

Business Plan Basics

By Linda S. Eck Mills, MBA, RD, FADA, LDN

A business plan is an organization's roadmap. Whether you are launching your own consulting practice, or are required to develop a business plan for your dietary department, content ideas are outlined here.

Is foodservice a service or a business? Yes, we provide a service – three meals a day, plus special functions for residents, families, and administration. But we are definitely a business. If you don't think so, why is everyone so worried about how much we spend, what we spend it on, where we generate revenue, and the cost of labor? Whether you are part of an organization, are thinking of starting a business, or are already in business for yourself, a business plan will guide you and your activities.

If your administrator asked you to develop a business plan for the foodservice department, where would you start and what would you include? Creating a business plan is not easy. That may be why only 28 percent of businesses actually write one. However, without a plan, how do you know if you are going where you want to go with your department's business? Developing a business plan is similar to planning a vacation. You have to determine what you want to do on vacation – hike or sit on a beach – and where you can do this. Then there are many smaller details to work out.

A business plan is divided into five sections:

- Business Description
- Products and Services
- Marketing Analysis and Strategy
- Management and Operations
- Financial Projections

Let's look at each of these sections in detail by using questions to stimulate your thinking.

Business Description

Purpose of the Plan – Why are you developing a business plan? Some reasons may include determining the feasibility of a new business venture such as catering or home meal replacements, or to act as the work plan for the operations of the business.

Business Name – What is the name and location of your business? Even though you may be located within a facility, you might want to name your business something besides the Food and Nutrition Department.

Type of Business – What type of business is the plan for? Are you starting up a new business venture, expanding your existing business to include more locations, or working to have a franchise come into your facility?

Who We Are – Describe not only the type of business, but also detail what you are really selling from a human fulfillment point-of-view. For example, an errand service is really in the business of selling time (and convenience); a photographer sells memories. To help you get started, think about what your business really sells, boiled down to one word.

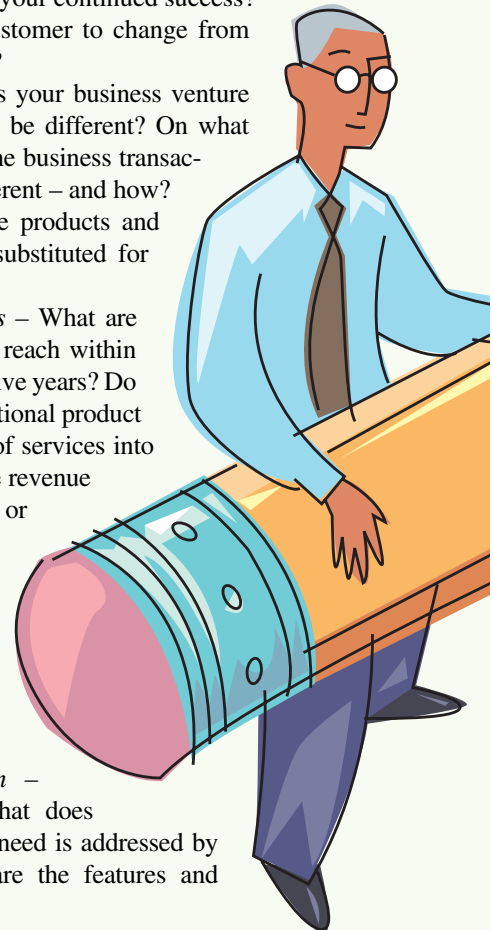
Story of the Business – What is the reason the business exists? Consider how you came up with the idea or what need or problem you are attempting to solve. Include what obstacles you have overcome and what success you have experienced if you are expanding services. What five or six trends most threaten your continued success? How easy is it for a customer to change from one business to another?

Uniqueness – How is your business venture deliberately choosing to be different? On what specific component of the business transaction is your venture different – and how? How big of a threat are products and services that could be substituted for yours? What are they?

Goals and Objectives – What are the major milestones to reach within the next one, three, and five years? Do you want to: Create additional product lines? Expand delivery of services into new areas? Diversify the revenue base of the department or company? Cultivate strategic partnerships for the development or delivery of new products and services?

Products and Services

Product Description – What do you sell? What does your product do? What need is addressed by the product(s)? What are the features and



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Complete questions on page 25.

benefits? Who supplies the product or materials?

Service Description – What services do you offer? How do they work? What materials and equipment are needed? What are your labor needs to provide these services? What are your days and hours of operation? What are the steps in your service process and the benefits you offer customers?

