



## **Annex 5: Sample business plan for business in the service industry**

### ***In which business field am I?***

In the process of creating your business plan, the first question which you must answer is the following: In which business am I actually? At first this question might seem extremely simple to us: You say: “If there is something I can do, I will go to this business.” But wait! Some of the proprietor managers have bankrupted and others have lost their last savings because they hadn’t answered correctly exactly to this question. The change of services which a barbershop provides – from haircuts to coiffures is an example of contemplating the essence of the question “What business am I in?”

Let’s look at the following example: Mister M. owns a small firm for radio and television receivers. He considers his firms as a retail store, although he does also the service and repair of the receivers that he sells. When his neighborhood grew bigger, other stores for selling receivers have emerged which has considerably decreased the quantity of his sales. The need of qualified service and repair though has increased several times. When mister M. considers the situation given he decides that the business which he should endeavor with is in the sphere of the technical service and repair. As a result he transfers the activity of his firm in this direction and he concludes a contract to take care of the service and repair of the receivers sold in one of the retail stores.

Decide in which business you are and write down the answer in the free space bellow. Consider the following questions:

- What inventory and materials do you need to have in stock?
- What services do you provide?
  
- What services do people seek for, and you don’t provide them?
- What do you do better or different than your competitors?



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## **Marketing**

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When you have decided in which field of business you are, you have already taken your first marketing decision. The successful marketing beginning starts from the proprietor manager. You should know the essence of your work and the needs of your clients. The following blocks are created in order to help when creating your firm's marketing plan. The blocks are divided into three sections:

Section 1 – Defining the sales potential

Section 2 – Attracting customers

Section 3 – Sales to the consumers

### **SECTION 1**

#### ***Defining the sales potential***

In the service sphere your sales potential depends on the region which you serve. This is in fact the number of customers in your region which need your services. Will your clients be the trade, industrial or consumer's type?

When choosing the place to situate your business, you must take into consideration the essence of your services. If you are executing supplier activity, you will need a location, the travel time for which will be little and where you can later on install a radio intercom system. But if the client has to come to your firm, the place must be convenient and easy to find.

You must chose this location for your firm which will bring you the biggest income. The following questions will help you resolve this problem.

When choosing a region to serve to, you must take under consideration:

- the population and its eventual growth;
- the incomes, age and activities of the population in this region;



- the number of competitors in and around the suggested location;
- local legislation and zonal rules;
- the type of trade region (trade, industrial, seasonal, perpetual).

Additional help when choosing the location you can seek from the local trade fellowship, from the producer or the distributor of the equipment you will be using.

You must also have in mind the following questions when defining the exact location of your firm:

- Would the clients come to this place?
- How much space do you need?
- Would you need an expansion later on?
- Would you need additional accommodations such as electricity, heating, ventilation?

***Is there a parking available?***

- Are there vehicles of the public transport passing nearby?
- Is the location favorable for casual customers to pass by?

***Will you be the one providing the supply?***

- Will the travelling to the customer consume too much time?
- Will the travel expenses be included in the price?
- Will a highway or another road artery near to your firm location decrease the travel time?
- If you choose a distant location, will the savings from the rent price compensate this inconvenience?
- If you choose a distant location, will you have to pay for advertising as much as you would save from the rent?



- If you choose the distant location, would your client be able to find your firm easily?
- Will you be able to provide the necessary qualified staff?
- What are the zonal rules in the region?
- Will there be a police station or an office of the fire department nearby?
- Will there be need of an insurance against crimes and if such need is present – at what cost could this happen?
- I intend to locate my firm in .....,  
because .....

Does the place where you plan to locate your firm have a strong economic base? For example, do the nearby enterprises work all day long? Are there enterprises being shut down during the last few months? Will there be new enterprises opened in the next few months?

Write down your opinion regarding the economic basis of the region and the reasons for your opinion:

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**Will you build? ...** What are the conditions of the loan or mortgage?

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**Will you take on lease? ...** What are the lease contract conditions?

