

So you want to start a
Food Business – Here are
some fundamentals to
get you started!!

Starting a Food Business – Business Planning Process



Doolarie Singh-Knights, PhD
WVU Extension Service
Morgantown, West Virginia

Starting a Food Business – Business Planning Process

You may be surprised to find that starting a food business is not as simple as it may sound. Starting a new business is especially exciting but also stressful. Like any small business, food enterprises require careful planning, dedication, and skilled management to be successful. But the food business is unique when compared to most other types of businesses. The food you produce can have a direct effect on your customers' health and safety.

This publication however, will deal only with the business side of things – the business planning process for starting and operating a financially successful business. Later publications will deal with other issues involved in starting a food business, such as the health and safety aspects.

This publication lays out modules addressing specific issues for guiding you through the business planning process of starting a small food business. Should you need more information or have additional questions, you may contact the author at 304-293-7606 or at dosingh-knights@mail.wvu.edu.

Module 1 – Am I a Food Entrepreneur

Introduction¹

The ability to cook, bake or can like Grandma is not a guarantee of commercial success. Knowing how to cook and starting a business are two different things. You may have mastered the art of cooking by perfecting family recipes at home or in culinary school, but your next step is to learn how to start and operate a successful small business. Starting a food business is not as simple as it may sound. Starting a new business is especially exciting but also stressful.

Do you have what it takes to be an entrepreneur? This introductory module provides questions for you to think about as you explore starting a food business. We define an entrepreneur as someone that exploits ideas by matching them to market needs and designing a business model that makes the business idea profitable. Successful entrepreneurs package and sell their product, just like everyone else, but they also market their information so that people will pay for it. They are creative and willing to take risks to enhance their product offering.

The pros and cons of starting and running your own food business

Pros of Starting your own Business

- ◊ Empowerment and being your own boss.
- ◊ Creating your own work environment: hours, flexibility, etc.
- ◊ Doing something in which you believe
- ◊ Reaping the benefits of hard work and long hours directly.
- ◊ Variety, challenges, opportunities for creativity,
- ◊ More open earning and growth potential
- ◊ Satisfaction of a successful venture, a product well received

Cons of Starting your own Business

- ◊ Emotional and financial risk of failure
- ◊ Time Commitment — 60-70 hrs per week is normal
- ◊ Financial strain as assets become tied up in the business
- ◊ Strain on family due to financial and lifestyle change
- ◊ Emotional burnout
- ◊ Unavoidable business roles/requirements you'd rather not fill
- ◊ Rejection of your product by consumers

¹ Adapted from the Northeast Center for Food Entrepreneurship "Small Scale Food Entrepreneurship: A Technical Guide for Food Ventures", First Edition. June 2001.

If you are considering business ownership, one of the first question to ask is “Do the potential benefits outweigh the potential costs?” You must be able to balance the benefits of starting your own business with the drawbacks, and prepare yourself for the road ahead. If you think the benefits of entrepreneurship outweigh the costs for you, you also need to consider if you have (or can access) what it takes to run a successful small business.

Consider the following checklist as a guide to determine your readiness to start a new business venture.

A Preliminary Checklist of Things to Consider Before Starting a Business²

- ❖ Are you prepared?
 - Have you worked for a business similar to the one you would like to start?
 - Do you have managerial experience?
 - Have you had business training or experience?
 - Why do you want this business? Do you have a vision or purpose?
 - Are you willing to work long hours without knowing how much money you will earn?
- ❖ Do you have sufficient money?
 - Do you know how much money you need to start your business?
 - Have you talked to a banker about your plans?
 - Do you know how much of your own money you can put into your business?
 - Do you know where to get supplies and/or ingredients?
 - Can you get credit from your suppliers?
 - Do you know what your anticipated salary and profits will be after subtracting your business expenses?
 - Can you live on that amount or less?
- ❖ Have you considered what merchandise you will offer?
 - Do you know exactly what products and/or services you plan to sell?
 - Will you sell to a commodity market or sell a value-added product?
 - Do you know how much or how many you plan to sell to return a profit given your investment?

² Adapted from the Minnesota Department of Agriculture “Starting a Food Business in Minnesota,” January 1998.

- Have you compared prices of other products similar to yours?
- Have customers demonstrated a desire for this product?
- Do you know how to establish the price for each item you sell?
- Do you know how much your competitors charge for their products and services?
- Can your customers buy on credit?
- Do you know the good and bad points about joining a credit-card plan?
- ❖ *Do you need a business partner?*
 - Do you know the good and bad points about having your own business versus sharing equity with a business partner?
 - Do you have a partner in mind who could bring money and experience to your business?
- ❖ *Have you secured a good location for your business?*
 - Is your business located close to your customers?
 - Can you efficiently access supplies from your location?
 - Have you considered the location of your business relative to competitors?
 - Have you considered local incentive programs for business start-ups in specific targeted areas?
- ❖ *Have you secured a Building or Suitable Business Space?*
 - Have you found a good building for your food business?
 - Will you have enough room for expansion?
 - Can you afford to alter the space?
 - Have you had a lawyer check the lease and zoning requirements?
 - Is the building safe and convenient (traffic, accessibility, parking, loading and lighting)
 - Do you know the pros and cons of buying versus leasing versus building a building?
 - Has the building been recently inspected and approved by a regulatory agency?
- ❖ *Have you looked at what equipment and supplies you will need?*
 - Do you know what equipment and supplies you will need?
 - Have you found suppliers who will sell you what you need at a reasonable price?

