target market?
- How much is the end-user spending annually?
- What are customer's or end-user's expectations from your product: price, quality, packaging, delivery, follow-up service, etc.?

Who is Your Target Market?

- What are their demographics for your end-user? (geography, age, sex, income, occupation, education, lifestyle, etc.)
- What is the forecasted demand for this group?
- What is the market share you expect to earn from your target market?

Obtain accurate and reliable data and statistics

What is Your Product?

- Describe your product
- Is your product in demand, will it fill a need, or solve a problem?
- How much are customers willing to pay?
- Is your product price sensitive?
- When will your product be purchased?

What is Your Product?

- Will you have a proprietary advantage: patent, design, process, technology, exclusivity, etc.
- What are the benefits of your product?
- Is your product a “me, too product” and if yes, what is unique about it to make it stand out?
- Will you have a competitive advantage? Any disadvantages?

What is Your Product?

- Product Features:
 - Size, packaging, quantity and shipping
 - Determine wholesalers' or retailers' needs
- Label:
 - Image and branding – logo, trademarks, color, design, attractive, etc.
 - Regulatory - content, ingredient, nutritional data, warnings, directions, etc.
 - Informational - UPC codes, UL listing, certifications, etc.

What is Your Product?

- Any regulatory requirements – Department of Health, NYS Agriculture & Markets, USDA, FDA, NYS DEC, local licenses?
- Any potential or pending legal changes in the works?

What is Your Unit Cost?

- How much will it cost for a production run: ingredients, packaging, labeling, shipping, production wages & benefits, utilities associated with production, product liability insurance, production equipment maintenance or supplies, and marketing?
- What are your anticipated sales, in units, so you can calculate your unit cost?

What is Your Unit Cost?

- Can you purchase in quantity sufficient to keep your unit cost low and be attractive to your most important customer?
- Is it cheaper to outsource?
- How many units do you have to sell to break-even? (pay for your fixed costs i.e. occupancy, insurance)

Distribution Channel

Now that you know what customers are willing to pay and your unit cost, where does your product fall within the distribution channel?

Food Product Pricing Model											
Retail Pricing			Distributor Pricing				Manufacturer Pricing				
		Goal			Goal						
Retail Price	5.99	100.0%	Wholesale Price	4.19	100.0%	Manufacturer's Price	3.35	100.0%			
COGS	4.19	70.0%	COGS	3.35	80.0%	Unit Cost	2.25	67.1%			
Gross Profit	1.80	30.0%	30.0%	Gross Profit	0.84	20.0%	20.0%	Gross Profit	1.10	32.9%	Gross Profit Margin
COGS	4.19			COGS	3.35						
Retail Price	5.99			Retail Price	4.19						
Mark-Up	42.9%			Mark-Up	25.0%						

How and When will You get Paid?

- What are the industry norms and payment terms your customers will expect?
- How will you get paid?
 - Cash, check, credit and debit cards
 - Invoice the customer
- When will you receive payment?
 - At time of sale, 10 days, 30 days, 45 days, 60 days?

Who is Your Competition?

- Who are your competitors?
- Where are they located?
- Where are their products made?
- How long have they been in business?
- How do they distribute their products?
- What is their respective market share?

Who is Your Competition?

- What are their strengths and weaknesses in strategy, production, marketing, operations, distribution, service and finance?
- What advantages do they have over you?
- What disadvantages are they faced with?
- How does your product compare in terms of branding, price, design, packaging, quality, benefits and features?

What is Your Piece of the Pie?

How will your company and product effect the rest of the businesses trying to make a buck?

- The pie is only so big
- If your product and company take some of the market share but everyone else remains healthy, then it appears to be a viable idea
- If your product and company take market share leaving the rest on the edge of failure, what good have you created?

What is Your Marketing Plan?

Your marketing plan may not be only about your product but your company as well:

- Product – needed, wanted, solves a problem
- Packaging – attractive and convenient
- Price – balancing sales and profitability
- Promotion – branding, creating interest
- Placement – where your product is sold
- People – who represents the company
- Physical environment – tone of the environment
- Process – differentiate you from your competition

What is Your Marketing Plan?