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**Does the appearance of the building satisfy you?**

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**Is it well maintained? ... Will a reconstruction be needed? ...**



Expenses of the reconstruction \_\_\_\_\_

What additional services does the proprietor of the place offer? \_\_\_\_\_

What is the structure of the competition in the region? \_\_\_\_\_

What is the number of the firms which you will operate with? \_\_\_\_\_

According to you, is the market in this region saturated? \_\_\_\_\_

How many of the firms are prosperous? \_\_\_\_\_

Do they have any advantages comparing to you? \_\_\_\_\_

How many of them are barely managing? \_\_\_\_\_

How many firms with activities similar to yours have left the business in this region during the past year? \_\_\_\_\_

Can you find the reasons for their failure? \_\_\_\_\_

How many firms with activities similar to yours have started their activity during the past year? \_\_\_\_\_

What are the prices of your competitors' services? \_\_\_\_\_

Which firm or firms in the region will be your biggest competition?

\_\_\_\_\_

**Enumerate the reasons for your opinion:**

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**SECTION 2**

***Attracting customers***

Once you have already taken the decision concerning your firm's location, you must also consider another important marketing aspect. How will you attract the customers to your firm? How will you make your clients prefer you and not your competitors? Right in this marketing aspect a lot of small enterprises in the service field find their advantages. The ideas



which they develop are sometimes better than the ideas developed by the bigger companies. The blocks which follow are designed to help you serving the image, price making, client service and advertisement.

## Image

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No matter if you like it or not, your firm will create some sort of an image. The way people think about you will be influenced by your work methods. If people come in your firm to receive some service, then the hygiene in the rooms, your service method, your work quality will create your image. If you provide your service directly to your client, then the attitude of your employees will influence your image. Friendly, fast and polite service, before and after the purchase, is your best advertisement weapon.

Thus you can control the creation of your image. Whatever image you choose to have, it must be also your advertisement. A commonly used and created image is the “serving with a smile”.

Write down what image of your firm you would like to create for your customers:

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## Price formation

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When defining your services' prices you must take under consideration the following four possible elements:

- (1) materials and supplies
- (2) labour and operational expenses
- (3) planned profit
- (4) competition

Further in this brochure you will have the opportunity to create a more complete picture of your expenses on operation, materials, supplies, and staff. With the help of your accountant you could develop a price structure which would be acceptable both for you and



for your client. This means that you will have to not only cover all expenses, but also leave funds for wages and profit. There is also another question: Would you offer a credit? Many firms use the credit card system. These credit expenses must be covered in some way. Plan them in advance! If you use the credit card system, what would your expenses be? Could you raise your prices in order to cover those expenses? ...

Some trade associations have catalogues of their service prices. You can check there for the prices in your business and thus to discover if you are competitive or not.

Of course, your prices must be competitive. Once you have learned the prices chosen by your competitors, you should have them in mind when you make the price structure together with your accountant.

### **Customer service policy**

Clients expect certain commodities or services, for example the availability of a parking place close to your firm. These commodities might be free of charge for them, but they are not such for you. If you provide a parking place you would inevitably have to pay for it. As the additional commodities for your clients are listed in the section “expenses” for you, plan them in advance. Enumerate the services which your competitors are providing to their clients:

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.....  
.....

Enumerate the services which you will provide to your customers:

Service	Expected expenses
.....	..... lv.
.....	..... lv.
.....	..... lv.
.....	..... lv.

### **Advertisement**



Once you already have an established image, price range and service policy, you are indeed ready to tell your future clients why they should use your services. When the money you could use for advertisement purposes are limited, it is very important that your advertisement reaches directly its goal. Before deciding how much money you can spare for advertisement, consider exactly what type of advertisement you need for your firm. The strong sides of my firm are ... My firm is different than my competitor's regarding the following indicators ... The advertisement has to highlight the following facts about my firm and the services which I offer to my clients and my potential clients...

After having considered those facts, you should decide whom you should show them to. Your advertisement has to be orientated towards a certain eventual partner – those people which are most likely to use your services. In the empty space bellow describe your clients regarding their age, gender, profession and other indicators, depending on the essence of your business. This is your customer's profile. For example, a certain car repair shop would have the following customer profile – “men and women, proprietors of transport vehicles, aged 18 and above”. In this business each proprietor of a vehicle above the age of 18 is likely to seek for this shop's services.

