

WRITING A BUSINESS PLAN

No matter what kind or size of business you are starting, it is very important to create a business plan. It will be your road map to success. It communicates your understanding of the business and it makes reasonable assumptions and forecasts of sales, expenses, and cash flow.

When writing your business plan, it is important to keep in mind for whom you are writing it. If you are writing a business plan for an investor or a bank you should assume that they know nothing about your business and industry. Also, keep your business plan short and to the point. If you were a loan officer, would you rather read a sixty-page plan or a seven-page plan? Bankers and investors want just the facts - all of the facts - but just the facts. If, on the other hand, you are writing a business plan just for yourself, you should construct it to suit your needs. It should indicate your goals and what strategies you will put in place to achieve the goals.

If you are writing a business plan for an investor or a bank, the following information and format is recommended (Note: This information is also important for an informal business plan).

EXECUTIVE SUMMARY

This is a one page summary of your business plan. It should include:

- A very short history of the business.
- The amount and type of financing required.
- The amount of equity (money) already invested and collateral offered.
- The purpose for which the money will be used.
- A very short summary of owner experience in industry and business viability.

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The table of contents lists the major divisions of your plan. The page numbers where each section begins should also be indicated.

- I. The Business
- II. Products/Services Offered
- III. Market Analysis
- IV. Marketing Plan
- V. Management and Personnel
- VI. Financial Data
 - A. Sources and Uses of Funds
 - B. Balance Sheet
 - C. Cash Flow Projection
 - D. Financial Assumptions
- VII. Appendices and Supporting Documents

THE BUSINESS

This section describes your business and the industry you are in. It should include :

- The current status of the business (start-up, existing, acquisition).
- The business structure (sole-proprietor, corporation) and ownership structure.
- Products/services your business offers.
- Suppliers of your products.
- What differentiates your business from your competitors.
- Description of business location and hours of operation.
- Short and long term goals.

PRODUCTS/SERVICES OFFERED

This section describes the products and/or services that your business provides. It should be written so that a lay person can easily understand. Write a short paragraph about your primary products/services and indicate:

- A short description of products/services.
- Price structure of the product/service.
- Percentage of total gross sales that the product/service comprises.
- Which products/services are the most profitable.
- Any changes you foresee.

You should also include a list of other products/services and any special or unique features.

MARKET ANALYSIS

This section is one of the most important. It is imperative that you demonstrate that you are knowledgeable about your business's environment. The primary components of this section are:

The Industry -

- What specific industry are you in?
- What are the major trends?
- Is the industry in a growth phase?

Hint: Trade associations are great sources of industry information.

Your Customers -

- Who are your customers? (individuals, small businesses, etc.)
- What is their demographic makeup? (age, sex, profession, etc.)

Market Size -

- What is your market area? (Example: 20 mile radius of Waldorf)
- How many potential customers are within your market area?

Competition -

Write a short paragraph on each of your primary competitors and discuss:

- How long they've been in business.
- Approximately how much business they do.
- Their strengths and weaknesses.
- Why customers will go to you instead of your competitor.

MARKETING PLAN

Now that you have identified your target market, this section allows you to explain how you will get these customers to purchase your products or services. You should write a short paragraph on each method of advertising and include:

- A short description of the advertising method (flyers, radio spots, newspaper ads, etc.).
- The frequency that it will be used.
- The cost of the method of advertising.
- How many potential customers will be reached.

MANAGEMENT AND PERSONNEL

Your business is only as strong as the people running it. This section showcases the key members of your team and their responsibilities. A short paragraph should be written on each position in your company. Include for each position:

- The position title.
- The name of the person in the position.
- A short description of the person's business background and experience.
- A description of the person's responsibilities.

For less significant positions or positions that are not yet filled, only the position title and description are necessary. You will also want to include your team of professionals; your accountant, attorney, SBDC counselor, etc.

Tip: Organizational charts are very helpful.

FINANCIAL DATA

This is the most important part of your plan. The discussions contained in the other sections of this plan should be reflected in the financial information.

Sources and Uses of Funds

This basically states where the businesses funds will come from and where they will be spent. It should look similar to this:

Sources:

Cash from owner.....	\$ _____
Investor contribution.....	\$ _____
Bank Loan.....	\$ _____
Total.....	\$ _____

Uses:

Remodel Space	\$ _____
Equipment	\$ _____
Rent Deposit	\$ _____
Utilities Deposits	\$ _____
Office Supplies.....	\$ _____
Initial Inventory.....	\$ _____
Working Capital.....	\$ _____
Total.....	\$ _____

The totals of the sources and uses of funds must be equal.

