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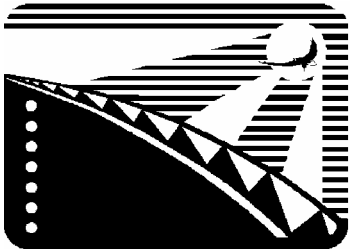
Business Plan Example

January 2004



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- Native Assets Research Center - our research and policy center undertakes research, analysis and advocacy on Native asset-based community economic development.
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- Strengthening Native American Philanthropy Initiative - seeks to increase Native American and tribal participation in private philanthropy, both as funders and grant recipients.
- Communications - provides for the dissemination of information to various audiences and constituencies.

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Business Plan

Morning Star Espresso Company

Owned by:
Kim Smart
P.O. Box 134
Ashville, Montana 59000
February 1, 2003

STATEMENT OF PURPOSE

This business plan describes the startup activities, production methods, and expected financial condition of Morning Star Espresso Company in the first three years of operation. This plan outlines the key market factors that espresso sale projections have been based upon. It also describes the managerial, technical, and capitalization requirements of the new business venture, which is scheduled to begin on January 1, 2003.

The purpose of this business plan is to secure a long-term (10 year), low interest (8%) small business loan from the BankCorp Bank, as well as to guide the business owner in monitoring the success of the new minority owned business.

is a highly favorable rate of return as compared to the alternative investment opportunities of the owner.

BREAK-EVEN ANALYSIS

The formula for calculating a break-even volume is:

BE= VC + FC

Computations for the break-even sales volume for the Morning Star Espresso Company are listed below:

Variable Costs	**% of Sales ($37,500)**	**Fixed Costs**	**Amount**
Cost of Sales ($13920)	37.1%	Admin & General	$500
Maint. & Repairs (200)	.53%	Insurance	$1000
		Lot Rent	$1200
		Interest	$1680
		Loan Principal	$1450
		Withdrawal	$6000
TOTAL	37.63%		$11,830

The break-even sales equation is:

BES = VC + FC
BES = 37.63% of Sales + $11830
BES = .3763 S + 11830
.6237 S = 11830 and
BES = $18967 (50.5% of the projected $37,500 sales)

This figure shows that almost $19,000 in sales needs to be made in the first year to cover all the costs associated with operating the business.

Assuming the sales forecast is realistic, the business venture may be regarded as relatively low in risk in light of the $14,111 (37.63%) margin identified by the break-even analysis.

TOTAL CASH REQUIRED: **$24,550**

KEY FINANCIAL RATIOS AND MEASURES OF PERFORMANCE

1) Leverage. A business that is "highly leveraged" is vulnerable to declines in sales and unforeseen costs. The debt/equity ratio shows the relationship between capital contributed by financers and capital contributed by the owner. The beginning debt/equity ratio of Morning Start Espresso Company will be 1 to 10 ($2400 to $23,400). The local business requires each loan applicant to provide at least 10% of the equity needed to capitalize a business. By comparison, the debt/equity ratio is adequate to qualify for consideration. By the end of the third year of business, the debt/ equity ratio is projected to increase to 37%.

2) Coverage. Coverage ratios measure a business' ability to meet debt obligations. A commonly used coverage ratio compares the net cash flow from operations (net profit plus depreciation) to the current portion of long-term debt. In the case of Morning Star Espresso Company, the first year's net cash flow from operations ($26,500) will cover the first year's current portion of long-term debt ($1450) at a ratio of 18 to 1. At the end of the third year, the coverage ratio is projected to increase to 19 to 1. Both of these ratios are very favorable.

3) Operating Ratios. The rates of return on the assets and equity of a business are called "operating ratios". To calculate the rate of return on an asset, the profit is divided by the value of the asset used to produce the profit. In the case of Morning Star Espresso, the first year's profit of $25,400 represents a 2.3% return on the $23,400 in total assets required to produce the profit. By the third year, the $34,415 profit will represent a 3.9% return on the value of the assets used to produce it.