Pricing Strategy – How are your products and services priced? What are your pricing objectives? What are you trying to achieve with your pricing strategy? Consider the following strategies: Survival – adjusting price levels so that sales levels match organizational expenses. Profit – identifying price and cost levels to maximize profit. Return On Investment – identifying levels that enable the business to yield a targeted return on investment. Market Share – adjusting price levels so that the business can maintain or increase sales relative to competitors. Cash Flow – setting price levels to encourage rapid

sales. Status Quo – identifying price levels that help to stabilize demand and sales. Even if you are in a non-profit setting, you can plan to make a profit. You just need to turn that profit back into the business.

Pricing Methods – What methods will be used to determine your prices? Consider the following options: Skim Pricing – setting the price arbitrarily high with the intent of capturing short-term profits. Penetration Pricing – setting the price arbitrarily low to discourage competition and appeal to a greater portion of your market segment. Fixed Pricing – a price set by the manufacturer or producer and is not subject to negotiation between the buyer and seller. Variable Pricing – a final price negotiated between buyer and seller. Price Lining – establishing only a few prices for all items within a given product line.

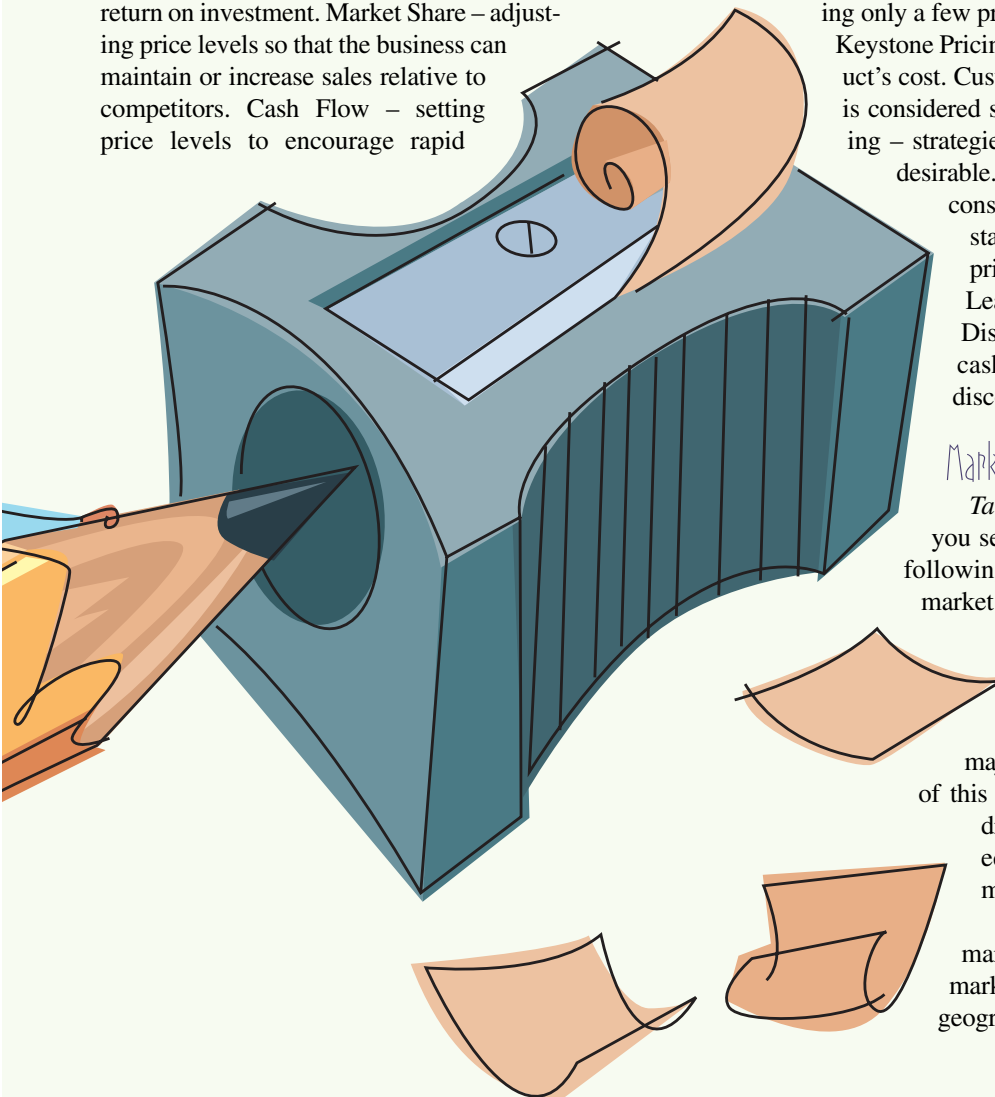
Keystone Pricing – a percentage markup applied to the product's cost. Customary Pricing – setting prices at a level that is considered standard for the product. Psychological Pricing – strategies that try to make the product's price more desirable. Prestige Pricing – pricing to encourage consumers to equate pricing with quality and status. Geographic Pricing – charging different prices for different geographic regions. Pricing Leader – will you be a price leader or follower? Discounts – will you offer a quantity discount, cash discount, seasonal discount, employee discount, or frequent buyer discount?

