

Business Plan

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BUSINESS PLAN

Purpose of a Business Plan

As the owner of your business, you probably have an extensive knowledge of your business and the industry you are in. Nevertheless, regardless of your current business stage, it is worthwhile for you to take one step away from your daily operations and spend some time to prepare a business plan and review it regularly as you work along. A business plan visualizes your thinking process about your own business and helps you to focus on where you want to go. It also acts as an operating tool to help you to evaluate your business performance. Hence, during the process of preparing your business plan, you will be able to assess how viable your business is, and what options and alternatives you may have for future business growth.

In practice, a business plan can also serve a critical role to obtain funding for development and growth of the business. It is an effective tool to facilitate your communication with external parties including banks, financial institutions and potential investors by means of a systematic presentation of your business.

While we stress the importance of a business plan, business owners should not deem that the preparation of a business plan ensures any financing opportunity. Each financial institution and investor has its own guidelines and criteria when considering a financing proposal, so conducting a business plan itself DOES NOT guarantee a higher chance in getting external funding.

General Principles of Writing a Business Plan

1. Make your business plan user-friendly, easy to read and understand.
2. Use charts and figures along with descriptions and interpretations.
3. Decide who is the reader: bank or investor, and tailor your business plan for specific purpose. For instance, you should focus on cash flow adequacy for banks and potential return with payback period for investors.
4. Follow a complete structure to present your business in an organised way.
5. Include a general market overview / market analysis to show your understanding of the industry and your business position.

6. Emphasize your business uniqueness, strengths and competitive advantages.
7. Develop realistic but aggressive projections, explain use of fund and expected payback period.
8. Complete all the sections of a business plan first, then put all the highlights in the Executive Summary concisely.
9. Review and edit before presenting it.

Tips to write a Business Plan

1. Tailor your business plan to suit different readers.
2. Focus on what the reader is looking for in a business plan, e.g., payback period, return on investment, etc.
3. Emphasise your real strengths.
4. Write in plain words, get to the point and make it clear and comprehensive.
5. Use figures, percentage and quantifiable information.

The attached template is only for reference.

BUSINESS PLAN

(Sample for Illustration)

Oi Fat Tat Ltd

For reference only

EXECUTIVE SUMMARY

General guidance

This is the most important part of your business plan. It provides a summary of the highlights of your business plan and tells the readers what you want. The length of this statement depends on the complexity of the business. Although this statement is put at the front of the document, it is the last section to be written, bearing in mind the following tips:

- *Have a concise statement to emphasize the main points of your plan.*
- *Technical jargons should be avoided.*
- *Tailor your business plan to suit different use.*
- *When using your business plan to raise finance, highlight the investment / loan amount required, how the funds raised will be used, how your company is going to generate sufficient cash flow to service the loan, and / or how your company is able to generate an acceptable rate of return for investors.*

Oi Fat Tat Ltd (“the Company”) operates a Hong Kong style café (Cha Chan Tan) for over 10 years in Quarry Bay, known as “Ah Oi Cha Chan Tan” (AH OI) (阿愛茶餐廳) that has become very popular because of its delicious breads, sandwiches, milk tea and coffee. Whilst its major customers include office workers and students around the area, it attracts people outside the district during holidays as well. In spite of fierce competition in the district, including 2 other Hong Kong style cafés and a big fast food chain café, AH OI has to deal with long queues of customers for most of the time.

Whilst the existing tenancy of the Company in Quarry Bay is based on a percentage on turnover and it has quite a significant impact on the Company’s profit, the Company is considering purchasing its own premises in Quarry Bay. The Company intends to raise HK\$25 million to finance the purchase of its own premises and another bread oven.

Section 1: THE BUSINESS

General guidance

You have to tell what your business really is, such as the nature and substance, the type of operation, to whom you sell, how the product is distributed, and the business' support systems. You should be specific in showing how you give your business a competitive edge.