   To calculate the rate of return on equity, profit is divided by the amount of owner's equity in a business. In the case of Morning Star Espresso Company, the first year's profit of $25,400 represents a 10.6% return on the beginning equity of $2400. This

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c) Cash Operating Expenses- Total Operating Expenses shown in the Forecasted Statements of Operations, less depreciation.
d) Loan Principal Payments- Monthly and annual loan principal payments were calculated using a computer spreadsheet. A loan amortization schedule is included with the Supporting Documents in Section VI of the business plan.
e) Owner's Withdrawals- the owner has personal sufficient to cover personal expenses for the first six months of business startup phase. The first monthly withdrawal of $1000 will be taken in November. Second and third year withdrawals are projected to be at $20,000 and $22,000, respectively. These later withdrawals will be taken over twelve months, subject to the availability of cash.

Ending Cash Balance- The balance of cash available for unforeseen costs and business growth. Each ending cash balance becomes the beginning cash balance for the next period.

Cash requirements for the first year of Morning Star Espresso Company are as follows:

Cost of Sales:		
Electricity	$5000	
Labor	$6720	
Coffee and syrup	$700	
Dairy products	$1000	
Paper products	$500	
Total Cost of Sales		$13920
Operating Expenses:		
Administrative/General	$500	
Insurance	$1000	
Total Operating Expenses		$1500
Other Cash Disbursements:		
Loan payments (4@$782)	$3130	
Owner's withdrawals	$6000	
Total Cash Disbursements		$9130

c). Insurance- The cost of full coverage insurance in the first year of $1,000 was quoted by an insurance agent. Terms of payment require a first time payment of $285 and a monthly payment of $65 for the remaining 11 months. Costs are expected to increase by 10% annually.
d). Interest- Monthly and annual interest payments were calculated using a computer spreadsheet. A loan amortization schedule is included with the Supporting Documents in Section VI of the business plan.
e). Lot rent- Monthly rent for the physical location of the espresso building has been set at $100 due at the beginning of each month. Lot rent is not expected to increase in the next three years.
f). Maintenance & Repairs- Manufacturer warranties will be in effect the first year of operations, therefore, costs are expected to be minimal. First year expenses are estimated to be at $200 and should be 1% of sales after all warranties expire.

Net Profit- Gross Profit minus Total Operating Expenses

Forecasted Statement of Cash Flows

Beginning Cash Balance- the owner's entire contribution will be in the form of $2400, therefore, the beginning balance is $2400

Cash Receipts:

a) Loan Proceeds- the $21,000 small business loan for the startup of the business is the only loan that will be required if the cash flow projections are realized.
b) Sales Receipts- the first year of sales will total $37,500

Cash Disbursements:

a) Capital Outlays- The total expenditures for equipment ($6,000) and the building ($5,000).
b) Cost of Sales- The total cost of electricity, labor, coffee, dairy, and paper products as outlined in the Forecasted Statements of Operations.

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EXECUTIVE SUMMARY

Kim Smart will begin doing business as "Morning Star Espresso Company" on January 1, 2003 when she undertakes the production of espresso drinks at a drive-up location. The value of the proposed drive-up building is $5000. Additional capital requirements totaling $23,400 include $6000 for the espresso machine, $2700 for supplies, and $9700 for working capital. It is proposed that these capital requirements will be met by a small business loan from the BankCorp Bank.

The demand for espresso drinks in the target market region is demonstrated by the absence of an established business providing this product as well as by the overwhelmingly positive response given by the community members. A recent survey indicated that 82% of people who stop at the local convenience store would be willing to purchase espresso if it were made available. By competing on the bases of quality, price, and service, it is anticipated that Morning Star Espresso Company will capture a majority of the market segment by the second year of operation.

Morning Star Espresso Company will be a sole proprietorship, 100% owned by Kim Smart, who is a member of the Local Indian Tribe. As a federally recognized Indian residing on the Local Indian Reservation, Ms. Smart is exempt from certain sales tax on capital equipments and other retail purchases, as well as from state income tax on the net profits of the business. Ms. Smart will hire one part-time employee.

The financial forecasts included in this business plan demonstrate that each cash balance of the business will increase in three years' time from $12,400 originally borrowed for supplies and working capital to $48,814 by the end of the third year. This figure increases by 393%, even after the owner's withdrawals totaling $50,000. The owner's equity in the business will increase from 10% on the startup date to 37% at the end of three years.