- Have you compared prices and credit terms of various suppliers?
- Do you know how much your equipment and supplies will cost?
- Will you save money by buying secondhand equipment?
- ❖ Do you know how to keep appropriate and accurate records?
 - Have you created a system of records to keep track of income, expenses and profitability?
 - Have you developed a plan to manage inventory so you always will have enough on hand for your customers, but not more than you can sell?
 - Have you developed a method to keep payroll records and take care of tax reports and payments?
 - Do you know all the various financial statements you will need to prepare throughout the year, and how to use them to make better business decisions?
 - Do you know a good accountant who will help you with developing and using your records and financial statements?
- ❖ Do you know which food business licenses and laws apply to you?
 - Do you know which licenses and permits you will need?
 - Do you know the various business laws you will have to obey?
 - Do you know a good lawyer you can use to help with legal matters?
- ❖ Have you considered ways to protect your business?
 - Have you made plans for protecting your business against thefts of all kinds?
 - Have you considered getting a patent, trademark or copyright for any aspect of your business?
 - Have you talked with an insurance agent to discuss the type(s) of insurance your business will need?
- ❖ Have you considered how others will know about your business?
 - Do you have a marketing plan for reaching your customers?
 - Do you know how you will promote your product, including newer strategies such as websites and social media?
 - Do you know what promotion tactics other food businesses in the area use to get people to patronize them?
 - Do you know where to get help with your efforts?
- ❖ Do you know how to hire the right employees?

- Do you know what kind of employees you will need?
- Do you know where to look for appropriate hired help?
- Do you know the salary requirements for your employees?
- Do you know the laws and regulations you need to follow for employees?

Have you answered “yes” to all of the previous questions? If not, you may need to do more research. Identify the questions you did not check and develop goals to help you address the entire checklist before starting your new business. Don’t be afraid to ask for assistance from others who can help accomplish your goals.

Even if you have carefully completed the checklist above, this does not guarantee you will have a successful business. Starting a new business involves taking risks and facing tough business decisions. Careful planning and preparation can increase the odds that your business will survive beyond its first few years. It is impossible to anticipate every challenge you will encounter, but here are some broad suggestions to follow to avoid the major pitfalls of starting a business.

How to Avoid the Pitfalls of Starting your own Business

Once you have decided to start your own food business, there are a number of things you can do to minimize risk and maximize your chance of a successful, rewarding venture. If you look at why businesses fail, it is usually because managers fail to identify real business opportunities and take advantage of them, or they don’t anticipate and adapt to critical changes, or they don’t recognize or minimize the real threats to their business. Here are some general suggestions from successful entrepreneurs:

- Develop a business plan – A business plan helps you plan how to turn a great product and service into a successful business model. You need to have the right people, the right strategies, and timely access to financial resources in order to have a successful business.
- Develop and use your business plan - Regularly review your business plan to remind yourself of goals and maintain focus. Grow your business at a pace you are comfortable with and in keeping with your vision for the business.
- Develop and use your marketing plan – Your marketing plan is part of your overall business plan. It lays out the strategies to best serve your customer and reminds you that everything you do in your business should revolve around satisfying the customer.
- Develop and use your financial plan – Your financial plan is part of your overall business plan, and can be thought of as a numerical description of your marketing plan. Your financial plan lays out the estimated start-up and operating cost of running the business (or executing the marketing strategy) and the expected returns.

- Focusing on all areas of your business - Business success involves three main areas: sales and marketing, finance and administration, and operations. You have to keep all three working and growing in unison, not just the area you're good at.
- Learn and follow food regulations and requirements for you specific operation. This minimizes liability concerns and builds consumer confidence in your business.
- Maintain accurate, current records and utilize these records to enhance your business decisions. Conduct regular financial analyses and make necessary adjustments.
- Learn to anticipate problems and promptly take steps to avoid or resolve them. Being proactive will help avoid unnecessary business interruptions.
- Build customer relationships – Focus on building long-term, income-generating relationships with your customers.
- Maintain separation between your personal life (and finances) and your business life.

Module 2 – What Product Am I Selling?

Identify your Product

One of the first business considerations is to determine what you can feasibly sell to make money. The product(s) you choose must be something you are good at and can produce affordably, and something that people will want to buy continuously. You also need to match your own strengths and weaknesses and your resources to any unfulfilled needs or desires or emerging business opportunities that may surface.

Developing your Product

You need to be able to produce a product that:

- will satisfy a consumer need;
- is colorful, attractive, and conveniently packaged;
- returns a profit with acceptable investments;
- is of high quality and adhere to food standards and regulations;
- is suitable for larger scale/commercial production;
- is consistent in color, appearance, texture, flavor;
- has adequate shelf life and that sellers/buyers are aware of the storing temperature and environmental conditions for the product; and
- has passed the taste test for commercial potential - develop a prototype and test it out on people.

Preparing your Products

Do you have the production technology to develop the product – bake, cook, store, package, transport? It is important to ensure you are in compliance with government regulations with respect to drainage, ventilation, waste disposal, lighting, equipment size and flow, energy conservation, safety, sanitation, ease of cleaning, and storage area. Consistency is an essential element in the food business. You may need to establish processing controls to ensure consistent quality during production, particularly if you have employees or family members helping you out.

Government Regulations

The exact state and local agencies that you will need to contact depends upon the type of business, type of facility and the location of your business. The federal agencies responsible for food safety are the Food and Drug Administration (FDA) and the U.S. Department of Agriculture (USDA). Some food businesses are required to have an owner or employee obtain special food handling training to become a Certified Food Handler. Even mobile businesses have special requirements. Be sure to know the requirement for your type of business in your area.