When preparing this section, the following points could also be noted:

- (1) **Mission**¹
- (2) **Eco-coalition**²
- (3) **Attraction**³
- (4) **Trade situation**⁴
- (5) **Social relation**⁵

The mission of the Company is to operate a Hong Kong style café, “Ah Oi Cha Chan Tan” (AH OI)(阿愛茶餐廳), which provides good quality and hygienic food. The owner-operator of the café, Ms Lee Oi, believes that food should be prepared with fresh ingredients and with heart.

The target clientele of the Company is office workers and students around the area of the café. Since its opening in Quarry Bay 10 years ago, its business has been quite good, especially after the food commentators appraised the café in magazines and newspapers in recent years. It is a small scale Hong Kong café operated by 20 staff. Its signature foods include the crispy bun with kaya, peanut butter and milk, as well as the pineapple bun.

In spite of the reasonable level of business, the Company's profit margin has been eaten up by the rental, which is directly proportional to its turnover. The Company therefore intends to buy its own premises in a nearby location within 1 year. In light of the high demand for its food, the Company also intends to purchase another bread oven to increase the variety of food to be offered. As the café is well-known in the district, the Company is confident that the café at the new location will still attract customers.

¹ This is the core value of the business. Apart from generating profit, how the business can create betterment of the community could also be considered.

² Eco balance and environmental protection is a very popular topic nowadays. Things like sewage control, recycle fuels could be considered. Label your business green, it helps.

³ Tell people the niche, selling point of your business.

⁴ This refers to the macro-environment of your business.

⁵ How do you manage to carry out your social responsibility by being the owner of your business? How do you get involved in the local community?

SECTION 2: INDUSTRY ANALYSIS

General guidance

There are two elements to consider in preparing this section: an overview of the industry and a summary of your business' position within the industry. It helps to footnote major observations and sources of information for the data provided where appropriate, to show the reliability of the information.

2.1 Industry overview

General guidance

You need to understand the industry in which your business operates. Points to cover the industry include size, major players, the entry barriers⁶, the markets and customers, the profit margin, the national, economic and technological trend affecting it, any special regulation relating to it, and its long-term outlook, etc.

[Figures in the following two paragraphs are only for illustrative purpose. In writing your plan, you should footnote sources of information for the figures provided.]

In Hong Kong, there are about 600 quick service restaurants serving roughly 43 million customers a month, primarily in the 19 to 39 age group. There are even more Hong Kong style cafés selling Hong Kong style breads, sandwiches, milk tea and coffee to an age group of a broader range, from 18 to 60. Even though restaurateurs face enormous challenges, the Company perceives that the local food service industry still offers plenty of room for growth. The fast food sector suits the fast-paced Hong Kong lifestyle well, as evidenced in the fast food group's revenue share of the market, which jumped from 7% in 1986 to 17% today of the food and beverage receipts. Nonetheless, the percentage is still low when compared to other economies such as the U.S. and Japan, where the fast food industry accounts for 40% and 25% respectively of the total café receipts.

Whilst the entry barrier to this industry is not high and the average gross profit margin is in the range of 65% to 70%, the net profit percentage as compared to sales is normally trimmed down to 5% to 10% because of the high rentals and staff costs. Given the current economic condition, it is expected that some of the market players will not be able to survive.

⁶ Factors such as government policy, capital requirements for the particular industry, switching cost, changing technology, competitive pricing, existing patents and trademarks, etc, are to be considered.

2.2 Position in the industry

General guidance

Whilst the previous section covers the industry as a whole, this section refers more particularly to your own business. The mostly adopted way of presenting the company's position within the industry is by means of an analysis of the company's strengths and weaknesses, as well as the opportunities and threats in the external environment.

The Company is a small player in the industry. Its pricing is slightly higher than other Hong Kong style cafés, but is comparable to that of quick service restaurants.

Whilst the Company has successfully established its brand name "AH OI" because of its delicious food and beverages, a nearby big fast food chain café was opened three years ago. It took away the Company's business at the beginning, when there were some special discounts offered. However, the Company refused to compete by undercutting prices lest it would sacrifice the quality of food. "AH OI" believes that food should be prepared with fresh ingredients. In the end, the old customers came back again.

Another threat to the Company is the current poor economic condition. Quite a number of its customers might decide not to eat out. However, the Company also sees opportunities in face of the economic downturn. Some new customers who used to visit expensive restaurants may be attracted by the better deals at "AH OI" given its relatively lower prices and the option of take-away foods.