A break-even analysis indicated that the planned enterprise would be successful at only 50.5% of the projected sales volume, and therefore

Forecasted Statement of Operations

Sales- in the first year, sales are estimated to be 15,000 cups sold at $2.50 per cup ($37,500). In the second and third year of business, sales are estimated to increase to 17,000 and 19,000 cups while prices remain constant ($42,500 and $47,500).

Cost of Sales:

a). Electricity- Estimated by the local utility company at $5,000 in the first year and 8% increase in subsequent years ($5,400 and $5,832).

b). Labor- one employee will be hired at $7.00 per hour ($560 per month) to work 20 hours each week. Wages are expected to increase by 5% annually.

c). Coffee and syrup- 100 pounds of espresso coffee will be purchased from a specialty food distributor at $5 per pound ($500). 10 cases of flavored syrup will be purchased from the same distributor for $20 per case ($200). An annual 5% increase in prices is expected.

d). Dairy products- Weekly dairy disbursements will be performed by the community dairy provider. Dairy products totaling $20 per week will be delivered directly to the business location each Monday at 5:00 a.m. Prices are expected to increase by 5% each year.

e). Paper products- All the paper products will be purchased in bulk from a warehouse in an adjacent community. Prices are projected to increase by 5% each year.

Gross Profit- Sales minus Total Cost of Goods Sold

Operating Expenses-

a). Administrative and General Expenses- First year expenses for advertising and telephone service have been estimated by an accountant at $40 per month. Prices are expected to increase by 5% annually.

b). Depreciation- the total value of all fixed assets will be depreciated using a straight-line method for a 10-year useful life. This calculation produces $1100 total annual depreciation for the building and the espresso machine.

including Balance Sheet, Statement of Operations (Income Statement), and Statement of Cash Flows. Because of the lengthy discussion that would be necessary to describe these statements, and the availability of other existing resources that provide a full explanation for developing these statements, this booklet will not provide the actual pro-forma statements for this business.

Accompanying these pro-forma financials would be Explanatory Notes to Financial Forecasts that might look like the following.

Forecasted Balance Sheets

Cash- The $9,700 budgeted for working capital and the $2,700 for supplies may be considered the cash balance on the startup date of the business ($12,400). The ending cash balance on each year's Forecasted Statement of Cash Flows represents the cash balance at the beginning of each subsequent year.

Building- The wooden building that will house the espresso stand will be listed at cost because it is new and no depreciation has been previously deducted. The cost of the building is $5,000. The useful life of the building is 10 years, so it will be depreciated (straight-line method) at a rate of $500 per year.

Equipment- The total cost of the espresso machine is $6,000. It will also be depreciated (straight-line method) over 10 years or $600 per year.

Current Portion of Long-term Debt- the loan principal payments to be paid in a year represent this amount. Morning Star Espresso Company is seeking a small business loan from of $21,000 at 8% interest for 10 years.

A loan amortization schedule is provided in Exhibit 6.

Long-term liabilities- the long-term liabilities at the beginning of each year represent the total balance of long-term debt minus the current portion.

it is considered relatively low in risk. According to the forecasted financial statements, the leverage, coverage, and operating ratios are also expected to be highly favorable.

DESCRIPTION OF THE BUSINESS

BUSINESS CONCEPT

Morning Star Espresso Company is a new espresso business that is scheduled to begin operations on January 1, 2003. The reservation based, Indian owned enterprise will be managed and operated by Kim Smart, sole proprietor.

PRODUCT/SERVICE DESCRIPTION

Morning Star Espresso Company will specialize in the production and sale of high quality, reasonably priced espresso drinks.

KEY PRODUCTION FACTORS

The following production factors are considered essential to the planned specialty beverage enterprise.

Suitable Site

A small corner of the local convenience store will be leased for the location of the espresso building. The convenience store and Morning Star Espresso Company will enjoy a beneficial relationship, as both businesses will attract customers to the same location for non-competitive products.

The drive-up espresso building will not have any customer seating accommodations; therefore, it is not necessary to include restroom facilities and other such provisions for customer convenience.

Utilities

The espresso building will be equipped with electrical and water capabilities. Both of these provisions can be utilized at minimal charges due to the close proximity to the fully functioning establishment.