Module 3 – Marketing Research and Marketing your Product

So you have a great product, that's great, but keep in mind businesses need more than a great product to be successful - a high percentage of home-based food businesses fail their first year because they didn't have a market to support their product. Successful small businesses understand that all business policies and activities should be directed toward satisfying their customer wants or needs. They understand that profitable sales volume is more important than maximum sales volume - this means, they concentrate their efforts on one or a few key market segments - *target marketing* - to get the most return from limited investments. So how do they determine who their customers are/will be and which customers they should target to get the most bang for their business bucks?

Market research will give you the data you need to identify and reach your target market at a price customers are willing to pay. Marketing research is the systematic gathering, recording and analyzing of data to answer questions relating to the marketing of goods and services. It permits entrepreneurs to:

- ✓ Identify new or potential opportunities
- ✓ Spot current and upcoming problems in the current market
- ✓ Reduce business risks
- ✓ Develop plans of action

Collecting marketing research may be as simple as talking to your customers, and this is where small businesses have a distinct advantage over larger businesses. In talking to your customers you can find out things like - who are my customers and potential customers; can and will they buy my product; why do they buy my product; are my business strategies working; and how does my business compare with my competitors?

Alternatively, collecting market research can be a complex, formal process of hiring a professional market research firm to conduct primary research (original information) to help you develop a marketing strategy to launch a new product or expand an existing business. Whether you choose a simple or complex process, to conduct marketing research, you must gather *facts and opinions in an orderly, objective way* to find out what people want to buy, not just what you want to sell them. Your market research budget is a portion of your overall marketing budget - you may want to dedicate about 2% of your gross sales to marketing research every year.

Once you have valuable market research information about your customers, you need to use this information to develop a good marketing strategy to focus on the target markets you can serve best. *A marketing strategy identifies target*

customers that a particular business can better serve than its competitors, and tailors product offerings, prices, distribution, promotional efforts and services toward those target customers. The strategy should address unmet customer needs that offer adequate potential profitability. These target customers can be segmented in different ways – having a **geographic segment** means you will concentrate your efforts to serving the needs of customers in a specific geographic area; and having a **customer segment** means you will focus on meeting the needs of customers with similar characteristics.

- **Geographical Segment** - A local sandwich shop puts fliers in everyone's mailbox within a ten-mile radius of the sandwich shop.
- **Customer Segment** – A local sandwich shop serves only organically-grown products and their fliers target health- and environmentally-conscious individuals.

Once you have identified your target market, you should turn your attention to tailoring your product offerings, prices, distribution, promotional efforts and services toward those target customers. To do this, there are *four sets of variables* to

A product is not a product unless it sells; otherwise it's a museum piece.

consider - your **marketing mix** - *these are variables within your control that you can manipulate to better match your business offerings to the needs of your consumers.* Let us take a closer look at the elements of your marketing mix.

➤ Product

Your product or service is basically the customer value your business offers. When it comes to deciding what products or services to offer, there are many choices: selling something that already exists; making something that someone asks for; anticipating something that someone will ask for; or making something that no one has asked for but that will give buyers great delight. Remember though, a product is not a product unless it sells (unless it fulfills some need or gives customers value for their money); otherwise it's a museum piece.

Good products are invented in the production department; but great products are invented in the marketing department!

It is not always the best product that wins the market (Product – just part of the marketing mix). Good products are invented in the production department; but great products are invented in the marketing department! Most successful businesses so not simply sell a product/service, they sell an experience. Harley Davidson sells more than just a motorcycle; they sell ownership experience (membership in a community, adventure tours, sells a lifestyle, tells you how to use your product to prolong its life and enhance your safety; the total product far exceeds the

motorcycle). Cabela's Sports Outfitters sells more than sporting goods – they sell the ultimate sporting experience. So consider everything that you offer as part of your product – the packaging, the price, the ambience of your store, and above all, your customer service!

➤ Price

The price of a product can make the difference between success and failure. The price to charge for a product or service can support its positioning; what consumers think of your product/service. Good prices make customers think they are getting their money's worth and make you think you are getting a fair return on your investment of time and money. Likewise a pricing which appears to be out of sync with the product and with the other marketing elements will only confuse customers and hence lead to lower sales.

Pricing your product to ensure a desired image in the customer's mind should be based on the firm's *competitive advantage* – *the set of competencies where the firm has a clear and distinct advantage*. You can build a competitive advantage through differential advantage (providing unique products and services) or through cost advantage (offering comparable products and services at cheaper prices).

Inevitably, business owners often ask, "How much can you charge?" Consider comparable commercial products, prices charged by others in your community for similar products, the company's desired image, and "what the traffic will bear." Consult business people in the community. Prices should reflect all fixed and variable expenses in the business and provide what you consider a reasonable profit. Keep prices competitive and in a range that customers are willing to pay.

Module 4 will outline some pricing strategies to consider.

➤ Place

Place is the element of the marketing mix that describes how you will move or distribute your product or service so that it is convenient for customers to gain access. It is important to select a distribution channel that works best for your business (your individual preference and the product/service being offered). Your marketing or distribution strategy will depend on the type of product you are selling. The method of distributions is the basis for other decisions including price, size of container, packaging, etc. It is important to start small and grow as you learn.

You can choose to directly market your product/service or indirectly market through a wholesalers, retailers or agents (used mostly in international markets). These different distribution channels can provide different levels of

profitability and they can quite happily run alongside each other provided a well thought through pricing strategy has been decided upon.