- Who are your target markets (end-user)?
- Who is your most important customer?
- Quantify your marketing objectives:
 - Where will you sell your product?
 - How many will plan on selling – month, quarter, year?
 - How will you increase sales and at what rate?
- How much will you spend on marketing?
 - As a fixed dollar amount or a percentage of sales?

What is Your Marketing Plan?

- How will you promote your product?
- What marketing activities will you use?
- What promotional activities are used by the competition?
- How will you develop your brand?
- How will you maintain loyalty?
- How will you develop and maintain a strong position in the market place?

Who is Your Marketing Team?

- You?
- Wholesaler or Jobber?
- A sales team?
 - External - distributors, reps
 - Internal - inside sales team
 - Direct - calls, mail, seminars, TV, radio, print ads
 - Indirect - web site, blog, social media
 - Compensation:
 - Salary, Base salary plus commission, or Commission only

Business Description

- What is the name of the business?
- Where will the business be located?
- What type of legal entity will you be?
- What is the nature of your business?
- What are your principal products?
- Who is your target customer?
- How many jobs will you create or save? When?

Business Description

- Who are the principals/owners?
- What is the percent of ownership for each?
- What is each owners' involvement in the company or degree of control?
- Will you have a Board of Directors or Advisory Board?
- What type of suppliers will you need?

Operations

- Location and building requirements:
 - Where will the business be located?
 - Building description, qualities, ability for expansion
 - Visibility, accessibility, parking, neighborhood
 - Signage – placement, limitations
 - Regulatory, zoning or codes issues?

Operations

- Equipment needs?
- Personnel needs?
- Production Description:
 - Hours of operation
 - Processes and efficiency
 - Capacity and quality control
 - Suppliers

Organization & Management

- Who will be running your company?
 - Who are the key managers or employees?
 - What are management's strengths?
 - Describe the skills each has
 - Include an organizational chart as an exhibit
 - Include brief biography of each key manager as an exhibit
 - Include job descriptions as an exhibit

Organization & Management

- External Resources – Who are your outside advisors, such as accountants, attorneys?
 - What role will they play in helping you manage your business?
- Describe your compensation plan, including bonus, profit sharing or other incentive plans

Risks and Mitigating Factors

- Perform a SWOT analysis:
 - Strengths, Weaknesses, Opportunities & Threats
- How sensitive is your business to changes in the economy?
 - Interest rates, grain and fuel prices, local wage rates, insurance costs, real estate taxes, etc.

Timing & Milestones

Prepare a schedule that reflects major milestones:

- Approvals,
- Product launch date,
- Sales campaigns or events,
- Sales goals or profit milestones,
- Changes to equipment of facilities,
- Changes in workforce or management.

Contingency Plan

- What if your business does not meet its projections?
- What is your back-up plan?
- How will you cover your expenses?
- Discuss your plans in the event that you are unable to manage your business for a brief period of time ...or a long period of time.

Exit Strategy

No marriage wants to start by thinking about divorce but no individual business is meant to last forever, so what is your exit strategy?

- Pass on to the next generation of family?
- Organize a management buyout?
- Sell your business as a going concern?
- Liquidate assets?

Resources & Requirements

The business plan and financial projections will help identify:

- How much money, buildings, equipment and working capital you will need to start business,
- And how much you will need to invest and borrow.

You need to discuss:

- How much cash or assets you have.

