

# Business Plan

SAMPLE BUSINESS PLAN



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# StanMan, Incorporated

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## Executive Summary

StanMan, Incorporated was founded in 1982 as a wholesale distributor of pipes, fittings and supplies to the construction industry. Over the last twenty years StanMan, Incorporated (SMI) has evolved into a supply chain management firm; to enhance its profitability and differentiate it from other wholesale distributors.

SMI's direct purchase and warehousing of pipes, fittings, and miscellaneous supplies (*supply chain management*) requires that the Company acquire a new facility and expand its administrative structure. SMI's enhanced technology and use of the Internet will help to facilitate the Company's expansion into supply chain management. SMI's supply chain management methodology eliminates "supply chain intermediaries" and results in a 20% reduction in inventory cost; which will be passed on to The Lumber Trading Group (LTG), a firm which is a strategic ally of SMI.

The strategic alliance between SMI and LTG will result in year-end 2004 supply chain management revenues of \$1,500,000, which will represent 60% of SMI's total revenues of \$2,380,000. The dramatic increase in SMI's revenues will push the Company's net profit to \$360,000 by year-end 2004.

### Objectives

*SMI's primary objectives are as follows:*

- Generate a 17% gross profit margin;
- Develop a strategic alliance with Lumber Trading Group;
- Team up with local construction management firms to implement logistics management by providing large mechanical equipment, such as; chillers, boiler, heating and air-conditioning units to the construction industry; and
- Position SMI as the leading supply chain manager of pipe supply products in its market.

### Mission

SMI's mission is to serve its clients as a trusted ally, providing them with the loyalty of a business partner and the economic benefit of an outside vendor. SMI endeavors to insure that its clients have what they need to run their businesses as smoothly as possible, with maximum efficiency and reliability.

### Keys to Success

*The keys to SMI's success are as follows:*

- Marketing to construction managers to address their logistical difficulties relative to the delivery of the products and solving problems with major real estate developers.
- Management of the product delivery process, costs control systems, and marketing budgets.



## **Business Background**

StanMan, Incorporated was founded in 1982, by its president, Darcy Wilson, as sub-S corporation registered in Denver County, Colorado. SMI was originally a wholesale distribution company, which sold mechanical equipment and pipe products on a retail and wholesale basis. Since the enactment of minority participation laws, SMI business has doubled in size. While SMI was formed over 20 year, Darcy Wilson and her family have been involved in the construction/distribution industries for more than three generation.

SMI's management recognized the need for a more diversified product line and began to customize its lines to meet the specific needs of its larger customers. The more diverted product line generated SMI's first "install subcontract" at the Denver Pepsi Center Arena; which yielded a gross profit margin of thirty percent. The Pepsi Center project provided an opportunity for SMI to offer different product lines to the construction industry. After perfecting the process, SMI launched a full-fledged distribution management firm in 2001.

As mentioned above SMI plans to develop a strategic alliance with The Lumber Trading Group to re-engineer the Stapleton Redevelopment Project. SMI will also continue to operate as a distributor of products to the construction industry; where there is a need for minority or women owned business enterprise participation, in both vertical and horizontal construction.

### **Management Team**

Darcy Wilson, the president of SMI focused on reselling mechanical equipment, and related construction products. She has a degree in business administration and 30 years experience in the construction/distribution industry; where she held the position of "project manager" for large commercial sports arenas. Darcy attends Regis University, where she is enhancing her management skills.

Marvin Parson, Distribution Manager, joined SMI last year following a very successful career with Artistic Companies. His hiring was the culmination of a long recruiting search.

### **Organizational Chart**

### **Internet Based Services**

SMI's website (stanmar-dbe.com) was launched in 2002 as a customer service vehicle to assist in providing wholesale distribution services.

SMI will work with a contracted "user interface designer" to develop on-line inventory tracking, downloadable product research reports, and online purchasing. SMI will have the ability to track inventory from manufacturers to the end-user through barcodes and global tracking systems.

### **Locations and Facilities**

**Locations:** SMI corporate headquarters is located at 700 E. 24th Ave., Denver, Colorado 80205. The company's remote storage facility is located at 2652 26th Street, Denver, Colorado 80205

**Facilities:** As SMI expands its operation to include supply chain management, it will be necessary to acquire property to storage large diameter pipe, construction products, and mechanical equipment. SMI plans to acquire a facility located at 3800 York Street, Denver, Colorado 80205; where all of the corporation facility will be in one location.



**Future Location:** SMI will expand into a warehouse by the final quarter of 2004.

### **Products and Services**

**Products:** SMI's primarily engaged in providing products, which include steel, metal materials, pipe, and pipe products. SMI's main lines are manufactured by, JM Pipe Manufacturing, Carrier, and Bethlehem Steel Supply. SMI sells to contractors, construction owners, and other project end users the following items.