Building

The building that will house the espresso machine, supplies, and serve as the distribution point will be constructed by a local builder. The builder has agreed to work with the owner to design the building so that superb functionality will be reached. He has also agreed to have the building prepared for business by January 1, 2003.

Labor Availability

Annual unemployment rates on the local Indian reservation currently range between 40% and 60%. Due to the extreme unemployment rate and the low degree of difficulty of the espresso machine operation, employing individuals to operate the business will not be difficult.

LOCATION AND PHYSICAL FACILITIES

The town of Ashville, Montana is located on Highway 212, on the truck route to Rapid City, South Dakota. It is about 60 miles north of Eureka, the county seat. The city of Ashville is within the boundaries of the Local Indian Reservation. The proposed site for the espresso drive-through is located directly on the main route through town. The site is equipped with electrical and water hook-ups.

TRIBAL AND OTHER LOCAL BENEFITS

The data provided in Section V of this plan demonstrate how the Morning Star Espresso Company has the potential to make the following beneficial impacts on tribal and other local economies:

1. Capital Outlays- The building and equipment for this project will provide total expenditures of $11,000. Indian-owned enterprises will be contracted to perform the building construction worth $5,000 (45% of the total capital outlay amount).

2. Production and Operating Costs- The proposed business will utilize the services of the local public utilities district and purchase supplies from Indian-owned outlets.

Paper products	Restaurant Supplier	$500
General supplies	Office Supplier	$500
Working Capital:		
Admin./General (advertising, telephone)	Accountant	$500
Electricity	Utility Company	$2000
Insurance	Insurance Agent	$1000
Lot Rent	Property Owner	$1200
Wages	Accountant	$5000
Total Capitalization Requirements:		**$23,400**

FINANCIAL FORECASTS

The annualized Forecasted Statements of Forecasted Balance Sheets, Statements of Operations, and Statements of Cash Flow for the first three years of operations are presented on the following pages of this business plan. Explanatory notes to the Financial Forecasts directly follow this section.

Operations demonstrate that profits of $37,500 $42,500 and $47,500 can be realized in the first three years of operation, for a three year total of $127,500.

Annualized Forecasted Statements of Cash Flows demonstrate that each cash balance of the business will increase in three years' time from $12,400 originally borrowed for supplies and working capital to $48,814 by the end of the third year. This figure increases by 393%, even after the owner's withdrawals totaling $50,000.

The Forecasted Balance Sheets show the impact of three years operations on the financial condition of the business. The value of assets will increase from $23,400 on the startup date to $28,350 three years later. During the same time period, the balance of debt will decrease from $21,000 to $16,294. As a result, the equity portion of the business will increase from 10% on the startup date to 37% at the end of three years.

A true business plan would include pro-forma financial statements,

FINANCIAL ANALYSIS

CAPITAL REQUIREMENTS

The total cost of the proposed business is projected at $23,400. The owner will invest $2,400 from her personal savings to aid in startup costs.

Equipment	$11,000
Supplies	$2,700
Working Capital	$9,700
LESS: Owner's Contribution	($2,400)
Total:	**$21,000**

A detailed breakdown of capital requirements is provided in the previous section. Contractor and supplier quotations are provided in Exhibit 1.

STRUCTURE OF FINANCING

Ten percent of the $23,400 in startup costs will be met by the owner's contributions. The contribution will be in the form of cash coming from a personal savings account.

The remaining $21,000 needed for the project will be requested for in the form of a small business loan from the bank. The owner will offer her cash contribution as collateral for the low interest loan. The terms of the loan are: $21,000 for 10 years at 8% interest. Under the proposed plan, the financing will be 10% equity and 90% debt.

Startup Costs:	**Source:**	
Quote: Equipment:		
Building	Local builder	$5,000
Espresso Machine	Specialty Supplier	$6,000
Supplies:		
Espresso	Food Distributor	$500
Flavored Syrup		$200
Dairy products		$1000

RELATIONSHIP TO TRIBAL ECONOMINC DEVELOPMENT STRATEGY

The current 10 year economic development plan for the Local Indian Tribe establishes a high priority for development of small businesses. To support that priority, the tribe has established a small business incubator that is committed to aiding tribal members who take on new business ventures.