SECTION 3: MARKET ANALYSIS

General guidance

In this section, you need to demonstrate your knowledge about the marketplace you operate in, as well as the important trends and drivers. It helps if you can show that you have done the market research to justify what you say in this plan.

3.1 Target market

General guidance

You need to define the group of customers you want to target, characteristics of this group of customers such as their gender and income level, the geographic location of the group, the size of the group, the estimate of your share of this group, as well as your pricing strategy to achieve this share, and any factors which may cause your customers to switch to other products / services, etc. You can also indicate whether the particular market segment is growing or declining. Important trends and the reasons behind should also be illustrated.

The target customers of the Company are the office workers and students of the age group from 15 to 45. Although offices in Quarry Bay bring in a large group of office workers, due to the economic downturn, some of these office workers might lose their jobs because of cost control measures or even closing down of companies. For the students, they might have to bring lunch boxes instead of eating out because their parents want to save money.

Nonetheless, situated in an area with newly developed commercial buildings and two secondary schools, the market is anticipated to remain, though slightly affected by the current economic downturn.

3.2 Market segmentation and positioning

General guidance

You will need to identify a specific group of customer amongst your target group, and assess how your product / service is perceived and evaluated as compared to your competitors.

“AH OI” is quite confident that it serves a niche market for those customers with a preference for better food, service and ambience at a reasonable price. The Company is confident that its clientele will remain in spite of the current poor economic conditions given its good food quality, relatively cheaper price, cozy environment and good service.

Besides, amidst the recent economic downturn, some customers may tend to

spend less on eating out and shift from a la carte restaurant meals to take-away fast food at Hong Kong style cafés. This high-growth market segment also brings opportunities for AH OI's business expansion.

Moreover, the Company perceives that there is still room for its expansion and further growth along the fast food industry given that the fast food group's revenue share of the Hong Kong market is only 17%, as highlighted in the Industry overview section 2.1.

3.3 Competitor analysis

General guidance

First of all, identify who your competitors are. For each competitor, determine what their market share is, and estimate how long before new competitors enter the market. Identify your competitors' strengths and weaknesses. If possible, try to understand your competitors' operations such as their cost structures, major markets, size, sales, production methods, etc. It is not only important to understand why and how a competitor is doing so well, but also important to know what mistake a competitor has made.

There are two other Hong Kong style cafés in the district selling Hong Kong style breads, sandwiches, milk tea and coffee. However, one of them does not bake its own bread. For the other one, the food quality is not particularly good. Through some unofficial discussion and on site visits, it is noted that the services of both Hong Kong style cafés are not good. The waiters there are not very attentive to the customers and are slow in service.

For the nearby big fast food chain café opened three years ago, according to the customers who came back to AH OI, whilst it offers a broader range of food and efficient service, it lacks the coziness of AH OI. In addition, these customers find the food quality of AH OI better and prefer its food.

SECTION 4: MARKETING STRATEGY

General guidance

This section is crucial. It gives a good indication of the business' chance to succeed. It refers to your adoption of various means or ways that make your products / services known to your targeted customers and arouse their interest to purchase your products / services. You can start formulating by using 4P's approach, i.e., product / service, pricing, promotion and place.

4.1 Products / Services

General guidance

How do your products / services meet your customers' specific needs? You can focus on the uniqueness of your product / service and how customers benefit from using your product / service.

The Company mainly serves breads, sandwiches, milk tea and coffee, and it believes that food has to be prepared with fresh ingredients and with heart. In addition to the good quality of food and beverages, the Company ensures that each customer is served with care and diligence.

4.2 Pricing

General guidance

Is the price that you charge along with the market? Or are they value-for-money? Or are they charged at a premium that creates a social status that customers enjoy? The price you charge has to be competitive but still allows you to make a reasonable profit.

Since the Company chooses to use ingredients with good quality, its pricing is a bit higher as compared to other neighbouring Hong Kong style cafés and the fast food chain café nearby. Its gross profit margin is only about 63% as compared to the industry average of 65 – 70%. The Company believes that offering better food, service and ambience at a stable price is more important than lowering prices to attract customers. It refuses to compete for market share by price-cutting that sacrifices food quality.