For example a consumer is likely to want only one variant of your product and expect to purchase it immediately. A retailer is likely to want limited stock of a number of variants and not expect to pay for 60 days. A distributor is looking at large volumes of product in all its variants at greatly discounted rates. Your distribution policy needs to take account of these variables - you need to consider the fact that your 'customer' might be a consumer, a retailer or a distributor and that each of these customers will perhaps be looking for different features or different levels of service.

Direct marketing via the internet offers a new "Place" to many business owners. It has enabled many middlemen to be bypassed resulting in a price advantage to be offered to the customer followed by the inevitable increase in volume for the seller. This could be selling direct to your consumer and missing out the retailer, or it could be direct to your retailer, missing out the wholesaler.

If you are looking to commercialize your product, a good spring board is institutional trade; look for one that sells to other retail outlets and smaller chains. Remember, selling in large retail stores required you to get a Universal Product Code (UPC) displayed on your label from the Uniform Product Code Council.

➤ Promotion

Promotion is the communications aspect of the marketing mix that includes whatever is done to tell the public or potential customers about your product or service. Promotion is vital to a business's success. A business that does no promotion is like 'winking at a girl in the dark' – you know what you are doing but no one else does! Some promotion strategies include written publicity, news releases, demonstrations or talks to local groups, posters, free samples, displays, brochures or catalogs, and advertising. So promotion does not have to be very expensive, but you must invest in it.

Promotion is vital to a business's success. A business that does no promotion is like 'winking at a girl in the dark' – you know what you are doing but no one else

Many small businesses rely on word-of-mouth as a means of promoting their businesses. This is often an effective, low-cost method of promoting your business compared to advertising, for example. In word-of-mouth advertising, you generally rely on relationship marketing and have other customers carry your message. With advertising, you generally pay to have a controlled message delivered to your audience. However, for word-of-mouth advertising to work for you, having satisfied customers is vital, and an important part of satisfying customers is maintaining a professional image. If you are professional in your

work and in your dealings with customers, they will have confidence in you and feel good about using your product or service. It costs very little to create a professional image – you simply have to make customer service an all-encompassing part of you business’ culture. Here are a few tips for doing that:

- Be available during your advertised business hours; if you must go away, leave messages where you can be reached;
- Return phone calls promptly and meet agreed-upon deadlines for orders, etc.;
- Respond to inquiries and requests for price quotes or other information immediately;
- Be sure food looks professionally prepared and is attractively displayed;
- Make sure you, your workplace, and your equipment are neat and clean; and
- If you use the family telephone for your business, insist that family members answer correctly and know how to take orders and messages.

Since most small businesses have a limited budget for promotion, you want to invest in guerrilla marketing strategies, that is, low-cost, creative marketing techniques that allow a small company to wring more bang from its marketing bucks than do larger rivals. Here are some guerilla marketing tips to advertise ‘big’ on a small budget:

- Use every outgoing piece of paper, and every electronic document as business promotion;
- Take advantage of cooperative advertising or consider shared/buddy advertising; Repeat ads that have been successful or use identical ads in different media;
- If you're an Internet user, spend some of your online time on business promotion – social networking sites like 2 Lane Livin, Geo Caching and Four Square offers ways to advertise your business for free or at a small cost;
- Encourage your loyal customers to tell others about your business – have them add links to your webpage on their social media accounts;
- Sending out press releases is another great way to get some free business promotion
- Start your own newsletter (websites like Mail Chimp helps you design email newsletters, share them on social networks, and track your results);
- Capitalize on the competitor’s efforts: “We accept competitors coupons;”
- Give out freebies as business promotion;
- Promote your business on a talk show;
- Promote your business by giving a seminar or presentation on your area of expertise;
- Use your vehicle to promote your business; and
- Promote your business through your leisure activities.

Module 4 – Pricing your Product

Through experience, you will learn to set up your own pricing formula. Don't worry if the prices you set are a little higher than your competitors. If you are convinced your product is better in some way a higher price will help convey that image, but the price must be based on some real competitive advantage and supported by other elements in the marketing mix.

Cost-Based Pricing

This method uses unit costs of ingredients, expenses, and labor to determine the price.

Here's an example: As a maker of homemade bread, you have fixed expenses of \$50 per month; you plan to work 1 day each week, or 32 hours per month; your ingredient cost is \$0.50 per loaf; and you can make 5 loaves in an hour. How much should you charge for each loaf?

Step 1: Figure the productive working hours (total hours spent in actually making the product). Seven hours of the 32 are spent in bookkeeping, shopping, and delivery, so they are not productive hours. Therefore, your total productive hours per month are 25 ($32 - 7 = 25$).

Step 2: Figure expenses per hour. Divide the monthly fixed expenses by the productive working hours in 1 month ($\$50 \div 25 \text{ hours} = \2 fixed expenses per hour).

Step 3: Figure ingredient cost per hour. Multiply the ingredient cost of one loaf (\$0.50) by the number of loaves you can make in an hour ($\$0.50 \times 5 = \2.50).

Step 4: Set labor cost. In this example, you decide you are willing to work for \$2 per hour.

Step 5: Add your totals:

Fixed expenses	\$2.00
Ingredients	\$2.50
Labor	\$2.00
<hr/>	
Total per hour cost	\$6.50

Step 6: Divide the total per-hour cost by the number of loaves you can make per hour

($\$6.50 \div 5 = \1.30). This is the minimum price that will cover your costs.