MARKET ANALYSIS

MARKET DESCRIPTION

The town of Ashville does not support any other specialty coffee establishments, therefore, Morning Star Espresso Company believes to have very limited/no competition in this market.

The specific target market of Morning Star Espresso Company has been identified as those individuals who live in the community, individuals who live in close adjacent communities, and individuals who travel through the area (See Exhibit 2). A market survey conducted in November of 2002 (See Exhibit 3) revealed that 82% of people who stop at the local convenience store would be willing to purchase espresso if it were made available.

GENERAL MARKET TRENDS

The actual population of Ashville is relatively small (75,000), however, the Highway Department estimates that an average of 50,000 people pass through town in route to other destinations. During the initial phase of business planning, Ms. Smart distributed questionnaires regarding sales interest in specialty coffee drinks. She received an overwhelmingly positive response from both local and traveling individuals (See Exhibit 3). Based on her data, she estimates that the local and traveling population will be able to sustain her predicted demand for coffee. She estimates that in the first year, sales will reach 15,000 cups and will increase to 19,000 cups by the end of the third year.

COMPETITION

Although there is no other drive-up espresso stands in the immediate area (50 mile radius), there are substitution beverage options. There exists one ice cream parlor that serves milkshakes and soda pop, one convince store that also serves cold carbonated beverages, and one grocery store where beverages can be purchased. Morning Star Espresso Company expects to compete with these establishments for the limed customer base seeking beverages. Therefore, strides will be made to provide premium service, quality product, and fair prices to customers. The easy accessible drive-up window site, located in the parking lot of the convenience store, is a competitive advantage.

Once the business is functioning, Ms. Smart will begin advertising her business on the local radio station and will distribute flyers to high traffic destinations to make the community aware of the new venture.

MARKET PROJECTIONS

Based upon the location and the local survey distributed, it is estimated that coffee sales volumes can be calculated as:

Year 1:15000 Cups X $2.50/cup = $37500
Year 2:17000 Cups X $2.50/cup = $42500
Year 3:19000 Cups X $2.50/cup = $47500

ORGANIZATION AND MANAGEMENT

LEGAL FORM OF ORGANIZATION

Morning Star Espresso Company will be organized as a sole proprietorship. It will be 100% owned by Kim Smart, who is a member of the Local Indian Tribe. As a federally recognized Indian residing on the Local Indian Reservation, Ms. Smart is exempt from certain sales and income taxes. For example, by having her capital equipment purchases delivered to her property on the reservation, Ms. Smart will be exempted from the 7.25% state sales tax pm a total of $435. In addition, she will be exempt from state income tax on the net profits of the business.
As a tribal member starting a small service business that will benefit

the local reservation economy, Ms. Smart is eligible to apply for a low interest small business loan. This low rate will save her money she would have paid in interest on the loan at the current 12% rate.

MANAGEMENT AND TRAINING PLAN

Kim Smart has been working on the Local Indian Reservation for the past 10 years. She has worked for the Financial Management division of the tribe for eight of those years and she has managed the local convenience store for the past two years.

During her employment for the convince store, Ms. Smart has developed valuable relationships with local suppliers that will benefit her new business venture. As store manager, she was responsible for all employee scheduling, inventory management, cash receipts and disbursements, and store security. She has also worked with the Tribal Business Department to update tribal business objectives.

A complete resume of Ms. Smart's education, training, and employment background is appended as Exhibit 4. Her past experience as tribal financial record keeping and convenience store manager has prepared her to undertake this new espresso business. She will receive additional training in small business management methods from the local Small Business Administration (SBA) at the closest SBA center. She will also receive technical assistance from the Local Indian Tribe's small business incubator.

One part-time worker will be required to assist Ms. Smart in running the drive-up espresso stand. The laborer will operate the espresso machine, cash register, and perform cleaning duties while on duty. Ms. Smart will advertise the position at the employment office of the Local Indian Tribe. Job qualifications will include a high school diploma or equivalent education, availability to work flexible hours, and a have recommendations from former employers. Ms. Smart will train the worker.

An organizational chart and complete job description for the part-time worker are included with Ms. Smart's resume in Exhibit 4.