4.3 Promotion

General guidance

This section describes how you are going to deliver your Unique Selling Proposition to your prospective customers. Which medium is the most effective way in reaching your target market? How much do you plan to spend on advertising?

Branding has played an important role in the Company's growth and is a core strategy to cultivate loyalty among its customers. While the Company has registered its brand name "AH OI", to attract its targeted customers to its café at the proposed new location, the Company will also invite food commentators to visit the new café for food tasting. In addition, the Company intends to highlight the good quality ingredients used for its food.

4.4 Place

General guidance

This refers to the distribution channel, physical or visual, to make your product / service easily accessible by your targeted customers. You can also consider the costs associated with the distribution channel, whether the distribution method affects production timeframe or delivery, etc.

The café of the Company has been in Quarry Bay for ten years. Whilst the location is in proximity to residential areas, it is also very close to office buildings and two schools. It is therefore easily accessible by its target customers. The Company intends to grasp this opportunity to purchase its own premises when property price in this district is not high to avoid its net profit being eaten up by rent, which varies with the level of revenue of the café.

SECTION 5: PRODUCTS AND SERVICES

General guidance

This gives a description of your products / services and your reasons that they can fulfill the needs in the market. Are they innovative? Do your existing products / services have new features that make them more attractive to users? Do you invent a new application of the products? Or can you charge the existing products at a much lower price because you have a way to lower your own cost? These are the cutting edges of your products /services that are appealing to investors. The statement that you make should refer to the findings and conclusion you presented in previous section.

You can also classify your products / services into 4 groups, animated by 4 icons, according to the market growth and market shares: Star⁷, Cash cow⁸, Dog⁹ or Question mark¹⁰.

The major foods of the Company are bread, sandwiches, milk tea and coffee. Its signature foods include crispy bun with kaya, peanut butter and milk (花生醬牛奶咖地豬仔包), pineapple bun (菠蘿包) and French style toast (西多士) that are prepared from secret recipes. It is also famous for its milk tea and coffee that are prepared from selected choices of tea leaves, coffee beans and milk. Set breakfast, set lunch and tea-sets at discounted prices are offered during different peak hours to encourage bundle sales. The café delivers fresh-from-oven breads to customers from time to time.

Because of the standard menu plus the efficient operation of the kitchen and staff, the turnaround time for each customer is only about 45 minutes. Despite the short average turnaround time, all staff ensure that each customer is served with care and diligence.

“AH OI”'s signature foods and drinks, including crispy bun with kaya, peanut butter and milk; pineapple bun; French style toast; milk tea and coffee are cash cow, which have a large market share in a mature and slowly growing industry. As “AH OI” is cash generating, it would like to purchase its own premises in order to avoid the volatile impact of rent on its profit.

⁷ This refers to business units with a high market share in a fast growing industry. Sustaining the business unit's market leadership may require extra cash. When growth slows, stars can become cash cows if they have been able to maintain their category leadership.

⁸ This is the business unit with high market share in a slow growing industry, and generates cash in excess of the amount of cash needed to maintain its business. Investment may not be worthwhile as it may be wasted in an industry with low growth.

⁹ This refers to business units with low market share in a matured, slow growing industry. They typically “break even” and generate barely cash to maintain the business units' market share.

¹⁰ Question marks are growing rapidly and thus consume large amounts of cash. However, as they have low market share and do not generate much cash, they need to be analysed carefully to determine whether investment is worthwhile.

Compared with the aforementioned signature foods and drinks, “AH OI”’s fresh-from-oven breads are ready take-away consumption items. They can support “AH OI” to expand in the take-away segment of the fast food market, which has a high market growth potential when more and more customers tend to spend less on eating out amidst the economic downturn and switch to the take-away fast food items. Therefore, its fresh-from-oven breads are a potential star for “AH OI”. To achieve a higher market share in the high-growth take-away segment, “AH OI” plans to purchase another bread oven.