Will customers pay \$1.30 for a loaf of your bread? Compare this price with that of similar products. If it seems low, consider increasing it a little. After all, \$2 per hour is a pretty low labor cost. However, if the price is considerably higher than the competition, consider these options:

- Reduce ingredient cost;
- Reduce labor cost or Increase per hour production;
- Decrease expenses;
- Improve work methods, which may accomplish all four of the above; or
- Reconsider the business venture

Percent Food Cost Pricing

This quick method is used by many restaurants. It is based on the theory that food cost makes up about 40 percent of the price. To set a price, multiply the food cost by $2\frac{1}{2}$ ($40 \times 2\frac{1}{2} = 100$ percent).

In the example of the bread maker, to arrive at an estimated price, use the food ingredient cost of \$0.50 and multiply by 2.5 to get a total selling price of \$1.25.

The 40 percent figure is just a guideline; it may not be a suitable standard if the cost of ingredients is low, the product requires a great deal of labor, or if the ingredients are so expensive that no one would pay $2\frac{1}{2}$ times the cost.

Some experts say that a reasonable price for catering is three times the cost of ingredients. To get a price per person, divide that total by the number of people the food will serve.

Have a price sheet that is available to customers. List your basic policies. Post both prices and policies in your office as well. Some basic policies could include:

- Minimum order size
- Delivery schedule
- Returns
- Price changes
- Time needed to fill order
- Advance payment and billing procedures
- Cancellations
- Other rules you will follow

Estimating Profits

To estimate profits, make a conservative estimate of the number of products you expect to sell during a certain time period (for example, 6 months). Multiply that figure by the selling price per product. Estimate expected total expenses for the same time period. Subtract this total from the total sales. The answer is the anticipated profit. How does the anticipated profit figure compare with what you could make through other job opportunities? What about the money you must invest in the business? Could that money earn a better rate of return elsewhere? Is the anticipated profit figure satisfactory?

Keeping Written Records

Obtaining written orders or contracts will make your food business seem more professional. If possible, get written orders or contracts from buyers, especially if you are producing for resale through retail outlets. Written orders help prevent errors and misunderstandings. The order form should have space to write the price, order type and amount, time of delivery, last date order may be changed or canceled, and payment schedule.

Recordkeeping is also very important. Records tell you where you have been, where you are, and where you are going. Business experts say there is a close relationship between inadequate recordkeeping and business failures. State and federal governments require certain records, and detailed records help pinpoint deductions at tax time. But most importantly, your records will help you determine the profitability of your business, and what areas of your business need fine-tuning.

Module 5 – Developing a Business Plan³

Why Develop a Business Plan?

In the book *The Entrepreneur's Manual*, Richard M. White, Jr. states that business plans are “road maps” for business creation: “You identify your origin, select a destination, and plot the shortest distance between the two points.”

True, a business plan is essentially a blueprint for a business. However, it also serves many other purposes:

- A business plan is a detailed blueprint for the activities needed to establish a business (i.e. the details of a product or service, the market for that product or service, and the management of the business providing that product or service).
- A business plan is also the ‘yardstick’ by which a business owner measures success in meeting stated goals and objectives.
- Also, a business plan is a tool for obtaining a loan from a lending agency, or for attracting venture capital.

What Does a Business Plan Look Like?

There is no standard format for a business plan, but there are many common components of a business plan:

- Executive Summary (providing a general overview of the plan's main points)
- Table of Contents
- (Brief) Background and History
- Business Goals and Objectives
- Description of Products/Services
- Market Description/Assessment
- Competition Assessment
- Marketing Strategies
- Manufacturing Plans
- Pro Forma Financial Analysis
- Contingency Plans

Many business plans will also include appendixes with additional information related to the business, its operations, its owners/managers, marketing/promotional plans, etc. Of course, the best way to illustrate a business plan is to provide one. A sample business plan for a completely fictional whipped topping business is provided in Appendix 1. The format for this mock business plan is appropriate for any small food business. The business plan can also be downloaded at http://www.fh.ext.wvu.edu/food_safety/2011_food_business_workshop.

³ Adapted from “A Sample Business Plan for Small Food Businesses”. Holcomb, Kenkel, and Blan-Byford, Oklahoma State University, January 2006.

Module 6 – Financial Analysis

An important aspect of having a successful business is keeping accurate financial records and periodically analyzing your financial position. Accounting refers to the procedures used to track a business's income and expenses. Analysis of these numbers can be used to help answer questions about the financial health of a business.

Accounting is a necessary task for any business regardless of size and can become an effective management tool. There are two basic reasons to keep detailed financial records for a business:

1. To monitor the movement of monies in and out of your business to help determine profitability over investments;
2. To monitor the movement of cash in and out of your business to help manage cash flow – ensuring cash is available to meet financial obligations as they come due; and
3. Provide the necessary information to complete required information filings such as taxes.

Accounting helps to turn financial records into useful financial statements. The following are some common financial statements and analyses that can be used to help manage your business⁴:

- **Balance Sheet** – Provides a snapshot of your assets, liabilities, and capital (net worth) at a specific point in time (for example, December 31, 2010).
- **Income Statement** - Summarizes the sources and total amounts (by category) of sales revenues and expenses to determine the profit/loss for the period. Income statements are usually generated monthly, but some businesses prefer quarterly. The expenses are normally divided into groups of expenses directly associated with the cost of producing your products/services, and expenses that are indirect, such as selling, administrative, or overhead expenses.
- **Cash Flow Statement** - Summarizes the cash inflows and cash outflows for the period just ended. These are also used to project cash inflows and outflows over a period of time and should be monitored closely to avoid cash shortages.
- **Break-even Analysis** - The break-even point (expressed in units of product or dollars of sales) is the unique sales level at which a company neither earns a profit nor incurs a loss. Break-even analysis can help the business determine the minimum level of sales it needs to cover its costs, the level of sales necessary to achieve a given profit margin, or the level of additional sales necessary to cover a decrease in selling price or increase in input cost. Break-even analysis has many uses and you should consider it fundamental to your financial analysis.