- Large diameter PVC pipe, 24" to 172;"
- Raw galvanized steel coils as used in metal siding; and
- Heating, ventilation and air-conditioning units.

**Services:** To differentiate SMI from other wholesale distributors SMI expanded its service to include management of the supply chain process for private sector and government municipalities. As a supply chain manager, SMI has the ability to work with owners, engineers, and manufacturers by eliminating intermediaries. Listed below are the service offered;

- Re-engineering the construction process, which incorporates commodities and giving owners a choice of what they will buy;
- Assisting in the design of bid packages;
- Project coordination of material packaging;
- Bid analysis;
- Project award - differentiating between disciplines; and
- System support between construction manager and supply manager.

### **Competitive Comparison**

SMI's supply chain management (SCM) system is so innovative that no minority women owned competitor in the Rocky Mountain Region has replicated the process. Hence, a competitive comparison would not yield useful information.

The supply chain management concept recently implemented by Georgia Pacific was launched in 2002 by the company and represents a comparative example of how SMI's will operate. The supply chain management methodology was originally established by the federal government in the early 1940's. This innovative supply chain management system will reduce transportation and storage related costs, which were incurred by the private and public sectors prior to the implementation of the system.

### **Technology**

Project owners, developers, and municipalities will provide SMI with the different software requirement for their projects and SMI's construction manager will utilize Microsoft Project software to administer supply management services. The software will incorporate product planning, integrated logistics, sales distribution, and order management.

SMI's supply chain management process involves three major entities, SMI, manufacturers, and owners. SMI's Internet based supply chain management system will include an online inventory management system. The primary information systems utilized include accounting, human resource, marketing, and product management. Each of the "project deliverables" is completely separate and perform different task, which are determined by the project scope.

### **Future Products and Services**

Within the next two years, SMI will build a "warehouse storage facility" to expand its capacity to



store products. SMI plans to raise the existing unoccupied warehouse and build a state of the art facility.

### Market Analysis

Despite the economic slowdown, large homebuilders experienced a record 2002 and expect 2003 to be better. Residential construction firms as a whole have been insulated from the generally dismal economy and stock market. Likewise, the boom has helped companies that sell and supply building products. At year-end 2002 residential construction accounted for approximately \$390 billion or (45%) of the \$860 billion dollars construction industry in the US. Not only will SMI focus 60 percent of its time toward residential home development, but also will focus on the commercial construction market, which totals \$470 billion in the US. Although spending on public projects has been growing, the stiffening in the economy has hurt firms that focus on non-residential construction. Those wholesalers and distributors who supply non-residential builders (including the steel industry, which gets about 12% of its revenue from builders) also have been adversely affected.

The industry is highly infested with the good ole boy network; most companies are third and fourth generation contractors and distributors. Key people in the industry are Riley P. Bechtel of the Bechtel Group, which has doubled in size since 1990; and William Pulte of Pulte Home the world's largest homebuilder. Pulte has grown his company 400% in the past decade. Larger organizations like Georgia Pacific are utilizing management by objectives or re-engineering the construction process to increase their share of the market. SMI is replicating the concept in its organization.

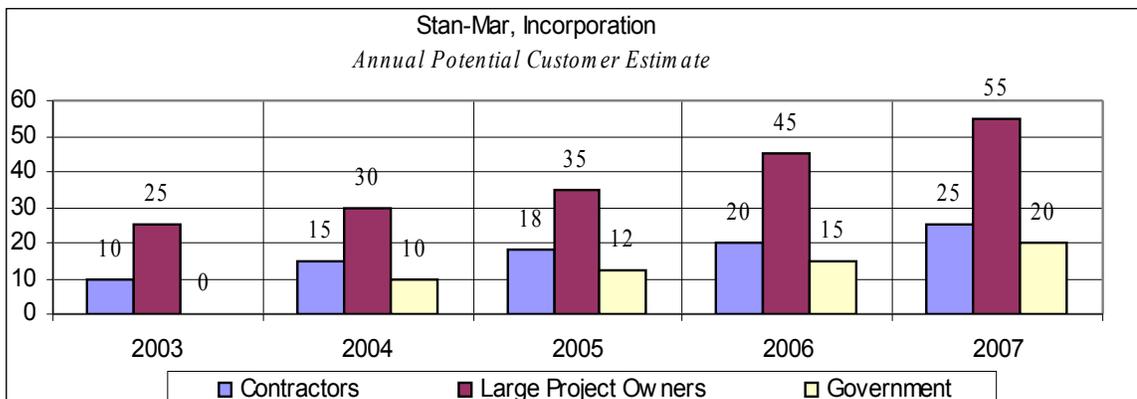
#### Market Segmentation

SMI's current market segment is composed of private and public contractors who are engaged by project developers or governmental agencies to construct horizontal and vertical projects. Each of the contractors in SMI's target market selects distributors based upon their ability to provide just in time delivery. SMI's success in this segment of the market is a function of its experience, expertise, and network of relationship with suppliers. A greater portion of SMI's market in the past year has been focused on the horizontal construction market, with the sale of large diameter PVC pipe.