Financial Information

- Existing businesses should include:
 - 3-years of income tax returns (business and personal)
 - 3-years of accountant prepared financial statements
 - Current balance sheet
 - Year-to-date Profit and Loss Statement
 - Personal Financial Statement from each owner
- Start-ups should include:
 - 2-years of tax returns (personal)
 - Personal Financial Statement from each owner

Financial Information

All plans should include:

- 3-years of projected Monthly Cash
- 3-years of Proforma Balance Sheets
- 3-years of projected Profit and Loss
- Notes and significant assumptions used in projected financial statements

Financial Projections

Make Your Budget – list everything you want or need – seek financing for everything - there may be no second chance

Financial Projections

START-UP COSTS:

Facility:

- Land & Building – Purchase Price
- Land & Building – Deposit
- Renovations or Repairs
- Building Expansion Costs
- Real Estate Closing Costs
- Other Facility Acquisition Costs - Permits, Inspections, etc.
- Security Deposit for Rent or Lease
- Leasehold Improvements

Financial Projections

START-UP COSTS:

Equipment:

- Manufacturing and Production
- Warehouse and Shelving
- Coolers and Freezers
- Packaging and Shipping
- Vehicles and Moving (forklifts)
- Office

Financial Projections

START-UP COSTS:

- Deposits: Telephone and Utilities
- Business Insurance (Initial payment):
 - General Liability, Hazard Insurance to cover the building and equipment, Products Liability, Commercial Auto, Workers' Compensation, NYS Disability Benefits, Fed & NYS Unemployment
- Initial Inventory Purchases
- Fees: Legal, Accounting, other Professional Fees, Licenses, permits, etc.
- Loan Closing Costs and Guarantee Fees

Financial Projections

START-UP COSTS:

- Advertising/Promotion for business launch
 - Printing: Business cards, Flyers, Signs, Checks, Invoices, etc.
 - Media: Radio, TV, Billboards, Newspapers, etc.
 - Web Site Development
- Initial Supplies: office, store, restaurant, etc.
- Credit Card Equipment and Set-up Fees
- Professional Dues/Subscriptions

Financial Projections

DETERMINE MONTHLY EXPENSES:

- Ingredients and packaging purchases: as a fixed dollar or percent of revenue – use your unit cost & production run information
- Owners' Wages
- Employees' Wages
- Mandated Employee Costs (the SBDC uses 13% of total payroll and this figure should be a good estimate for Fed & NYS Unemployment taxes, Social Security and Medicare)
- Advertising
- Auto, Travel and Entertainment
- Insurance
- Lease or Rent – Gross or Triple net, with CAM charges

Financial Projections

DETERMINE MONTHLY EXPENSES:

- Legal and Accounting
- Office Expenses
- Repairs and Maintenance
- Supplies
- Telephone and Internet
- Utilities
- Credit Card Lease
- Credit Card Fees (the SBDC uses 3.50% to estimate these fees)
- What percent of purchases will be paid within 30 days?
 - Between 31 and 60 days?
 - Between 61 and 90 days?

Financial Projections

After determining all start-up costs and operating expenses, review industry information to identify ratios, norms and trends, so your business mirrors the average business in your industry:

- Sales and projected growth,
- What percent of sales will be received within 30 days?
 - Between 31 and 60 days?
 - Between 61 and 90 days?
- Gross, operating and net profit margins,
- Accounts receivable, inventory and accounts payable turnover,
- Debt load and debt service coverage.

Review Sample Projections

- Cash Flow Statements
- Balance Sheets
- Profit and Loss Statements
- Assumptions

Personal Financial Statement

Obtain a blank personal financial statement and complete it as thoroughly as possible. Detail all:

- Personal Assets (Individual and Jointly Held):
 - Cash and Liquid Investments
 - Cash surrender of life insurance
 - Vehicles and recreational equipment
 - Personal residence
- Personal Liabilities (Individual and Jointly Held):
 - Mortgages
 - Installment Loans
 - Credit Cards

Personal Financial Information

- Obtain a credit report(s)
- An acceptable credit score varies per bank but the minimum acceptable score by most banks is 660
- Review for errors and contact any creditors
- Do this ASAP because it may take 6 months to get a credit report(s) corrected

Executive Summary

It appears first, write it last – be brief, no longer than one page:

- Name of business and owners
- Mission Statement
- Company Information
- Description of the industry and business
- Your product and advantages in the market place
- Your target market, marketing and growth strategies
- Your experience and background
- Projected sales and profits
- How much financing is needed
- How and when the financing will be repaid

Write concisely, give only the highlights but make it compelling