***My clientele's profile is .....***

Now you can start contemplating about the form under which you will make your advertisement and about its expenses. You are searching for the most effective way of telling a number of facts to those who are most likely to use your services. Check the local mass medias (newspapers, radio, television) and search for information about the services which they offer, their effect and their price.

The decision about how you will spend your money for advertisement is exclusively yours, so do not fall into the same trap as many other managers do. Here is how a certain consultant describes this trap: It is peculiar that a lot of managers consider themselves experts in choosing the advertisement materials or medias, without having any experience in this field.

You must define what kind of advertisement you would use in order to highlight best your firm's strongest sides in front of any potential clients.

After having established a concrete number for the advertisement expenses during the next 12 months, compare it with the sum which other firms, similar to yours, spend for this activity. The advertisement expenses are one of the functional relations (the expenses as a percentage of the sales) which are collected by the trade associations and other organizations. None of your expenses must be out of your accounting reach if you want to realize a profit. Your task of determining the sum which you can spare for advertisement is concluded to answering the following question: What sum can I afford to spend without this causing troubles to the proper functioning of my firm?





## SECTION 3

### *Customer sales*

In order to fulfil entirely your work on the marketing, you must consider what would happen when you eventually find your clientele. Your purpose is to provide your services, to satisfy your customers' demands and to fill in your incomes.

Clients who have used your service only once cannot help you with this. You need permanent clients in order to build a profitable annual sales volume. When a client uses your services for a second time, this is probably the result of his previous experience. Satisfied customers are the best advertisement.

Having this and the turnover you plan to make this year, fill in the table below.

## EQUIPMENT AND FURNITURE

No matter how much clients will use your services, you will need furniture and equipment to fulfil your activity. Describe the equipment you need and the costs on its delivery.

Parts and materials. For your firm's normal functioning you will need a certain amount of parts and materials. Describe the materials needed and the costs on their purchase.

I will deliver parts and materials from:

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\* How many days or weeks will the supplier need to deliver the parts and materials?

\*\* Who will pay for the costs? You? The supplier? (this budget chapter might be considerably big).

\*\*\* What are the supplier's conditions for the delivery? Do you have to buy materials on wholesale, a dozen or just 2-3 separate details? How long will the delivery take?



Before concluding a contract with the supplier, check his working methods – whether he works with materials that are out of date, whether he gives certain guarantees for his good's quality etc. After having determined exactly what parts and materials you will need, think about the type of control over the supplies which you will use. Such control will easily show you what you have to supply based on:

1) stock's availability

2) current supplies

3) what you have already used (some market associations and suppliers provide such control system to their members and clients). When you have already decided what control system you will apply over your stocks, evaluate its costs:

They will amount to ..... lv. for the first year.

## Overheads

Examples of overheads are: expenses for rent, heating, electricity, office maintenance, insurances, interests, telephone services, post services, wage taxes, licenses or other taxes which are applicable for your region. If you decide to hire other people to help you in executing your business, their wages should be also accounted to the overheads.

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## How to deal with the work

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An important step when creating your business is hiring qualified staff. It is necessary also that these people learn how to work as a team in order to do effectively the job they are handed. Exactly organization is the thing your firm needs to realize its profits. The organization is extremely important as you being the proprietor-manager not always will be able to deal with all the work. Along with your firms growth you will have to delegate responsibility and power. Especially useful here you can find the organization diagram of your firm. Below, there are examples given that would help you creating the organization diagram of your firm. The organization diagram of a small firm in the field of services would reflect the fact that the owner has the bigger part of the management activities.

Draw the organization diagram of your firm.

In order to define more completely the responsibilities and the power delegated to your employees, enumerate the activities that are executed in your firm. At each activity note who is charged with its accomplishment. Some of the names could repeat:

Activity	Name
.....	.....
.....	.....
.....	.....

