



Week 4: **Build A Business Plan Investors Want to See**

PREP-WORK: READING

Overview

What is a business plan / 3-year Profit & Loss Forecast

- **Accounting based**
- **Forecasting**
- **Industry standards**

Why is it so important?

- **Planning**
- **Cash flow needs**
- **Forecasting supply chain**
- **Forecasting manufacturing for self or co-packer**
- **Investors**

1. Understanding Pricing

PRICING PITFALLS TO AVOID

- You **MUST** have pricing sheets - all customers must have the same listed price. (You can always discount with free cases.)
- Always ask if freight is included or FOB, be sure to include in COGS
- Do **NOT** change your pricing when costs go up, understand market fluctuations on commodity ingredients.
- Always back into your SRP - when determining your selling price.
- Understand margins per your category. Do your homework.



A. Cost Of Goods Sold (COGS) - Pricing is based on your actual and final COGS.

- i. Ingredients = cost of ingredients plus freight divided by quantity
For example = 1 Pallet of Sugar = 50 x 50 pound bags at \$2.25 per pound + \$175 shipping freight

Example

$50 \times 50 \text{ lbs} = 2,500 \text{ lbs} \times \$2.25/\text{lb} = \$5,625 + \$175 \text{ freight} = \$5,800$
 $\$5,800 / 2,500 \text{ lbs} = \$2.32/\text{lb}.$

- ii. Packaging: Be sure to include all related packaging, labels, sealing materials, cases, master cases, etc and related freight.

B. Gross Margins = How much you earn after COGS is deducted from sale.

- i. Wholesale: 40 - 60%
- ii. Distributor: Average 5% below Wholesale or 45 - 50% Margin
- iii. Direct To Consumer - If selling in retail, never less than SRP
- iv. Co-packers - Charge on average 12% - 15% above COGS
 - This may vary related to day rate options based on yield.
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WHOLESALE PRICE

$$\text{Price} = \frac{\text{cost}}{(1 - \text{margin})}$$

Cost = COGS Margin = 60%

Gross Margin \$ = GM \$ = Selling Price - COGS

Gross Margin % = GM \$ / Selling Price

i.e. \$5 selling price - \$2 COGS = \$3 GM



\$3 GM / \$5 Selling price = 0.6 or 60%

2. Sales Projections

Forecasting

A. The basic approach is to use a multiple of your sales by the number of “doors” or stores by the number of SKU’s by the number of “turns” or “velocity” per store per week. This calculation is performed per sales channel, as the variables will be different for each channel.

Monthly Sales = \$Revenue x # Doors x # SKU's x #Turns x Weeks

- Revenue above relates to the per unit revenue, i.e. \$2.00 per unit to distributor.
- Number of doors above relates to number of stores per sales channel
- Number of SKU's is the average number of SKU's each sales channel will carry.
- Number of turns is the average velocity of units sold
- For weeks, you can use a 4.3 weeks per month.

Velocity

You have to do your homework here as different food categories have different sales velocity expectations.

It is better to project a smaller percentage of turns or sales per unit per SKU per store for your forecast model than to not hit target goals. For example of a retailer tells you that strong sales is one case (12 units) per SKU per week for your product category, then start off forecasting maybe 8 units per SKU per week until you get real sales data to true-up your assumptions.



Marketing sales strategies will tie into the main goal of affecting increased velocity per store.

Number of SKU's (Stock Keeping Units)

When considering the number of SKU's as part of your product line and go-to-market strategy we recommend to potentially launch in retail with 3 - 4 SKU's to start. The more SKU's you can put on a shelf, the "facing", the more revenue you will produce, as more real estate space provides additional branding, which in-turn helps to capture customer's attention and increase sales. On average, all retailers may not carry 4 SKU's, but more often than not, they will at least carry 3. This is where understanding the business of retail CPG and the effect of larger facing on consumer purchase behavior can help you scale your business faster.

Remember that each sales channel will also have its own related range of assumptions for how many SKU's they may carry.

Number of Doors

Each business sales channel has a different approach to forecasting the number of "doors".

Retail: Volume is low in retail and increased doors makes all the difference. That being said, more doors also equates to increased marketing spend, samplings, store visits, etc. It is better to maximize sales opportunities in fewer stores first to build a success story and then replicate your winning plan into new stores and new regions.

Food Service: Volume here is much higher as compared to retail, but lead-time in getting these new accounts is often longer, so ramp up your acquisition of new accounts here. Distribution is also a factor, as distributors will require a certain volume of cases which will relate to a certain number of accounts before you go into a region, so new accounts may come-in in groupings and staggered throughout the year.



D to C: There are a few approaches to this, as you can use your website as one door and then use the velocity as moving factor and then add in other sites, such as Amazon or Thrive Market. The other way is to equate “doors” with number of people who order online and then check average and velocity become the driving sales factor.

3. Operational Costing

Operational costs are the costs related to generate revenue minus the COGS. These relate to many categories including:

Reduce	}	Trade Spend
From		Gross
Cash		Discounts
Revenue		Returns

4. Selling, General, and Administrative Expense_(SG&A)

Expenses

- A. Sales Related
 - i. Broker Fees
 - ii. Samples
 - iii. Slotting Fees
 - iv. Demos - Labor & Shipping
 - v. Travel & Warehousing
 - vi. Client Acquisition Entertaining

- B. Advertising/Marketing
 - i. Marketing Samples
 - ii. In-store Advertising
 - iii. Graphic Design



- Iv. Bloggers & Paid Ads
 - V. Merchandising Supplies & Travel
 - Vi. Online Social Media / Ad-Spend
 - Vii. Website SEO Management & Content
 - Viii. Video & Photography - web related content
 - iX. Promotional Materials - Swag
 - X. Trade Show related Expenses
- C. Professional Fees
- i. CPA
 - ii. Bookkeeper
 - iii. Legal / Attorney Fees
 - iV. Operations Advisor
 - V. Public Relations Agency
- D. Research & Development
- i. Food Scientist
 - ii. Ingredients
 - iii. Consultants
 - iV. Lab Testing
 - V. Test Production Runs
- E. Fees & Other
- i. Bank Fees
 - ii. Certifications, Licenses & Permits
 - iii. Credit Card Processing
 - iV. Dues, Memberships & Subscriptions
- F. Insurance
- i. Liability
 - ii. D&O
 - iii. Workers Comp
 - iV. Executive & Other



- G. Office
 - i. Office Lease
 - ii. Phone System
 - iii. Payroll - Personnel
 - iv. Supplies
 - V. Technology (Equipment & Software)
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5. Putting it all Together

A comprehensive financial model including the above as well as all cost related assumptions spread out over a three year period is optimum in providing investors a basis upon which to view and understand your potential growth.

We will use exercises to help you build out your model, and recommend that you review this with your CPA and financial advisor.

Although we recommend no-more than a three (3) year business forecast, please note that most investors will look at anything past one (1) year as purely theoretical. There is still a need to show growth as future years may coincide with new sales channels or new SKU and product launches. Your COG's will also reduce over the three year period while other expenses begin to increase as you build a larger internal team. These future forecasts also allow you to better forecast potential manufacturing needs when working with a co-packer.

Finally, a summary of your margins, revenue and profitability will be used in an investor pitch deck.

Additional Materials:

[Writing a Business Plan Makes your Startup More Likely to Succeed](#) | Harvard Business Review
[Video: The Explainer, How to Write a Great Business Plan](#) | Harvard Business Review
[Video: Building a Flexible Business Plan](#) | Harvard Business Review
[How Companies Should Prepare their Forecast](#) | Harvard Business Review