⁴ See the associated, interactive accounting templates that you can use to keep simple and appropriate business records, and use these records to perform business financial analyses.

Appendix 1 – Sample Business Plan⁵

○

Business Plan

Fancy's Foods, LLC.
2409 Oak Hollow Drive
Antlers, OK 74523

Keith Bean
Marianne Bean

December 1, 1998

⁵ Source "A Sample Business Plan for Small Food Businesses". Holcomb, Kenkel, and Blan-Byford, Oklahoma State University, January 2006.

Executive Summary

Marianne and Keith Bean have been involved with the food industry for several years. They opened their first restaurant in Antlers, Oklahoma in 1981, and their second in Hugo in 1988. Although praised for the quality of many of the items on their menu, they have attained a special notoriety for their desserts. After years of requests for their flavored whipped cream toppings, they have decided to pursue marketing these products separately from the restaurants.

Marianne and Keith Bean have developed several recipes for flavored whipped cream topping. They include chocolate, raspberry, cinnamon almond, and strawberry. These flavored dessert toppings have been used in the setting of their two restaurants over the past 18 years, and have been produced in large quantities. The estimated shelf life of the product is 21 days at refrigeration temperatures and up to six months when frozen. The Beans intend to market this product in its frozen state in 8 and 12-ounce plastic tubs. They also intend to have the products available in six ounce pressurized cans. Special attention has been given to developing an attractive label that will stress the gourmet/specialty nature of the products.

Distribution of Fancy's Foods Whipped Dream product will begin in the local southeastern Oklahoma area. The Beans have an established name and reputation in this area, and product introduction should encounter little resistance.

Financial analyses show that the company will have both a positive cash flow and profit in the first year. The expected return on equity in the first year is 10.88%

Table of Contents

Executive Summary	2
Background and History	4
Description of Products	4
Market Description	4
Competition.....	5
Marketing Strategies	5
Manufacturing Plans	6
Financial Projections.....	6
Income Statement	7
Cash Flow Analysis	11
Balance Sheet.....	12
Financial Ratios	13
Contingency Plans	14
Appendices.....	15
Letters of Endorsement.....	15
Resumes of Management.....	15
Product Labels	15

Background and History

Marianne and Keith Bean have been involved with the food industry for several years. They opened their first restaurant in Antlers, Oklahoma in 1981, and their second in Hugo in 1988. Although praised for the quality of many of the items on their menu, they have attained a special notoriety for their desserts. After years of requests for their flavored whipped cream toppings, they have decided to pursue marketing these products separately from the restaurants.

Description of Products

Marianne and Keith Bean have developed several recipes for flavored whipped cream topping. They include chocolate, raspberry, cinnamon almond, and strawberry. These flavored dessert toppings have been used in the setting of their two restaurants over the past 18 years, and have been produced in large quantities. The estimated shelf life of the product is 21 days at refrigeration temperatures and up to six months when frozen.

The Beans intend to market this product in its frozen state in 8 and 12-ounce plastic tubs. They also intend to have the products available in six ounce pressurized cans.

Market Description

The flavored whipped toppings that Fancy's Foods will market will fall into two distinct categories: Dairy products and gourmet/specialty foods. This business plan will look at these two markets separately.

Dairy Products: While the overall consumption of dairy products in the United States declined from 1972 to 1994, the market has seen a slight increase in the past four years (Census of Agricultural Products, 1998, USDA). Dr. John Moore of the University of Florida expects the consumption of dairy product in the United States to continue a modest increase of 1.5-2% per year, which is significant in this \$268 billion annual market. This is attributed in part to more sophisticated processing techniques which have increased the variety of dairy products available, as well as the increased awareness of the benefits of a calcium rich diet (Moore et al, 1998).

Gourmet/Specialty Products: Kalorama Information LLC, a market research firm based in New York, indicates that the gourmet/specialty foods market will continue a fast paced growth well into the next decade. This \$39-billion domestic industry has doubled since 1992, and is expected to continue double-digit growth through 2002. While demographic information indicates that this sector of the industry is strongest in metropolitan areas, there are also growth opportunities in smaller communities. Packaging and point of purchase marketing efforts are especially important in this market, and special attention will be given to these aspects of Whipped Dream.

Competition

There are several brands of whipped topping available in mainstream retail outlets. In the grocery stores in the Antlers and Hugo area, all of the ready-to-eat varieties are produced by large players, specifically Kraft and Sara Lee. There are also dry mixes available, but these are not direct competition for Whipped Dream. According to sales figures at grocery outlets in Antlers and Hugo, approximately 65% of the national brand prepared whipped topping is sold in frozen tub form, while the remaining 35% is in pressurized can form.

The strengths of these products are their market shares and distribution channels. They are available in virtually any retail grocery outlet, and have gained strong market acceptance. They are also distributed with other refrigerated and frozen dairy products. Finally, they are priced at \$1.29-1.89 per 8-ounce tub or 6-ounce pressurized can, an advantage when compared to the suggested retail price of Whipped Dream.

