

Business plan for:

MoogTech Ltd.

This is an example of what a business plan can look like.

The content in the following business plan is based on two people starting a software company called MoogTech. They specialize in "electronic commerce and payment."

MoogTech is a fictitious company that only seeks to serve as an example of how a business plan can be organised.

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Background Information

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Resume

MoogTech Ltd. develops, implements and services small business administrative software so it can be used for electronic commerce and online payment.

Our customers are metal and electronics companies that are subcontractors to larger companies. These companies will be first "hit" of the requirement to introduce electronic commerce and payment.

The average total price for our product will then be: 57,000 with a margin of 51,000 per. customer - it gives a 79% contribution ratio.

Turnover in the first year is calculated to 654,000 with a profit of 250,000 – of which we will draw our "salary"

We believe it will be realistic to find and carry out tasks for 10 clients in the first year. Once the businesses realize that they have to be able to handle electronic payments, they will contact us - if they know we exist.

The company is a Ltd. and is owned by Mogens Thomsen and Vitthal Chaydhry.

Mogens Thomsen trained engineers specializing in networking and has worked for two years in a computer firm, dealing with the internet.
Vitthal Chaydhry is MBA from the business school and has worked for two years in an accounting department.

The company's idea

MoogTech Ltd. develops, implements and services small business administrative software so it can be used for electronic commerce and online payment.

The company's products / services:

- Product 1: Formulation of strategy paper/presentation for the client that provides a basis for assessing the advantages & disadvantages of electronic commerce and online payment.
- Product 2: Implementation of the strategy paper: Combination of the company's current administrative software with the new software, electronic commerce and online payment required.
- Product 3: Service Contract with max. 4 hour response time.

Clients:

Clients are companies with over 20 employees who are subcontractors to larger companies.

The need company will cover for the customer:

Smaller companies will soon be forced by larger companies to be able to trade and invoice electronically.

What is special about this company compared to competitors?

Other computer companies may also work in this area, but unlike them we have it as a core business.

Personal goals and resources

Therefore I start a business:

We have long wanted to be our own boss, because we think we have some qualifications, and that we can capitalize on this.

Education and experience:

One owner is a qualified engineer specializing in networking and has worked for two years in a computer firm, dealing with the internet.

The other owner has a MBA from business school and has worked for two years in an accounting department.

We have both worked with computers since childhood.

Economy:

We have each saved 25,000 and our demand for daily earnings are low, since none of us have our own home yet. Our parents have promised to guarantee for the additional 25,000 each.

Knowledge of services / products:

Education and professional experience has provided a good experience about the product or rather on its development. We do not have much experience with the exact product, but a deep knowledge of computer implementation.

My strengths in relation to the company:

Together we cover the technical and economic management part of the business. We have the drive and do not have large financial obligations, since we are both single. We already have a warrant in the house.

My weaknesses in relation to the company:

We are not very sales oriented. We lack capital. One owner has no driver license. We find it hard to price our service.

Expectation of earnings in the first year:

We expect a monthly salary of around 15,000 the first year. Profits will be invested back into the company.

Expectation of earnings in the third year:

The third year we would like to have around 30-35000 per month - in line with our employees.

Expected working time:

The first three years we will spend all our time at the company. Saturday is reserved for other purposes and possibly Sunday morning.

My job in the company:

One owner should preferably be in charge of the technical implementation of the service, while the other must sell and manage the company.

Ownership in the company:

We establish a limited company (Ltd.) with 50-50 ownership.

The company's future size:

We calculate that the company must grow to 10-20 people. We do not think it's fun to manage a too large company so 10-20 employees will be the optimal size for us.

Product / service

The company has the following products/product groups/services:

- Product 1: Formulation of strategy paper/presentation for the client that provides a basis for assessing the advantages & disadvantages of electronic commerce and online payment.
- Product 2: Implementation of the strategy paper: Combination of the company's current administrative software with the new software, electronic commerce and online payment required.
- Product 3: Service Contract with max. 4 hour response time.