### **Make an evaluation of your plan.**

The first question to be discussed is related to your source of finances. After your initial investment the main source of funds are your services. What turnover do you plan to make during the next 12 months?

Expenses. Regarding the annual turnover in levs you should think of your expenses too. For example, if your turnover is calculated to 100 000 lv., what expenses would you need for the corresponding number of services? Even more, what sum would remain in the end of the year as your profit? Always have in mind the fact that the profit is your reward. Even if you pay your own salary for personal expenses, your firm must realize profit in order to maintain its activity during the following year and to return the money that have been invested in it.

The following working bloc will help you create a fast calculation of your expenses. In order to use this formula you will need only one number – the average sales expenses for the firms from your branch. If you do not have this number, check this information in the trade association or from other competent sources.



Regardless of whether you have had available the resources for your initial expenses or you have borrowed them, your business will have to ensure their corresponding overturn. Have in mind this rule when working on section “Expenses” or on another aspect of your plan.

Expenses breakdown. The fast evaluation of the expenses provides you a good and successful start. The next step is to break down your expenses to groups so that they can be treated and controlled easier during the next 12 months. Use appendix 7 to create your budget.

### ***Comparing incomes and expenses***

Your budget will help you evaluate the lev equivalent of your monthly expenses. The question is: “Will the sales bring enough profit in order to pay the firm’s obligations in time?” The answer usually is “maybe not” or “I hope so”, unless the proprietor hasn’t pre-insured himself for the periods of “rise” and “fall” which are so characteristic for the business in the field of services.

The income prognosis is one management mean of work that will save you lots of headache and problems during the next one or a couple of months. Use your work block “Income prognosis” in order to evaluate the incomes from your business which you expect to have during the next 12 months.

### **Is it necessary to use additional money?**

Let’s suggest that at first the development of your business has required more money than the sales could provide. What can we do in such case? The method which you should follow depends on the particular situation. For example, you can resort to a bank credit during the “non-profitable” months. This credit could be paid out during the months when the expenses are much less than the realized profit. The reserve capital is extremely important both for the firm’s success and for its survival. When the firm’s proprietor searches for a short term or long term credit, the creditor usually takes under consideration the financial state of his firm. Your creditor might ask for your accounting balance for the incomes and outcomes. An example of a balance account is given below. If at the current moment you do not need credits, you could use this balance in order to create a picture of your firm’s financial state. You could also present this balance to your servicing bank. It is never too late to build good relationships with your banker so that you can show that you are the manager that knows very well what he wants, and not the one that only hopes to succeed in business.

### ***Control and feedback***

In order to actually fulfil your plan, you need feedback. For example, the annual accounting report shows if you have gained profit or you have suffered losses during the last 12 months.

You, on the other hand, cannot afford to wait for entire 12 months to have this result. You need to update your financial report in short intervals. A financial summary for your incomes and expenses in the end of each month or of each trimester is a kind of feedback. You can execute management control methods that will assure you that the things are being done according to the plan each day, each week. For a newly started enterprise the system of following current summaries should be present right from its founding. After you have already advanced in the business it will be already late. You could be too busy to pay the necessary attention to those summaries.

The control system that you have established must give you the information about: the available stocks, the sales, the expenses. The simpler this system is, the better. Its purpose is to provide you with updated information. You could use also external consultants, for example – accountants.

## Control over the stocks available

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The purpose of this inventory control is to ensure the best service for your clients and to keep track on the parts and materials, so that they don't disappear due to theft, mistakes or negligence. Your purpose is to reach high overturn of your inventory. The less money you freeze in parts and materials, the better this is for your finance potential.

In a small enterprise the control over the inventory helps the proprietor-manager to provide his clients with good service. This control system could give you the opportunity to define what parts and materials you need to order based on: (1) availability in stock; (2) current deliveries; (3) parts and materials already used.

Take under consideration that the expenses on inventory control are not your only expenses. You will have other expenses such as: expenses on purchase, expenses on maintaining current summaries, on storing the inventory etc.