Balance Sheet

The balance sheet states the businesses assets, liabilities, and net worth. It is a snapshot in time of your business's financial strength. It should look like this:

Assets:

Cash	\$ _____
Accounts Receivable	\$ _____
Inventory	\$ _____
Real Estate	\$ _____
Fixtures, Equipment.....	\$ _____
Other Assets	\$ _____
Total.....	\$ _____

Liabilities:

Short-Term Notes Payable	\$ _____
Accounts Payable	\$ _____
Taxes Owed.....	\$ _____
Long-Term Notes Payable	\$ _____
Total.....	\$ _____

Net Worth:.....\$ _____

Total Assets minus total Liabilities must equal Net Worth.

Cash Flow Projection

The cash flow projection shows how cash flows into and out of your business on a monthly basis. This table will be of particular interest to the bank as it shows that your business will have the ability to make regular monthly note payments in addition to your other expenses. (See sample plan)

Financial Assumptions

This section explains how you came up with the numbers in your cash flow projection. You can't just pull numbers out of the air; they must be validated by your research. Any category that would not be obvious to the reader should be explained. An example of this section would look like this:

Gross Sales - Projected sales are based on (1) the average sales of four hardware stores in our same market area, (2) national average of gross sales per square foot for hardware stores, and (3) independent surveys of 12 hardware stores in similar demographic areas.

Cost of Goods Sold - The cost of goods is based on an 80% average markup on inventory.

Payroll - Payroll expense includes a \$24,000 salary for the owner (\$2000/mo.), and two part-time clerks working 20 hours per week at \$6.00 per hour.

At the end of the assumptions page, discuss the potential risks (new competitors, new technologies, bad weather, etc.) your business could face and how you plan to deal with these risks, if applicable.

APPENDICES AND SUPPORTING DOCUMENTS

This section should contain any other relevant information regarding your business. It should include:

- Corporate, LLC, or partnership documentation.
- Owner Resumes
- Letters of recommendation
- Copies of leases, contracts, building blueprints, etc.
- Owner personal financial statements
- Two years of owner's personal tax returns
- Three years of business tax returns (if existing business)

Bob's Hot Dogs

Sample Business Plan

August, 2000
Bob Smith
Waldorf, MD
(301) 934-7583

PERSONAL AND CONFIDENTIAL

EXECUTIVE SUMMARY

In April, 2000, Bob Smith established Smith Enterprises, Inc. (a Maryland Sub-S corporation) with the intentions of launching a hot dog restaurant to be located in Waldorf, MD. Plans are in place to call it "Bob's Hot Dogs".

In order to make this venture possible, Mr. Smith is seeking a \$50,000 loan that will be used to remodel the potential site, purchase equipment, purchase inventory, and provide some working capital. Mr. Smith will be investing \$20,000 of his own funds and has one investor that has committed to \$20,000. The investor will own 20% of the stock in exchange for the investment.

The collateral for the loan will include all business assets of Smith Enterprises, Inc. and Bob's Hot Dogs plus his personal residence located in La Plata, MD. The home was recently valued at \$185,000 and has a first mortgage balance of \$108,000. There is currently no other debt on the home. Mr. Smith will also personally guarantee.

Bob Smith has been employed at Best Hot Dogs in La Plata, MD since October, 1991. He has been the store manager for the past 4 years after handling various positions including cashier and assistant manager. He knows the business inside and out and is extremely excited about the prospects of this new opportunity.

After studying the feasibility of this venture, Mr. Smith feels very satisfied with its safety and potential for profit. He has made conservative projections based on his experience in the field, hot dog restaurant industry averages, and historical information from other hot dog restaurants in this same market area.

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I. THE BUSINESS

Bob's Hot Dogs will begin operations in October, 2000 under the corporation named Smith Enterprises, Inc. The corporation was created April 4, 2000 in Maryland as a Subchapter-S status. Two individuals, Bob Smith (80%) and Larry Edwards (20%, as the silent investor) will own all 1000 shares of the corporation.

Bob's Hot Dogs will specialize in several types of hot dogs and sausages served on various buns. Bob's original chili sauce will make the sandwiches unique and separate Bob's from the competition.