The weakness of these products is in the lack of variety. None of these companies produce or market a flavored topping. Several of the products are also classified as 'whipped topping', but are actually not dairy based.

Marketing Strategies

Distribution of Fancy's Foods Whipped Dream product will begin in the local southeastern Oklahoma area. The Beans have an established name and reputation in this area, and product introduction should encounter little resistance. The managers of Pruett's IGA and Gardiner's Grocery in Antlers, as well as Pruett's in Hugo, have indicated that they are willing to carry the products. Their letters of intent and endorsement are included in the Appendix section. It is also important to note that Gardiner's Grocery puts an emphasis on specialty food products in addition to standard grocery items.

After Whipped Dream's debut in Antlers, Hugo, and surrounding towns, Fancy's Foods intends to participate in the "Made in Oklahoma" Demonstration Program administered by the Oklahoma Department of Agriculture and Pratt's Foods in Oklahoma City. This program will enable the Beans to introduce Whipped Dream into the Oklahoma City metropolitan area under more favorable market conditions. Fancy's Foods also intends to enter the grocery and specialty markets in the Tulsa area in 2000. The Beans will rely heavily on in-store displays and demonstrations in southeastern Oklahoma stores, as well as those in Tulsa and Oklahoma City. They will demonstrate the flavored topping in conjunction with fresh fruit during warmer months, and as a topping on gourmet coffee and hot chocolate in the cooler months.

Special attention has been given to developing an attractive label that will stress the gourmet/specialty nature of the products. A copy of the label is attached in the appendices. Linda Byford, a business planning and marketing specialist at the Oklahoma Food and Agricultural Products Research and Technology Center at Oklahoma State University assisted with developing the label, and conducted a focus group study to evaluate the image projected by the label as well as the packaging.

Manufacturing Plans

Because Fancy's Foods owns and operates two restaurants, they have facilities available to them for a certain amount of the production. Robert Battles, the Pushmataha County inspector for the Oklahoma Health Department, indicates that The Beans can use these facilities to manufacture food available for retail sale provided that the production occurs while the restaurant is not open to the public.

Fancy's Foods has a 50-gallon high speed mixer, a pressurized tank in which the product can be gassed with nitrous oxide, and a 10-foot by 10-foot walk-in freezer, enabling them to both produce and store frozen tubs of Whipped Dream. This process is already established on a commercial scale. They are in fact already making Whipped Dream for use in their restaurant, and storing it in the freezer.

Keith and Marianne feel that the specialty nature of the product will lend itself well to the pressurized can, and this was confirmed by the focus group conducted at Oklahoma State University. To pursue that opportunity, Fancy's Foods has contracted production of the pressurized 6-ounce cans with Farm Fresh, an Oklahoma dairy processing firm. A non-competition/non-disclosure agreement is in place, and a copy of this document is included in the appendices.

Financial Projections

The following pages include multi-year projections for income, cash flow, balance statement, as well as estimated financial ratios. These projections are for the Whipped Dream division of Fancy's Foods LLC only. Historical financial information on Fancy's Foods restaurants is available upon request.

Fancy's Foods LLC

Pro Forma Income Statement

January 1999 - December 1999

Net Sales	\$240,450.00	
Less: Cost of Goods Sold	\$182,000.00	
Gross Income		\$58,450.00
Operating Expenses		
Labor	\$12,000.00	
Utilities	\$3,000.00	
Insurance	\$2,400.00	
Sales Promotion	\$12,000.00	
Delivery and Transportation	\$6,000.00	
Miscellaneous	\$1,500.00	
Total Expenses		\$36,900.00
Net Income Before Taxes		\$21,550.00
Less: Income Taxes		\$6,465.00
Net Income After Taxes		\$15,085.00

Assumptions:

- 1 Net sales based on price of \$2.29 per unit,

24,000 units sold in Antlers	2,000 units per month
36,000 units sold in Hugo	3,000 units per month
45,000 units sold in Oklahoma City	9,000 units per month for 5 months

Sales estimates based on 5% market share for prepared whipped topping in each market.

- 2 Cost of goods sold includes ingredients, packaging materials, labels, and co-packing expenses for canned product.

- 3 No salary will be drawn by the owners/managers in the first year. All profits will be re-invested for new market entry and increased production.

Fancy's Foods LLC

Pro Forma Income Statement

January 2000 - December 2000

Net Sales	\$425,940.00	
Less: Cost of Goods Sold	\$318,060.00	
Gross Income		\$107,880.00
Operating Expenses		
Labor	\$18,000.00	
Utilities	\$5,000.00	
Insurance	\$2,400.00	
Sales Promotion	\$18,000.00	
Delivery and Transportation	\$12,000.00	
Miscellaneous	\$1,500.00	
Total Expenses		\$56,900.00
Net Income Before Taxes		\$50,980.00
Less: Income Taxes		\$15,294.00
Net Income After Taxes		\$35,686.00

Assumptions:

- 1 Net sales based on price of \$2.29 per unit,

26,400 units sold in Antlers	2,200 units per month
39,600 units sold in Hugo	3,300 units per month
120,000 units sold in Oklahoma City	10,000 units per month

Sales estimates based on 10% sales increase from previous year.

- 2 Cost of goods sold includes ingredients, packaging materials, labels, and co-packing expenses for canned product.

- 3 No salary will be drawn by the owners/managers in the second year. All profits will be re-invested for new market entry and increased production.