**Sales:** In a small enterprise the sale receipts and the income register give the proprietor-manager a feedback in the end of each day. In order to keep the growth of your sales high, you should answer the following questions: How many sales have been made? What is the overturn? What credit conditions have been given to the customers?



**Expenses:** The management control also gives you information for the expenses that your company makes. You should make efforts to pay your bills within the specified period, so that you can have a discount from your supplier and this could become your company policy. The control system will allow you easily and quickly to take decisions on spending the corresponding funds. It should also give you information on the duties and taxes, for example the tax on the working wage that you have to account and pay within the specified period.

**Balance analysis:** The balance analysis is a method of conducting the management control as the balance point shows the quantity of goods or services that you should sell under certain circumstances, so that you don't react neither to profit, nor to loss. The profit depends on the sales volume, on the price, on the expenses. The balance analysis helps you determine the effect of the change of one of those factors on your profit. To display the balance point, the fixed expenses and those for rent etc. should be separated from the variable expenses, as those for sale etc.

The formula is the following:

$$\text{Balance point} = \frac{\text{Total amount of the fixed expenses}}{1 - \frac{\text{Total amount of variable expenses}}{\text{Corresponding sales volume}}}$$

### IS YOUR PLAN APPLICABLE?

After having defined your business' balance point, hold on for a second. It is time to make sure if your plan is actually applicable. Take a look over your plan once again before backing it up with the corresponding amount of money. If it is not applicable, then you better realize this now than in 6 months for example, when you will have already invested a certain amount in a losing activity.

At the second check of your plan, take under consideration the numbers that you receive when you break down your expenses for one year. If any of them is too big or too small, change them. You can write down the changes at the space under or above the initial



entries in the working blocks. After you apply your changes, you will have a revised plan for your sales and expenses during the next 12 months.

Considering the revised data, recalculate the value of your balance point. Depending on whether it would be too high or too low, take the necessary additional measures. Show your plan to someone that hasn't participated in the detail preparation. Your banker, for example, could point out an oversight that you have missed during the second revision, or could also point out your activity's strong sides that your business plan should emphasize.

### PUTTING YOUR PLAN INTO ACTION

When your plan is as close as possible to the goal, you will be able to put it into action. Consider that in this exact moment there is the difference between a plan and a dream. If a plan is not put into action, it is worth nothing more than a pleasant dream that flatters the imagination. A true enterprising proprietor-manager does not stop here, after having collected the necessary information and having created a plan. He starts realizing his plan in practice. What he must do depends on the specific situation. For example, if your business plan expects a raise in the sales, the actions you should take aim to ensure the funds for this expansion..

#### ***Do you have additional amounts of money that you can invest in your business?***

Have you taken loans from your friends and relatives? From your bank? From the suppliers with which you have concluded trade contracts with liberal credit conditions?

If you are starting your business from the beginning, your first step should be to ensure a loan that can cover your fixed expenses, the staff's salaries etc. Another step should be to find qualified staff. In the empty lines below enumerate the things that you should do to put your plan into action. For each activity appoint a certain date until which it should be conducted.

Action	Deadline for conducting
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.....	.....
.....	.....
.....	.....
.....	.....



***How can we update our plan?***

After having once put your plan into action, check for any changes in the initial conditions. Try being at the top of the changing situation and accommodating our business plan to it. Sometimes change should come in your own company too. For example, some of your employees leave the firm. Sometimes changes are related to the clients – a change in their tastes or preferences. Sometimes changes are of technological essence, for example when a new type of material that requires a new way of treating comes out on the market.

***In order to accommodate his plan to such changes, the proprietor-manager should:***

- (1) take under consideration the changes that are being made in his own company, the market, the branch and the clients preferences.
- (2) update his plan according to those changes.
- (3) determine what corrections are needed for his plan.

The method through which you will update the information and your plan depends entirely on you. One way is to receive the information from the specialized newspapers and magazines. Another is to spare certain time – two or three hours, depending on how much it's needed, to look over your plan periodically. Once in a month or every other month, you should make an inspection of your plan to see if there are any corrections needed. If such need is present, make those changes and put them into action.