The business will be located at 1709 Crain Highway (Route 301) in Waldorf, MD. The location is prime because it is on the southbound side of Route 301. This will make it convenient for commuters to stop and pick up dinner on their way home from their jobs in Washington, DC/Northern Virginia. The location has a daily traffic count of 55,000 vehicles, and it is in the center of the county's fastest growing market.

The facility Bob's will use a 1500 square foot, stand-alone building. It was previously a yogurt store that ceased operations when the owner retired in late 1999. About 1000 square feet will comprise the cooking and storage area. The remaining 500 square feet will be designated for the counter line and for 5 four-person tables. Outdoor seating will consist of six circular picnic tables covered with umbrellas located just outside the main entrance.

Food, soda, and snack items will be purchased through Gallagher Food Services, Inc. (Lancaster, PA), Johnson Produce (Fairfax, VA), and Pepsi. All of the distributors have been in business in excess of five years and have very good reputations throughout the industry. Food will be received at least three times per week to insure freshness.

The planned hours of operation will be Sunday through Thursday from 11:00 A.M. to 11:00 P.M. and Friday and Saturday from 11:00 A.M. to 12:00 midnight. These hours are subject to change based on sales and customer demands.

Mr. Smith will be an on-site owner and manager working various shifts, however, he will need to hire a part-time manager. Mr. Smith's experience and shift work will allow him to closely monitor employees, interact with customers, and monitor food waste - thus enable him to control labor costs and food costs resulting in better profit margins.

II. PRODUCTS AND SERVICES OFFERED

The primary products to be sold at Bob's Hot Dogs will be regular and foot-long hot dogs, bratwursts, Italian sausages, kielbasas, and barbecue served on specialty homemade buns. Bob's will also offer side dishes and deserts such as coleslaw, French fries, onion rings, potato chips, and cookies.

It is expected that Bob's regular and foot-long hot dogs will be the most popular menu item - making up approximately 40 percent of gross sales. These items have the highest profit margin. Bob's hot dogs, as well as the other meat sandwiches, can be ordered with Bob's own spicy chili sauce, sauerkraut, and/or German mustard. Other condiments available include ketchup, relish, onions, and green peppers.

The bratwursts, Italian sausages, and kielbasas menu items should make up approximately 25 percent of sales and are slightly less profitable than hot dogs because of higher costs.

Also included on Bob's menu will be chili and barbecue sandwiches. Both of these items should make up about 10 percent of gross sales. These items are less profitable but are offered to diversify Bob's menu and reach a larger customer base.

Bob's Hot Dogs will also offer french fries, onion rings, potato chips, and cookies. These products should account for around 25 percent of sales. They have an above average markup and will be suggested to everyone that places an order. The fries and onion rings will be cut and seasoned with Bob's own special seasonings. The cookies (four varieties) will be baked fresh daily.

All food products will be fresh with supplies coming in to the store three days per week. They will be inspected upon arrival to insure quality and freshness.

Customer service is an extremely important aspect of a business's ability to attract and keep customers. Our employees will be focused on producing a quality product and pleasing the customer. Excellent customer service with a quality, reasonably priced product, will be the key to the success of Bob's Hot Dogs.

III. MARKET ANALYSIS

The hot dog restaurant industry continues to grow. U.S. consumers now spend a whopping 44 million dollars per year on hot dogs. During the period 1993 to 1996, the U.S. hot dog market grew at 53%. This has generated a boom in hot dog restaurant openings over the last two years (Source: National Restaurant Association).

According to NPD's CREST figures, a recognized national marketing research firm that analyzes food purchases, both sales and traffic for hot dog stands rose 10% in 1996, 8% in 1997, and 9% in 1998. This is better than double the growth achieved by the restaurant industry as a whole.

One of the best things about the hot dog market is that it targets just about anyone who can eat. The primary customers are children over two through individuals in their mid-50's. People over this age generally have more restrictive diets.

The market area that Bob's Hot Dogs will be based on a 15-mile radius of Waldorf, MD. The population within that market area is 104,750 and the average household income is \$48,514. These figures are likely to continue to grow due to the continued expansion of the Patuxent River Naval Air Station in Lexington Park and the new housing starts in the Waldorf area. According to the State Highway Administration, the traffic count on Crain Highway at the proposed Bob's location is 55,000 cars per day.

Some of Bob's key competitors in the area include Best Hot Dogs (La Plata), Dog and Draft (Waldorf), Big Dogs (Waldorf), and the fast food chain restaurants.