SMI's target market is, a large private sector owner, local, and federal governmental entities, which need high quality, supply channel management that SMI offers by managing the logistics of product delivery to construction sites. SMI's target market includes potential customers who are engaged in 8-10 year projects.

**Table: Market Analysis**

#### Potential Customer Estimate





### Target Market Strategy

SMI's role in its strategic market includes the distribution of horizontal and vertical construction products to its primary customer base of contractors.

To better position itself strategically, SMI has identified an opportunity to expand its distribution services to include supply chain management. This shift in focus will dramatically improve SMI's profit margins as a function of the value added element inherent in the delivery of supply chain management services.

### Market Needs, Trends, and Growth

The needs of SMI's target market consist primarily of the delivery of products to contractors in a timely and economically efficient manner. One of the key points of SMI's strategy is to focus on target segments that know and understand these needs and are willing to pay to have them filled.

The most obvious and important trend in the market has been rising prices over the last three quarters. This has not been true in past decade, but the negative trend of the last three quarters seems to be accelerating because of the war and economic recession. Pipe and lumber prices continue to rise at approximately 35-40% despite the fact that manufacturers have developed much more cost efficient ways to bring the products to market. The escalated raw material costs are the major contributing factors to the increase in wood and pipeline product cost.

Owners are looking for better ways to offset the impact of rising petroleum prices on their products by reducing the distribution costs and by implementing the supply chain management methods employed by SMI. Within the next five years, the Internet will become a primary source for end users seeking to acquire products sold by SMI.

### **Distribution and Competition Patterns**

Many products are distributed through direct business-to-business sales, in long-term contracts, such as the ones between manufacturers and their suppliers of parts, materials, and components. The manufacturing industry uses manufacturer's representatives, agents or commissioned salespeople, as well as, and regional distribution facilities.

Technology has changed the patterns of distribution in the construction industry with the implementation of supply chain management. Software programs and barcodes have allowed distributors to track products from the manufacturer to the end user, making delivery faster and more economical.

### ***SMI relies on the distribution network as outlined below:***

- Colorado products represent 33%
- US made products represent 45%
- Off shore products represents 22%

### Buying Patterns

The wholesale/distribution industry is highly competitive and normally the lowest most responsive bidder is awarded the project. There are a few exceptions, when owners are trying to create a more diverse environment, the low dollar bid is not as important as having a strong team. The selection of a vendor might also depend heavily upon the reputation of the products and services of the team members. Friendly alliances with a variety of multi-task organizations are critical to many government projects.

SMI competes with all types of businesses and because of the economic shift SMI is providing more products and services for less money. SMI's alignment with reputable organization like Georgia



Pacific, and Lumber Trading Group will undoubtedly get the job.

### Main Competitors

#### Construction Managers/Contractors

SMI competes with all DBE firms who are engaged in the construction industry; however, SMI's strategy of expanding to supply chain management will differentiate the firm from its competitors.

#### Other Distributors:

Six distributors in the Rocky Mountain Region are certified as disadvantaged business enterprises.

### Competitors

- Strengths: national image, high volume, aggressive pricing, economics of scale.
- Weaknesses: lack of access to SMI's product lines, lack of the expertise and the knowledge to deliver SMI's quality of service and support.

### Competitive Edge

SMI's competitive edge is derived from its ability to build long-standing relationships with its clients, by satisfying their supply chain management needs.

SMI is a known reputable wholesale distributor of quality products and have been in business since 1986. Not only does SMI sell products in its local market but has distributed nationally, which is a serious barrier to entry by competitors. SMI's customers want to know about and be able to trust the vendors they use. SMI's supply chain management services, ensures that its customers can trust SMI.

## **Marketing Strategy**

*SMI's marketing strategy includes the following:*

- An emphasis on service and support;
- Building a relationship based business; and
- Focusing on municipalities, large metropolitan districts and the federal government.

### Positioning Statements

SMI provides the newest and latest technology, which results in the most cost efficient methods of supply chain management for municipalities, metropolitan districts, real estate developers, and private owners. SMI's certification as a minority women owned business enables its customers to achieve diversification in on their construction projects. With the cost of products totaling 45 to 55 percent of construction dollars SMI will purchase and warehouse each owner's product in bulk and thereby eliminating the impact of price escalation. SMI is a supply chain manager and a trusted strategic ally who makes sure its management systems works well.

### Pricing Strategy

SMI's pricing strategy includes providing products from the manufacturer to the customer by eliminating traditional intermediaries. The elimination of the intermediaries will enable SMI to pass on a 20% - 30% savings in material cost to its customers.