The products/product groups/services cover these needs:

Smaller companies will soon be forced by larger companies to be able to trade and invoice electronically.

In addition, companies realize that there is a lot of money to be saved by using this payment method.

Products/product groups/services different from your competitors:

- Product 1: Other computer companies may also work in this area, but we have it as our core business. We provide special expertise.
- Product 2: The starting point is our customers' existing solutions and we have specialized in developing customer oriented solutions so we can use their existing administrative software.
- Product 3: We are not driven by well-known manufacturers of hardware and software, but entirely of our own strategy and the demands our customers ask of us.

Purchase Rate/lifetime of the product

Product 1 + 2 (strategy paper and implementation) is a one-time purchase
Product 3 (service pack) is an annual event.

Calculation of product/service:

Product 1:

- Cost: 10 hours + driving;
- Selling price: 8.500;
- approx. gross profit: 8.500. (Contribution ratio: 100%):

Product 2:

- Cost: 15 hours + driving + software for 6.000;
- Selling price: 39.000
- approx. gross profit: 33,000 (Contribution ratio 85%)

Product 3:

- Cost: 10 hours + driving;
- Annual subscription: 9.500; approx.
- Gross profit: 9.500. (Contribution ratio: 100%)

Price of product:

Reflections of the above cost calculation: The price can be relatively high because it signals quality, customers are forced to buy our services because of their customers wish to pay electronically and high price is customary for using high level IT consultants.

The average total price for our product will then be: 57,000. We are considering writing off 50% of strategy papers price if the customer orders product 2 +3. We have not incorporated this idea into our budget.

Names of suppliers of the product:

The only major supplier, we need, is RiisData Software – the company that developed the software we use.

Form distribution/sales channels for the product:

Distribution is directly between us and the customer. There is no place for intermediaries, since we only sell business-specific services.

Other companies/suppliers in this industry:

There are approx. 200 data businesses nationwide, but results from the database "Business Data" say that there are only 20 in our area. Since our business focus (online payment) is fairly new, "old companies" sell many different IT services which in turn gives us fewer competitors.

Industry development:

There are unlimited possibilities for growth within the industry, because virtually all businesses within the next 2-5 years shall be able to handle electronic payments.

Market Description

Customers like the company's product because:

They are forced by their customers to buy the product, but they could also save time on the economy and stock management.

The typical business customer:

The typical business customer will be a metal and electronics company that is subcontracting to larger enterprises. These companies will be first "hit" of the requirement to introduce electronic commerce and online payment.

Geographical demarcation of their customers:

There are a large number of customers, so we will start to search for metal and electronics companies in North-Western part of the country where we live. We also believe being close to the customer to be a major selling point .

According to the results of a search in a business database there are 899 manufacturing companies in North-Western parts of the country that has between 10 and 100 employees.

Realistic number of clients:

We believe it will be realistic to find and carry out tasks for 10 clients in the first year. Once the businesses realize that they have to be able to handle electronic payments, they will contact us - if they know we exist.

A typical order is probably going to cost 50-60,000

The main competitors:

Our main competitors are the companies currently installing financial programs C5 Microsoft Dynamics/Navision. Should they decide to go to our business, we will have tough competition, as they already have contact with customers and find it reasonably easy to import trade and payment of their range. Fortunately, there is still enough work in sales and adjustment of financial systems, so there is room for our business.

Strengths and weaknesses of competitors:

Our competitors are known to work with economics applications and therefore have no special knowledge of electronic payments and commerce. However, they will soon be able to cultivate the expertise. They have a customer database today.

The main parameters of competition in the market:

Security for the success of implementation is paramount. Companies get stuck without their computers, so trust in our expertise is necessary.

Assessment of business opportunities in the market:

MoogTech Ltd. Has, like the rest of the industry, big rewards in sight if we are able to provide a high quality product.

Threats to destroy the possibilities:

It is hard to see what circumstances can destroy the possibilities. Even a recession will not affect the requirement for electronic commerce and payment. However, changes to the payment standards and the technology we have chosen could give us a setback of a few months.

