

**A SAMPLE BUSINESS PLAN FOR
SMALL FOOD BUSINESSES**

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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. The following plan for a completely fictional business is used for a monthly entrepreneur workshop at Oklahoma State University's Food & Agricultural Products Center, entitled “**Food Business Basics: A Guide to Starting Your Own Food Business.**” This mock business plan focuses on a whipped topping business, but the format is appropriate for any small food business.

Business Plan

Fancy's Foods, LLC.
2409 Oak Hollow Drive
Antlers, OK 74523
(580) 298-2234

Keith Bean
Marianne Bean

December 1, 1998

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

| | | | | | | |
|------------------|---|---|---|-----------------------------|---|--------|
| Return on Equity | = | $\frac{\text{Net Profit before Taxes}}{\text{Net Equity}}$ | = | \$21,550.00 \$198,060.00 | = | 10.88% |
| Current Ratio | = | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ | = | \$148,626.00 \$54,408.00 | = | 2.73 |
| Quick Ratio | = | $\frac{\text{Curr. Assets} - \text{Inventory}}{\text{Current Liabilities}}$ | = | \$68,584.00 \$54,408.00 | = | 1.26 |
| Debt to Equity | = | $\frac{\text{Total Liabilities}}{\text{Net Equity}}$ | = | \$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.]