Fancy's Foods LLC

Pro Forma Income Statement

January 2001 - December 2001

Net Sales	\$592,194.00	
Less: Cost of Goods Sold	\$442,206.00	
Gross Income		\$149,988.00
Operating Expenses		
Salary	\$20,000.00	
Labor	\$30,000.00	
Utilities	\$6,500.00	
Insurance	\$3,600.00	
Sales Promotion	\$25,000.00	
Delivery and Transportation	\$16,500.00	
Miscellaneous	\$1,500.00	
Total Expenses		\$83,100.00
Net Income Before Taxes		\$66,888.00
Less: Income Taxes		\$20,066.40
Net Income After Taxes		\$46,821.60

Assumptions:

- 1 Net sales based on price of \$2.29 per unit,

29,040 units sold in Antlers	2,420 units per month
43,560 units sold in Hugo	3,630 units per month
132,000 units sold in Oklahoma City	11,000 units per month
54,000 units sold in Tulsa	9,000 units per month for 6 months

Sales estimates based on 10% sales increase from previous year.

- 2 Cost of goods sold includes ingredients, packaging materials, labels, and co-packing expenses for canned product.

- 3 Salary will be drawn by the owners/managers in the third year.

Fancy's Foods LLC

Pro Forma Balance Sheet

December 31, 1999

Current Assets			
Cash		\$7,054.00	
Accounts Receivable		\$60,484.00	
Inventory		\$80,042.00	
Pre-Paid Expenses		<u>\$1,046.00</u>	
Total Current Assets			\$148,626.00
Fixed Assets			
Building	\$100,500.00		
Equipment	<u>\$40,950.00</u>		
Gross Fixed Assets		\$141,450.00	
Less Accumulated Depreciation		<u>\$16,900.00</u>	
Net Fixed Assets			\$124,550.00
Total Assets			\$273,176.00
 LIABILITIES AND OWNERS EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable	\$51,343.00		
Accrued Payables	<u>\$3,060.00</u>		
Total Current Liabilities		\$54,408.00	
 Long Term Liabilities			
Mortgage Payable		<u>\$20,708.00</u>	
Total Liabilities			\$75,116.00
Owner's Equity			\$198,060.00
Total Liabilities and Owner's Equity			\$273,176.00

[Note: A typical business plan would have 3-5 years of pro forma balance sheets, not just one year as shown here. The pro forma balance sheets for following years will be impacted by how profits are handled (retained in the business or paid out to the owner(s)), how assets are depreciated over time, the reinvestment of cash, the pay-down of debts, etc. The first year pro forma balance sheet shown here is used to calculate financial ratios.]

Fancy's Foods LLC
Financial Ratios
December 31, 1999

$$\text{Return on Equity} = \frac{\text{Net Profit before Taxes}}{\text{Net Equity}} = \frac{\$21,550.00}{\$198,060.00} = 10.88\%$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\$148,626.00}{\$54,408.00} = 2.73$$

$$\text{Quick Ratio} = \frac{\text{Curr. Assets} - \text{Inventory}}{\text{Current Liabilities}} = \frac{\$68,584.00}{\$54,408.00} = 1.26$$

$$\text{Debt to Equity} = \frac{\text{Total Liabilities}}{\text{Net Equity}} = \frac{\$75,116.00}{\$198,060.00} = 0.38$$

Contingency Plans

While careful planning was involved in setting the strategic goals for Whipped Dream, it may be that these goals are not met. The Beans have decided to set a zone of acceptability for meeting sales and financial objectives. For both sales and financial objectives, a 10% negative deviation from expected sales and projected returns on assets will be accepted. However, if sales objectives and returns on investment are less than 90% of projections, certain actions will be taken. These actions include:

1. **For unacceptable sales levels during the first year:** Fancy's Foods will combat this problem by doubling in-store promotions of Whipped Dream in Antlers and Hugo. The Beans will personally arrange and carry out these promotions on weekends at peak shopping times. If sales do not increase within one month of the in-store promotions, Fancy's Foods will advertise in the weekly shopping circulars of the stores for one month.
2. **For unacceptable sales levels in Oklahoma City and Tulsa:** After 6 months of marketing products in these two metropolitan areas, sales will be evaluated. If not meeting acceptable sales levels, Fancy's Foods will consider contracting with local marketing specialists in Oklahoma City and Tulsa to carry out the in-store promotions and push the products to the stores. This contractual relationship will be based upon sales commissions (to be determined by the specialists and Fancy's Foods), thereby providing incentive for the specialists to generate sales of Whipped Dream.
3. **For unacceptable business liquidity:** In the event that the business lacks liquidity, Fancy's Foods will examine their accounts receivable procedures to ensure that payment periods are just and that payments are being received in a timely manner. Also, cash flow projections will be reviewed to determine if unforeseen cash layouts/expenses are undermining the financial health of the enterprise.
4. **For unacceptable returns on equity:** If returns on assets and owners' equity fall below acceptable levels, Fancy's Foods will first examine and compare the per-unit costs of production and marketing with sales prices. If the margins are too thin, a price increase for products sold in specialty/gourmet shops will be considered. However, because established non-flavored substitutes already exist at lower prices, the lost sales resulting from a price increase may make this option unsuitable for products sold in general food stores. Fancy's Foods will therefore assess opportunities for minimizing production costs and examine different marketing/distribution alternatives.

APPENDIX

[This is where the appendix would start if there was one. Appropriate material for appendixes include owner(s) resume, a processing flowchart, a management hierarchy diagram (if the business has multiple employees, sales staff, etc.), letters of intent to purchase from buyers, advertisement materials, copies of training completion certificates, etc.]