Dog and Draft is a larger freestanding restaurant located on St. Patrick's Drive. They offer similar products but charge an average of 15% more for food as they do also sell beer. Their strength is a very nice dining area which seats up to 50 people. Big Dogs generates approximately \$24,000 per month in gross sales based on personal customer flow observations.

Best Hot Dogs (La Plata) and Big Dogs (Waldorf) are a hot dog stands similar in size to the proposed Bob's Hot Dogs. La Plata is demographically much smaller than Waldorf and is located about 10 minutes south. Both businesses have similar prices and similar food quality. Big Dogs has suffered from poor customer service over the years. Best Hot Dogs smaller customer market currently limits its growth potential, but has excellent service. It is estimated that Big Dogs averages about \$16,000 in gross sales per month while Best averages \$12,000.

Fast food chain restaurants such as McDonalds, Burger King, Subway, and Checkers are also competitors. While they do not offer the same products, they still compete for the same market share. These stores have the advantage of

national marketing campaigns and are relatively inexpensive. Gross incomes of these stores vary substantially.

IV. MARKETING PLAN

Bob's Hot Dogs will use a variety of methods to advertise including direct mailings, flyers, mailer coupons, and door hanger menus. Initially, each customer will receive a coupon for discounts for future purchases.

Bob's Hot Dogs plans an innovative customer survey card and/or visitor log that will enable it to set up a database of customers that will be used to generate mailing lists. This will enable Bob's to send direct mail coupons to previous customers. This is the most effective method of advertising because it hits families that are more likely to purchase hot dogs from Bob's Hot Dogs. Bob's plans to mail out 1000 pieces per month at a cost of approximately \$200 per 1000.

Another method of advertising to be used is to create a door hanger "Bob's Hot Dogs menu" plus flyers to be used in local neighborhoods where local zoning laws allow. This is very cost-effective since the only expense is the marketing pieces themselves. We anticipate distributing 2000 of these pieces per month at a total cost of \$220.

The third primary area of advertising will be our participation in the Mailbox Mailer coupon program. Mailbox Mailer sends a variety of coupons in the mail to 15,000 homes per month. The cost is \$600 per month with a one-year contract.

Other areas of advertising will be implemented after the business is more established. We plan to sponsor events at local schools and social functions as well as distribute menus to the area hotels whenever possible.

Obviously, quality customer service with quality product is an extremely important aspect of any food business's ability to attract and keep customers. The employees must be mentally and physically focused on producing a quality product and pleasing the customer.

V. MANAGEMENT AND PERSONNEL

Owner/Operator - Bob Smith: Bob will be responsible for the day to day operations of Bob's Hot Dogs. He will perform such duties as purchasing, budgeting, record management, payroll, and quality assurance. Bob graduated from the University of Maryland with a B.A. in Management. After 4 years of government service, he has worked in the restaurant industry for six years in a variety of positions. He has been the manager of Best Hot Dogs in La Plata, MD for the past 3 years. Bob will draw a salary of \$32,000 per year.

Assistant Manager - Jerry Wiley: Jerry will be responsible for personnel management including scheduling, training, and hiring. He will also handle some records management and payroll. Bob Smith has known Jerry for over 10 years. Jerry has been in the restaurant industry for four years and was store manager for the past year at Burgers-Fast in Indian Head, MD. Jerry will receive a salary of \$21,000 per year.

Other Staff - Bob's Hot Dogs will also hire 6 part-time cooks and 8 part-time cashiers. These positions will only require that the employee be 16 years of age. Recruitment efforts will be high as turnover for these positions is frequent. These employees will receive between \$5.50 and \$9.00 per hour depending on work shifts and experience.

Team of Professional Advisors

Accountant -----	Jim Edmonds, CPA
Attorney-----	Robert Hutchings
Business Consultant-----	Joe McGinnis, SBDC
Restaurant Advisor -----	Mark Lewis

VI. FINANCIAL INFORMATION

SOURCES AND USES OF FUNDS

SOURCES:

Owner's Capital	\$20,000.00
Investor Capital	\$20,000.00
Bank Loan	<u>\$50,000.00</u>
--Total.....	\$90,000.00

USES:

Remodel Facility	\$38,500.00
Purchase Equipment.....	\$27,700.00
Purchase Smallwares	\$2,000.00
Security System	\$1,400.00
Initial Inventory	\$2,000.00
Office Supplies.....	\$250.00
Rent Deposit.....	\$3,325.00
Electric Deposit.....	\$700.00
Water and Sewer Deposit.....	\$400.00
Gas Deposit.....	\$650.00
Telephone Deposit	\$275.00
First Payroll.....	\$2,300.00
Liability Insurance	\$1500.00
Grand Opening Advertising.....	\$2,500.00
Legal and Professional Fees.....	\$800.00
Miscellaneous Expenses	\$500.00
Working Capital.....	<u>\$5,200.00</u>
--Total.....	\$90,000.00

Cash Flow Projections - 2003

	Startup	January	February	March	April	May	June	July	August	September
Cash (Month Beginning)	40000	5200	7170	8201	8691	8806	9599	10547	11649	12751
INCOME										
Cash Sales	0	21000	18000	16000	16000	16500	17000	17500	17500	17000
Other Income	0	150	100	100	100	100	100	100	100	100
Bank Loan	50000	0	0	0	0	0	0	0	0	0
TOTAL INCOME	50000	21150	18100	16100	16100	16600	17100	17600	17600	17100
EXPENSES										
Cost of Goods Sold	2000	7403	6335	5635	5635	5810	5985	6160	6160	5985
Payroll	2000	5922	5068	4508	4508	4648	4788	4928	4928	4788
Payroll Taxes/Benefits	300	888	760	676	676	697	718	739	739	718
Insurance	1500	0	0	0	0	0	0	0	0	0
Office Supplies	250	25	25	25	25	25	25	25	25	25
Advertising	2500	423	362	322	322	332	342	352	352	342
Gas	650	425	425	350	225	200	200	200	200	200
Electric	700	450	450	450	450	450	450	450	450	450
Water & Sewer	400	85	85	85	85	85	85	85	85	85
Telephone	275	115	115	115	115	115	115	115	115	115
Repairs & Maintenance	0	400	400	400	400	400	400	400	400	400
Legal & Accounting	800	75	75	75	75	75	75	75	75	75
Rent	3325	1500	1500	1500	1500	1500	1500	1500	1500	1500
Security System	1400	45	45	45	45	45	45	45	45	45
Loan Repayment	0	1074	1074	1074	1074	1074	1074	1074	1074	1074
Purchase Equipment	27700	0	0	0	0	0	0	0	0	0
Purchase Smallwares	2000	0	0	0	0	0	0	0	0	0
Remodel Facility	38500	0	0	0	0	0	0	0	0	0
Other Cash Expenses	500	350	350	350	350	350	350	350	350	350
TOTAL EXPENSES	84800	19180	17069	15610	15485	15806	16152	16498	16498	16152
Cash On Hand (Month End)	5200	7170	8201	8691	8806	9599	10547	11640	12751	13699

FINANCIAL ASSUMPTIONS

Cash Sales - Projected gross sales are based on the average of the monthly sales of three local hot dog restaurants, the National Restaurant Associations industry survey of sales per square foot for hot dog restaurants, and the average monthly sales of eight miscellaneous hot dog restaurants with similar market demographics as Waldorf in the mid-Atlantic region.

Other Income - This accounts for Bob's jukebox revenues.

Cost of Goods Sold - This figure is based on 35% of Cash Sales which is the hot dog restaurant industry average.

Payroll - This is based on one full-time owner/manager, one assistant manager, six part-time cooks, and six part-time cashiers according to the labor schedule located in the Appendix of this plan.

Payroll Taxes/Benefits - This number is calculated at 15% of the Payroll expense. It accounts for FICA, FUTA, and workman's compensation benefits.

Insurance - This is for liability insurance and was quoted by Kemper Business Insurance.

Advertising - After a large Grand Opening advertising campaign, Bob's will spend 2% of gross sales on advertising. See Approach to Selling section of this plan for more detail.

Gas, Electric, Water & Sewer, and Telephone - These are estimates obtained from the respective utility companies for the Bob's Hot Dogs facility.

Loan Repayment - This was calculated based on a loan of \$50,000 financed at 10.5% for five years.

Purchase Equipment and Purchase Smallwares - A list of equipment and smallwares and their prices can be found in the Appendix of this plan.

Remodel Facility - This is based on a quote from H & H Contractors for completely remodeling the Bob's Hot Dogs facility.

Other Cash Expenses - These are expenses not budgeted for that do not fit into any of the above categories.