SECTION 6: ORGANISATIONAL STRUCTURE

General guidance

You should set out the ownership structure, your management team and the organizational structure in this section. Backgrounds of key members of the management team, personnel strategy and details could be included. This is important as it sets out how the experiences of these key members can help the business to be successful. The organizational structure provides a basis to project the operating expenses. Depending on the nature and size of the business, you should determine the type of personnel required to perform the required tasks and whether there are any gaps that need to be filled.

The Company's key management includes Ms. Lee Oi (Oi) (李愛) and her two brothers, Mr. Lee Sheung Fat (Fat) (李想發) and Mr. Lee Sheung Tat (Tat) (李想達). Oi is the founder of the café. In the first few years, the café was run by herself as an unincorporated business together with about 10 staff. Since the business has become very busy all the time, she decided to incorporate a company known as Oi Fat Tat Limited and invited Fat and Tat to join as shareholders and directors.

Oi, aged 40, is the Managing Director and is responsible for the strategic planning and business development. After graduation from high school, she studied in a cooking institute and has been working in the catering industry for over 10 years before starting her own café. In 2004, she attended and passed the newly launched Western Cuisine Trade Test as developed by the Hospitality Industry Training and Development Centre of the Vocational Training Council in collaboration with the German Chamber of Industry and Commerce. This trade system is approved and recognized by all the European Union countries.

Fat, aged 45, is the General Manager. Before joining the Company, he used to work for the leasing department of a large property development company and is very experienced in customer service and in product sales.

Tat, aged 30, is the Financial Controller of the Company. Before joining the Company, he used to work in a medium-sized local audit firm. He looks after the books and accounts of the Company. With the agreement of Oi and Fat, Tat also provides freelance book-keeping services for other companies on a part-time basis.

This is the only café of the Company and there are 2 chefs, 2 bread-makers, 2

tea-makers, 5 waiters on each of the 2 shifts and 2 cleaners in the café. The Head Chef, Mr. Lam Kin Loong (Uncle Loong), aged 43, has over 25 years of experience in cooking for Hong Kong style cafés. Whilst Oi invented some secret recipes from time to time, Uncle Loong is able to ensure that food's quality is maintained. The Head bread-maker Mr. Chan Ming (Ah Ming), aged 38, has over 21 years of experience in bread making for bakeries and Hong Kong style cafés. Mr. Wong Chiu Yan (Brother Yan), aged 45, looks after the bar. Brother Yan has over 15 years of experience in making milk tea and coffee.

SECTION 7: OPERATIONAL PLAN

General guidance

In this section, you need to describe how the company's production and operational management, marketing and human resources management and financial management are done. This includes who your suppliers are, what alternative arrangements you have in place if these suppliers let you down, the quality control measures you have made, etc. You may show that the internal control and risk management systems are in place. Assessing the risks is also very important. You should consider a range of what-if scenarios and how you plan to mitigate these risks.

Purchase, production and operation management

The Company has at least 2 suppliers for each kind of production materials and sub-materials to ensure that the prices are competitive and to mitigate any risk should anything go wrong with any of the suppliers.

Since the sanitary condition is very important for food industry, Oi inspects the kitchen and the restaurant on a monthly basis to ensure full compliance with the local authorities' requirements.

The café has 10 sets of 4-partitioned seats (卡位) and 12 round tables each of which can accommodate 4 seats. The total capacity of the cafe is therefore 88 seats.

At 5 am, the 2 bread-makers start making and baking breads for that day. At 7 am, the café opens. Since most customers are regular customers, the waiters know them well and are familiar with their choices of food. As such, they do not need to ask this group of customers for details before taking orders, leading to faster turnaround time to the benefit of the business of the café. Fat and his wife and Oi act as cashier alternatively. To ensure good customer service and a hygienic environment for customers, they also take turns supervising the operation of the café, which includes assigning seats, clearing tables, and taking orders of those customers that are not being taken care of when all the waiters are fully occupied.

Marketing

Since AH OI is itself a well-known brand name in the district, the Company does not make much marketing effort at the moment.

