

Sample Business Plan

The following business plans are examples of what a completed business plan might look like. Use the instructions and information included in [The Business Plan for Independent Inventors](#) to fill out your own business plan.

Sample Business Plan for American Management Technology (AMT)

1.0 Executive Summary

By focusing on its strengths, its key customers, and the underlying values they need, American Management Technology will increase sales to more than \$10 million in three years, while also improving the gross margin on sales and cash management and working capital.

This business plan leads the way. It renews our vision and strategic focus: adding value to our target market segments, the small business and high-end home office users, in our local market. It also provides the step-by-step plan for improving our sales, gross margin, and profitability.

This plan includes this summary, and chapters on the company, products and services, market focus, action plans and forecasts, management team, and financial plan.

1.1 Objectives

1. Sales increasing to more than \$10 million by the third year.
2. Bring gross margin back up to above 25%, and maintain that level.
3. Sell \$2 million of service, support, and training by 1998.
4. Improve inventory turnover to 6 turns next year, 7 in 1996, and 8 in 1997.

1.2 Mission

AMT is built on the assumption that the management of information technology for business is like legal advice, accounting, graphic arts, and other bodies of knowledge, in that it is not inherently a do-it-yourself prospect. Smart business people who aren't computer hobbyists need to find quality vendors of reliable hardware, software, service, and support. They need to use these quality vendors as they use their other professional service suppliers, as trusted allies.

AMT is such a vendor. It serves its clients as a trusted ally, providing them with the loyalty of a business partner and the economics of an outside vendor. We make sure that our clients have what they need to run their businesses as well as possible, with maximum efficiency and reliability.

Many of our information applications are mission critical, so we give our clients the assurance that we will be there when they need us.

1.3 Keys to Success

1. Differentiate from box-pushing, price-oriented businesses by offering and delivering service and support -- and charging for it.
2. Increase gross margin to more than 25%.
3. Increase our non-hardware sales to 20% of the total sales by the third year.

2.0 Company Summary

AMT is a 10-year-old computer reseller with sales of \$7 million per year, declining margins, and market pressure. It has a good reputation, excellent people, and a steady position in the local market, but has been having trouble maintaining healthy financials.

2.1 Company Ownership

AMT is a privately-held C corporation owned in majority by its founder and president, Ralph Jones. There are six part owners, including four investors and two past employees. The largest of these (in percent of ownership) are Frank Dudley, our attorney, and Paul Karots, our public relations consultant. Neither owns more than 15%, but both are active participants in management decisions.

2.2 Company History

AMT has been caught in the vise grip of margin squeezes that have affected computer resellers worldwide. Although the chart titled Past Financial Performance shows that we have had healthy growth in sales it also shows declining gross margin and declining profits.

The more detailed numbers in Table 2.2 include other indicators of some concern

The gross margin % has been declining steadily, as we see in the chart.

Inventory turnover is getting steadily worse.

All of these concerns are part of the general trend affecting computer resellers. The margin squeeze is happening throughout the computer industry worldwide.

Past Performance	1994	1995	1996
Sales	\$3,773,889	\$4,661,902	\$5,301,059
Gross	\$1,189,495	\$1,269,261	\$1,127,568

Gross % (calculated)	31.52%	27.23%	21.27%
Operating Expenses	\$752,083	\$902,500	\$1,052,917
Collection period (days)	35	40	45
Inventory turnover	7	6	5

Balance Sheet: 1996

Short-term Assets

Cash \$55,432

Accounts receivable \$395,107

Inventory \$651,012

Other Short-term Assets \$25,000

Total Short-term Assets \$1,126,551

Long-term Assets

Capital Assets \$350,000

Accumulated Depreciation \$50,000

Total Long-term Assets \$300,000

Total Assets \$1,426,551

Debt and Equity

Accounts Payable \$223,897

Short-term Notes \$90,000

Other ST Liabilities \$15,000

Subtotal Short-term Liabilities \$328,897

Long-term Liabilities \$284,862

Total Liabilities \$613,759

Paid in Capital \$500,000

Retained Earnings \$238,140

Earnings \$437,411 \$366,761 \$74,652

Total Equity \$812,792

Total Debt and Equity \$1,426,551

Other Inputs: 1996

Payment days 30

Sales on credit \$3,445,688

Receivables turnover 8.72

2.4 Company Locations and Facilities

We have one location-- a 7,000 square foot store in a suburban shopping center located conveniently close to the downtown area. It includes a training area, service department, offices, and showroom area.