Sales and marketing

Ongoing sales and marketing activities for start-up:

Most of our sales and marketing work will be undertaken by direct mailing to businesses in the target group.

Of the 889 manufacturing companies in north-western part of the country with between 10 and 100 employees, we will select 50 companies who will receive a mail.

Subsequently, we conduct a telephone call, which hopefully will be followed by a customer visits.

We have developed easily understandable material that tells about the advantages of electronic commerce and payment. We have contacted a start-up ad-agency that can perform this work. We intend to dress in "casual work uniforms" to ensure that we always look good when we're out working with customers.

None of us like sales work, but we must both work with it at first.

Annual costs for marketing:

Costs will be quite small, since we can do with letters and telephone; however, we have to devoted many man hours to the work.

Public Relations (PR) at the opening of the company:

Since we are the first to make a firm specializing in electronic commerce and payment, we can maybe get an article in the regional business magazine.

Possibly we can freely implement one of our products for a local factory and use this case a door breaker to the local newspaper.

The girlfriend of a good friend is a journalist at the regional newspaper, and she has promised to write a press release for us.

Organizing the company

Legal Form:

Our company is limited companies. Together with a lawyer, we will have made “partners contract” that specifies our obligations to the company and each other.

Bank details:

National Bank, North-Western branch

Auditor:

Registered auditor Peter Rose, Grosse Street, South Ville

Requirements for the location / room:

MoogTech Ltd. does not require a customer-friendly location - rather, an employee-friendly location close to both the city and highway, if it exists. The northern part of the city will be a good place, as both owners are from this part of town and rents are reasonable.

We need approx. 50 m² for a start-up and to expansion 2-400 m² in about three years.
M² price per. years is approx. 440 in northern city = 22,000

Necessary equipment / furniture / car:

2 updated CPUs, phone, 2 mobile phones, software, office furniture, etc. = 60.000.

We do not want to create web-hotel, but will use existing providers.

Operational Policy:

- Pricing policy: Same price for everyone.
- Discount Policy: Minus 50% of service if the product purchased 2 +2.
- Payment Terms: Cash + 14 days.
- Warranty service: After the system has run flawlessly for 14 days provided no guarantee.
- Services: In the top if purchased subscription.
- Customer service: The customer is entitled, if it does not cost us over 2 hours.
- Personnel Policy: Our most important resource is skilled and motivated employees.
We need to find something so they want to be with us and it should preferably be more than just salary.

Workflows for accounting and administrative routines:

Daily booking: We will not have so many documents in the beginning because we have few but large customers, so the first year or so one of the owners will be responsible for the daily administration. If it is too much, we'll hire a freelance bookkeeper to do the work.

After a year's time we may employ administrative staff to serve clients, consultants and business generally, inc. daily bookkeeping and administration.

Important sparring partners for the company:

We feel we are quite good at dealing with our product but within the development and managing the company, we lack knowledge and competence.

We will therefore try to put together a sort of board of directors consisting of my father, who is a trained banker, a former fellow student who works at an advertising agency and an uncle who works at a large auditor's office.

Enterprise development

Company in 1 year - 2 years?

In about 2 years, we expect that a team of 15 men and women, which is close to the maximum, we will be. Further expansion will be done by core staff that are allowed to start a sister company in the relevant neighbouring cities.

Products / services it sells on the respective 1-3 years:

MoogTechs services will three years from now be same.

We will focus on the employees always knowing the latest developments in the area because the software we use will probably be obsolete in three years time. We will therefore have to spend a lot of money/time on training

The company's customers, respectively, 1-3 years:

Customer group will be developed to include all types of businesses as the requirements for use of electronic commerce extends to all types of businesses.

The company's projected turnover for 1-3 years:

Each consultant must earn over 1 mil. a year, so sales should reach 15 mil. It requires that every consultant on an annual basis must implement the 25 configurations at the customers; it will be a good three customers on workable months. (11 months)

The company's expected profit for two years:

Each employee must min. deliver 100.000 in profits, i.e.1.5 mil.