Marketing Analysis and Strategy

Target Customer – Which target markets will you serve? For each targeted market, consider the following: Customer Type – consider consumer market segments and/or business and industrial market segments. Geographic Description – at what level of geography will you target your customers? Evaluate location and density. Demographic Factors – what major common characteristics do the members of this market share? Consider age, ancestry, children, computer ownership and use, disability, education, gender, income, language use, marital status, and occupation.

Market Size – What is the size of this market? Estimate the size of a consumer target market by determining the demographics and geography of your targeted customer.

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Competitive Analysis – With whom does your business venture compete? Who are your four strongest direct competitors? Who are your indirect competitors? How are their businesses: Steady? Increasing? Decreasing? What have you learned from their operations and advertising? What are their strengths and weaknesses? How does your product or service differ from theirs? How will you create word-of-mouth buzz about your product or service?

Advertising and Promotions – What media and channels will you use to deliver your product or service message? Consider direct mail, yellow pages, newspaper, radio, television and cable, e-mail advertising, telemarketing, faxes, signs. What inducements or incentives will you offer? Consider coupons, demonstrations, frequent-user incentives, point-of-purchase displays, free samples, and contests.

Management and Operations

Management Team – Which key people will manage the business venture? What skills, capabilities, and strengths do they bring? What will their responsibilities be and what will they oversee?

Personnel – What are the personnel needs of the business? How many and what type of employees are needed? What types of skills training will you provide them? How much will the personnel needed to run this business venture be compensated?

Accounting Systems – What systems will you use to account for the operations of this business? Would a small business accounting package (such as Quickbooks) be useful?

Financial Projections

Sales Forecast – When developing a sales forecast, remember there is no right or wrong answer. The best you can do is come up with a range of numbers. Then based on your expenses and marketing strategy, choose a number somewhere within that range. Also determine a high, medium, and low projected sales level. There are a few ways to help with estimating sales. Many trade associations publish sales-per-square-foot data.

Break-Even Sales Level – The first thing to do when creating your sales forecast is determine the approximate break-even point – where the sales of your business are equal to its expenses. At this juncture there are no profits. This is an

important number to calculate since you will want to know in advance where your business venture turns profitable before choosing your final projected sales figure.

Inventory turn is how many times in a year your inventory leaves the shelf. Slow inventory turnover may indicate an excessive amount of goods on hand, often stale or unusable goods. Many operations figure that their inventory should turn over three to five times per month. A limited menu operation will have a considerably higher turnover. However, an operation that has insufficient working capital and must operate hand-to-mouth probably pays more for buying the smallest amounts and may pay for poor credit.

Cost of Sales – These are the expenses that vary with sales. They are the cost directly attributable to producing your product and service. Usually these costs are expressed as a percent of total sales.

Summing it Up

A business plan is not carved in stone. It's an evolving document that changes as you progress with the business venture. All of the questions above may not relate to the business you are dealing with. However, the questions may stimulate your thoughts to other areas that are related to your undertaking. There are many good books and Web sites to assist you. Don't be afraid to leave the comfort of your facility and make contacts in the business world. The Small Business Development Center or Chamber of Commerce in your area should have several resources to help shorten your learning curve. You might just make a contact that would benefit from your business venture. ■

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Answers to "Business Plan Basics" Review Questions

CDM, CFPPs who answer the "Business Plan Basics" Review Questions printed on page 25 of this issue can check their responses against the answer key found on page 35. This "self check" allows you to confirm your understanding of the test questions.