3.0 Products and Services

AMT sells personal computer technology for small business including personal computer hardware, peripherals, networks, software, support, service, and training.

Ultimately, we are really selling information technology. We sell reliability, and confidence. We sell the assurance to small business people to know that their business will not suffer an information technology disaster.

AMT serves its clients as a trusted ally, providing them with the loyalty of a business partner and the economics of an outside vendor. We make sure that our clients have what they need to run their business as well as possible, with maximum efficiency and reliability. Since many of our information applications are mission critical, we give our clients the confidence that we will be there when they need us.

3.1 Product and Service Description

In personal computers, we support three main lines:

The Super Home is our smallest and least expensive, initially positioned by its manufacturer as a home computer. We use it mainly as a cheap workstation for small business installations. Its specifications include

The Power User is our main up-scale line. It is our most important system for high-end home and small business main workstations, because of Its key strengths are Its specifications include

The Business Special is an intermediate system, used to fill the gap in the positioning. Its specifications include ...

In peripherals, accessories and other hardware, we carry a complete line of necessary items from cables to forms to mousepads ...

In service and support, we offer a range of walk-in or depot service, maintenance contracts and on-site guarantees. We have not had much success selling service contracts. Our networking capabilities ...

In software, we sell a complete line of ...

In training, we offer ...

3.2 Competitive Comparison

The only way we can hope to differentiate well is to define the vision of the company to be an information technology ally to our clients. We will not be able to compete in any effective way with the chains using boxes or products as appliances. We need to offer a real alliance.

The benefits we sell include many intangibles: confidence, reliability, knowing that somebody will be there to answer questions and help at the important times.

These are complex products, products that require serious knowledge and experience to use, and our competitors sell only the products themselves.

Unfortunately, we cannot sell the products at a higher price just because we offer services; the market has shown that it will not support that concept. We have to also sell the service and charge for it separately.

3.3 Sales Literature

Copies of our brochure and advertisements are attached as appendices. Of course one of our first tasks will be to change the message of our literature to make sure we are selling the company, rather than the product.

3.4 Sourcing

Our costs are part of the margin squeeze. As competition on price increases, the squeeze between manufacturer's price into channels and end-users ultimate buying price continues.

With the hardware lines, our margins are declining steadily. We generally buy at ... Our margins are thus being squeezed from the 25% of five years ago to more like 13-15% at present. In the main-line peripherals a similar trend shows, with prices for printers and monitors declining steadily. We are also starting to see that same trend with software

In order to hold costs down as much as possible, we concentrate our purchasing with Hauser, which offers 30-day net terms and overnight shipping from the warehouse in Dayton. We need to concentrate on making sure our volume gives us negotiating strength.

In accessories and add-ons we can still get decent margins, 25% to 40%.

For software, margins are ...

3.5 Technology

We have for years supported both Windows and Macintosh technology for CPUs, although we've switched vendors many times for the Windows (and previously DOS) lines. We are also supporting Novell, Banyon, and Microsoft networking, Xbase database software, and Claris application products.

3.6 Future Products and Services

We must remain on top of the new technologies, because this is our bread and butter. For networking, we need to provide better knowledge of cross platform technologies. Also, we are under pressure to improve our understanding of direct-connect internet and related communications. Finally, although we have a good command of desktop publishing, we are concerned about getting better at the integration of technologies that creates fax, copier, printer, and voice mail as part of the computer system.

4.0 Market Analysis Summary

AMT focuses on local markets, small business and home office, with special focus on the high-end home office and the 5-20 unit small business office.

4.1 Market Segmentation

The segmentation allows some room for estimates and nonspecific definitions. We focus on a small-medium level of small business, and it is hard to find information to make an exact classification. Our target companies are large enough to need the high-quality information technology management we offer, but too small to have a separate computer management staff such as an MIS department. We say that our target market has 10-50 employees, and needs 5-20 workstations tied together in a local area network; the definition is flexible.