Human resources management

The Company has about 20 staff. To motivate them to work as efficiently and diligently as possible, 5% of the net profit before staff costs is distributed to all the staff on a pro-rata basis (based on basic salary) before Lunar New Year every year as their bonuses.

Financial management

The Financial Controller, Tat, produces management accounts within 10 days after each month.

SECTION 8: FINANCIALS

General guidance

In this section, you need to demonstrate whether your business is financially viable. Basically, you should prepare three-year projections of the following statements: Projected income statement¹¹, Projected cash flow statement¹² and Projected balance sheet¹³. Financial ratios and key performance indicators such as break-even, turn-around time, profitability ratios, payback period, rate of return on investment, liquidity ratios and stock turnover can also help readers to have a better understanding of your financial and operational performance. A realistic sales forecast forms the basis for all your other figures. For every forecast, list all your key assumptions such as prices, sale volume, timing, etc.

Included in **Appendix I** is the financial forecast incorporating the financial need of the café for the next 3 years and how the bank loans will be used if it is successfully obtained.

Except for some traditional festivals (including Chinese New Year, Mid-Autumn Festival, Winter Solstice), the café opens at 7 am and close at 7 pm every day. Because the meals sold are all fast foods, coupled with, the efficient operation of the kitchen and café staff, the turnaround time for each customer is only about 45 minutes. Given that the average expenditure of each customer is \$30, the turnover each year for each of the 88 seats is 5,760 times, and the anticipated occupancy is 90%, the total revenue of the café for a year is around HK\$13.7 million.

The gross profit ratio of the café is about 63%, i.e., the gross profit of the café is approximately HK\$8.6 million. Since the rent of the premises is based on 11.5% of revenue, the rental expense of the Company is HK\$1.6 million. The staff cost of the Company is about HK\$ 2.6 million (including 5% bonus on net profit before staff costs). After deducting some other items of other operating expenses, the yearly net profit of the café is about HK\$2.2 million.

During 1997, 2000 and 2003, the prolonged economic slump has had little bearing on the business of the Company. It has recorded growth in profits ranging from 3% to 5% in the past five years.

¹¹ It gives a clear indication of when and why the business is profitable.

¹² It shows how much money you expect to be flowing into and out of your bank account and when. You must show that your business will have access to enough money to survive.

¹³ This shows the financial state of your business on day one and at year end.

Assuming that HK\$25 million is raised for the purchase of the property and another bread oven, no rental will therefore be required starting from 2010, which will however be replaced by an interest expense of approximately HK\$800,000 (assuming interest rate at a current market average of 3.5% p.a.) and an increase amount of depreciation expense.

Note: This appendix is only for illustrative purpose.

Appendix 1

Oi Fat Tat Ltd - Profit and loss forecast

	2009	2010	2011
Operating capacity			
Capacity constraint	88	88	88
Average price	30.00	30.00	30.00
Turnover	5,760	5,760	5,760
	15,206,400	15,206,400	15,206,400
Anticipated occupancy	90%	85%	90%
Budgeted Sales	13,685,760	12,925,440	13,685,760
Gross profit	8,622,029	8,143,027	8,622,029
Less: Expenses			
(i) Major operating expenses			
Salaries	2,572,500	2,695,500	2,654,600
Directors' remuneration	945,000	945,000	945,000
Rent	1,573,862	-	-
Utilities	240,000	240,000	240,000
Miscellaneous	219,318	219,318	219,318
(ii) Other expenses			
Professional fees	15,000	15,000	15,000
Business registration fee	450	450	450
(iii) Depreciation and amortisation			
Depreciation	526,000	1,193,200	1,193,200
Amortisation	360,000	-	-
Profit before interest and tax	2,169,899	2,834,559	3,354,461
Interest expense (per below)	-	840,000	770,000
Profit before tax	2,169,899	1,994,559	2,584,461
Tax	358,033	329,102	426,436
Profit after tax	1,811,866	1,665,457	2,158,025
Accumulated profits brought forward	2,235,666	4,047,532	5,712,989
Accumulated profits carried forward	4,047,532	5,712,989	7,871,014
Assumptions			
Gross profit margin	63%	63%	63%
Interest rate	-	3.50%	3.50%

For reference only