Other objectives of the company:

It is important that employees thrive. This should be achieved through high degree of autonomy, building a "company spirit" and through a form of profit sharing.

Financing

The necessity of establishment of capital:

(From establishing budget)

- 85.200

Needed liquidity:

(Liquidity Requirements calculated using a cash budget)

- 55,000

Total funding:

(Establishment + cash)

- $85,200 + 55,000 = 140,200$

Expectations / commitments for loans / grants from:

Owner:	50.000
Family:	0

Bank loans:	50,000
Overdrafts	60,000
Total Funding:	160,000

Security for loans:

Both parents will place 25,000 in security for bank loans

Budgets

Establishing budget for MoogTech Ltd.	
Expenditure	currency
Premises:	
2 month rent x 2500	5.000
Payment for the purchase of premises or business	0
Deposit for renting (3 months' rent)	7.500
Goodwill	0
Fitting and repair	5.000
Production equipment:	
Machines - (2 CPUs x 12.000)	24.000
Tools	0
Other:	0
Store Inventory:	
Cash Register	0
Disk	0
Other:	0
Office furniture:	
Furniture (desk, office chair, bookcase, etc.).	12.000
EDB (Printer, network, etc.).	5.000
Phone	1.200
Fax	0
Copier	4.000
Other: Mobile Phone, etc.	6.000
Purchase:	
Raw materials / intermediates	0
Finished (stock)	0
Stationery	0
Other:	0
Car:	
Payment for car	0
Other acquisition costs	0

Advisors:	
Lawyer (Creating the / s contract)	5.000
Auditor (We use "Free advice ...")	0
Other:	0
Marketing:	
Letterhead, business cards etc..	4.500
Brochures	3.000
Ads	0
Signs	0
Reception for opening	3.000
Other:	0
Other expenses:	0
Design protection / IPR	0
Other:	
Total Expenditure:	85.200

Operatingbudget for MoogTech Ltd. - Example		
Period	1/1 2012 to 31/12 2012	Year 1
Turnover (product sales)		
Sales 1 (13 strategy paper x 8,500)		110.500
Sale 2 (12 total deployment x 39,000)		468.000
Sale 3 (8 subscription service x 9,500)		76.000
Total Turnover:		654.500
Variable costs		
Materials (12 software purchases x 6000)		72.000
Wages and salaries		
Free-lance consultant		
Transportation		
Other		
Total variable costs:		72.000
Gross profit: (Turnover - Variable costs)		582.500
Fixed costs		
Salary owners (We split the "Net profit")		0
Freelance technical assistance (50hours x350)		17.500
Freelance bookkeeper (2h.x 45weekw x 200)		18.000
Connecting to remote server, etc.. (12mdr x 1500)		18.000
Local Hire (12 x 2.500)		30.000
Electricity, water and heat		10.000
Rep. and legendary. of premises		2.000
Cleaning		
Operation of car / driving allowance (40,000 km a 1.60)		64.000
Travel		10.000
Stationery		4.500

Postage and Fees (1200 letters a through. 4.25)	5.100
Phone (4 quater x 1000)	4.000
Fax	
Mobile Phone (2 x 4 quarter x 2500)	20.000
Marketing / Ads / Advertising	5.000
Representation	5.000
Meeting expenses	
Non-fiction (10 books x 350)	3.500
Insurances (sickness, liability, contents, car)	13.500
Quotas	
Course Cost	
Computer equipment / software - new small scale purchase	30.000
Leasing Tax	
Consumables - no computer / software	20.000
Legendary.	
Auditor	8.000
Lawyer	5.000
Other advice	
Unforeseen costs	1.000
Fixed costs in total:	294.100
Earnings before interest and depreciation (Gross profit - Fixed costs):	288.400
Interest	
Interest on bank loans	4.700
Interest on overdraft	11.992
Other interest	2.000
Total interest:	18.692
Depreciation:	
Operating	19.049
Other	
Total Depreciation:	19.049
Fixed costs incl. interest and depreciation:	331.841
Net profit (Gross profit - Fixed costs - Interest - Depreciation):	250.659