Defining the high-end home office is even more difficult. We generally know the characteristics of our target market, but we can't find easy classifications that fit into available demographics. The high-end home office business is a business, not a hobby. It generates enough money to merit the owner's paying real attention to the quality of information technology management, meaning that there is both budget and concerns that warrant working with our level of quality service and support. We can assume that we aren't talking about home offices used only part-time by people who work elsewhere during the day, and that our target market home office wants to have powerful technology and a lot of links between computing, telecommunications, and video.

4.2 Industry Analysis

We are part of the computer reselling business, which includes several kinds of businesses:

1. Computer dealers: storefront computer resellers, usually less than 5,000 square feet, often focused on a few main brands of hardware, usually offering only a minimum of software, and variable amounts of service and support. These are usually old-fashioned (1980s-style) computer stores and they usually offer relatively few reasons for buyers to shop with them. Their service and support is not usually very good and their prices are usually higher than the larger stores.
2. Chain stores and computer superstores: these include major chains such as CompUSA, Computer City, Future Shop, etc. They are almost always more than 10,000 square feet of space, usually offer decent walk-in service, and are often warehouse-like locations where people go to find products in boxes with very aggressive pricing, and little support.
3. Mail order: the market is served increasingly by mail order businesses that offer aggressive pricing of boxed product. For the purely price-driven buyer, who buys boxes and expects no service, these are very good options.
4. Others: there are many other channels through which people buy their computers, usually variations of the main three types above.

4.2.1 Industry Participants

1. The national chains are a growing presence: CompUSA, Computer City, Incredible Universe, Babbages, Egghead, and others. They benefit from national advertising, economies of scale, volume buying, and a general trend toward name-brand loyalty for buying in the channels as well as for products.
2. Local computer stores are threatened. These tend to be small businesses, owned by people who started them because they liked computers. They are under-capitalized and under-managed. Margins are squeezed as they compete against the chains, in a competition based on price more than on service and support.

4.2.2 Distribution Patterns

Small business buyers are accustomed to buying from vendors who visit their offices. They expect the copy machine vendors, office products vendors, and office furniture vendors, as well as the local graphic artists, freelance writers, or whomever, to visit their office to make their sales.

There is usually a lot of leakage in ad-hoc purchasing through local chain stores and mail order. Often the administrators try to discourage this, but are only partially successful.

Unfortunately our home office target buyers may not expect to buy from us. Many of them turn immediately to the superstores (office equipment, office supplies, and electronics) and mail order to look for the best price, without realizing that there is a better option for them at only a little bit more.

4.2.3 Competition and Buying Patterns

The small business buyers understand the concept of service and support, and are much more likely to pay for it when the offering is clearly stated.

There is no doubt that we compete much more against all the box pushers than against other service providers. We need to effectively compete against the idea that businesses should buy computers as plug-in appliances that don't need ongoing service, support, and training.

Our focus group sessions indicated that our target Home Offices think about price but would buy based on quality service if the offering were properly presented. They think about price because that's all they ever see. We have very good indications that many would rather pay 10-20% more for a relationship with a long-term vendor providing back-up and quality service and support; they end up in the box-pusher channels because they aren't aware of the alternatives.

Availability is also very important. The home office buyers tend to want immediate, local solutions to problems.

4.2.4 Main Competitors

Chain stores:

We have Store 1 and Store 2 already within the valley, and Store 3 is expected by the end of next year. If our strategy works, we will have differentiated ourselves sufficiently to not have to compete against these stores.

Strengths: national image, high volume, aggressive pricing, economies of scale.

Weaknesses: lack of product, service and support knowledge, lack of personal attention.

Other local computer stores:

Store 4 and Store 5 are both in the downtown area. They are both competing against the chains in an attempt to match prices. When asked, the owners will complain that margins are squeezed by the chains and customers buy on price only. They say they tried offering services and that buyers didn't care, instead preferring lower prices. We think the problem is also that they didn't really offer good service, and also that they didn't differentiate from the chains.

4.3 Market Analysis

The home offices in Tintown are an important growing market segment. Nationally, there are approximately 30 million home offices, and the number is growing at 10% per year. Our estimate in this plan for the home offices in our market service area is based on an analysis published four months ago in the local newspaper.

Home offices include several types. The most important, for our plan's focus, are the home offices that are the only offices of real businesses, from which people make their primary living. These are likely to be professional services such as graphic artists, writers, and consultants, some accountants and the occasional lawyer, doctor, or dentist. There are also part-time home offices with people who are employed during the day but work at home at night, people who work at home to provide themselves with a part-time income, or people who maintain home offices relating to their hobbies; we will not be focusing on this segment.

Small business within our market includes virtually any business with a retail, office, professional, or industrial location outside of someone's home, and fewer than 30 employees. We estimate 45,000 such businesses in our market area.

The 30-employee cutoff is arbitrary. We find that the larger companies turn to other vendors, but we can sell to departments of larger companies, and we shouldn't be giving up leads when we get them.

Market Analysis . . . (numbers and percentages)

5.0 Strategy and Implementation Summary

1. Emphasize service and support.

We must differentiate ourselves from the box pushers. We need to establish our business offering as a clear and viable alternative for our target market, to the price-only kind of buying.

2. Build a relationship-oriented business.

Build long-term relationships with clients, not single-transaction deals with customers. Become their computer department, not just a vendor. Make them understand the value of the relationship.

3. Focus on target markets.

We need to focus our offerings on small business as the key market segment we should own. This means the 5-20 unit system, tied together in a local area network, in a company with 5-50 employees. Our values -- training, installation, service, support, knowledge -- are more cleanly differentiated in this segment.

As a corollary, the high end of the home office market is also appropriate. We do not want to compete for the buyers who go to the chain stores or mail order, but we definitely want to be able to sell individual systems to the smart home office buyers who want a reliable, full-service vendor.

4. Differentiate and fulfill the promise.

We can't just market and sell service and support, we must actually deliver as well. We need to make sure we have the knowledge-intensive business and service-intensive business we claim to have.

5.1 Marketing Strategy

The marketing strategy is the core of the main strategy:

1. Emphasize service and support
2. Build a relationship business
3. Focus on small business and high-end home office as key target markets

5.1.2 Pricing Strategy

We must charge appropriately for the high-end, high-quality service and support we offer. Our revenue structure has to match our cost structure, so the salaries we pay to assure good service and support must be balanced by the revenue we charge.

We cannot build the service and support revenue into the price of products. The market can't bear the higher prices and the buyer feels ill-used when they see the same product priced lower at the chains. Despite the logic behind this, the market doesn't support this concept.

Therefore, we must make sure that we deliver and charge for service and support. Training, service, installation, networking support-- all of this must be readily available and priced to sell and deliver revenue.

5.1.3 Promotion Strategy

We depend on newspaper advertising as our main way to reach new buyers. As we change strategies, however, we need to change the way we promote ourselves:

1. Advertising

We'll be developing our core positioning message: "24 Hour On-Site Service - 365 Days a Year With No Extra Charges" to differentiate our service from the competition. We will be using local newspaper advertising, radio and cable TV to launch the initial campaign.

2. Sales Brochure

Our collaterals have to sell the store, and visiting the store, not the specific book or discount pricing.

3. We must radically improve our direct mail efforts, reaching our established customers with training, support services, upgrades, and seminars.

4. It's time to work more closely with the local media. We could offer the local radio a regular talk show on technology for small business, as one example.

5.2 Sales Strategy

1. We need to sell the company, not the product. We sell AMT, not Apple, IBM, Hewlett-Packard, or Compaq, or any of our software brand names.

2. We have to sell our service and support. The hardware is like the razor, and the support, service, software services, training, and seminars are the razor blades. We need to serve our customers with what they really need.

The Yearly Total Sales chart summarizes our ambitious sales forecast. We expect sales to increase from \$5.3 million last year to more than \$7 million next year and to more than \$10 million in the last year of this plan.

5.2.1 Sales Forecast

The important elements of the sales forecast are shown in the Total Sales by Month in Year 1 table. The non-hardware sales increase to about \$2 million total in the third year.

Sales Forecast . . . (numbers and percentages)

2.2 Startup Summary

93% of startup costs will go to assets.

The building will be purchased with a down payment of \$8,000 on a 20-year mortgage. The espresso machine will cost \$4,500 (straight-line depreciation, three years).

Startup costs will be financed through a combination of owner investment, short-term loans, and long-term borrowing. The startup chart shows the distribution of financing.

Other miscellaneous expenses include:

*Marketing/advertising consultancy fees of \$1,000 for our company logo and assistance in designing our grand-opening ads and brochures.

*Legal fees for corporate organization filings (\$300).

*Retail merchandising/designing consultancy fees of \$3,500 for store layout and fixture purchasing.

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