### Promotion Strategy

Historically SMI has been promoted as a value added DBE partner on major projects. SMI's success in promoting its products and services in the DBE segment of the construction industry was driven by 20 years of experience. As SMI changes strategies SMI will need to change the way, it promotes its products: Industry trade conventions, MBE/WBE trade fairs, and certifications are essential to marketing SMI.



1. **Certification**—SMI will maintain and seek minority-women owned certification from the following entities:

- Minority Enterprise Inc.;
- City and County of Denver;
- State of Colorado and; and
- U.S. Small Business Administration

2. **Advertising**--SMI has developed an advertisement strategy, which includes the use of periodicals, trade magazines, and other print media.

3. **Sales Brochure**--SMI's sales brochures will promote its primary service of supply chain management to its target market of developers, private sector owners, and municipalities. The semi-annual brochures will be distributed via direct mail throughout SMI's region.

4. **Direct Mail of Promotional Material**—SMI's use of promotional products such as, cups, plaques, pin holders and business card holders have proven to be an excellent source for developing long-term customer loyalty.

#### Distribution Strategy

SMI's distribution strategy includes the utility of private sector contract haulers during 2003. The impact of this distribution strategy will cause SMI's cost of distribution to climb by roughly two percent. During 2004, SMI will acquire at least two semi trucks to distribute its products, and develop a staff to maintain the vehicles at an estimated net cost of one percent of the total sales.

#### Marketing Programs

SMI's most important marketing vehicle will be the promotion of the firm via trade shows hosted by the following;

- Minority Enterprise Incorporated
- The Congressional Black Caucus and
- The Las Vegas Construction Trade Show

The above-mentioned annual trade shows will cost \$3500 - \$5000 per show and should result in greater visibility and presence in the marketplace. The impact of the addition visibility will result in SMI generating additional revenues within one year of each trade shows.

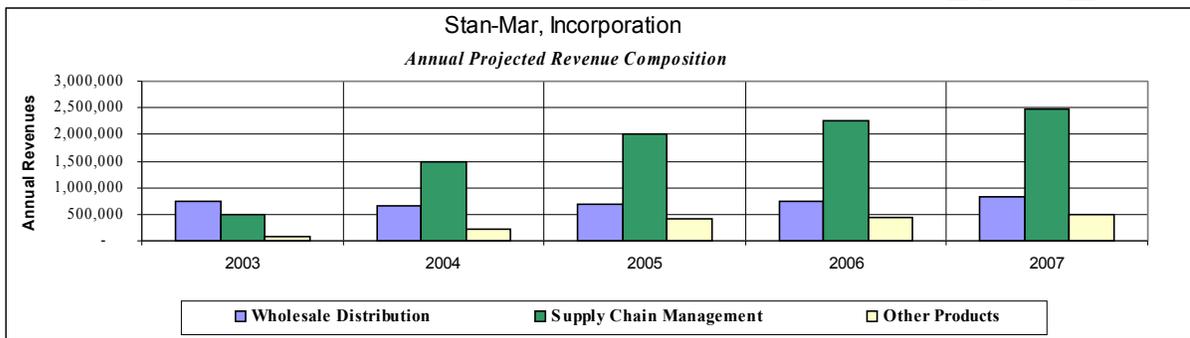
#### **Revenue and Expense Analysis**

SMI expect sales to increase from \$1,330,500 at year-end 2003 to more than \$2,380,000 at year-end 2004; as outlined in exhibits A. The projected 79 percent increase in revenues from year-end 2003 to year-end 2004 is driven principally by supply chain management income, which represents \$1,500,000 of the increase in overall revenues. This dramatic growth in supply chain management revenues reflects the impact of SMI's strategy alliance with The Lumber Trading Group, a 3 billion dollar company.



## Five-Year Sales Forecast

Sales	Five-Year Projection									
	2003	%	2004	%	2005	%	2006	%	2007	%
<b>Wholesale Distribution</b>	750,000	56%	650,000	27%	700,000	23%	750,000	22%	825,000	22%
<b>Supply Chain Management</b>	500,000	38%	1,500,000	63%	2,000,000	65%	2,250,000	65%	2,475,000	65%
<b>Other Products</b>	80,500	6%	230,000	10%	400,000	13%	450,000	13%	495,000	13%
<b>Total Sales</b>	<b>\$1,330,500</b>	<b>100%</b>	<b>\$2,380,000</b>	<b>100%</b>	<b>\$3,100,000</b>	<b>100%</b>	<b>\$3,450,000</b>	<b>100%</b>	<b>\$3,795,000</b>	<b>100%</b>
<i>Sales Trend Analysis</i>	60%		79%		30%		11%		10%	
<b>Cost of Distribution</b>	712,500	54%	552,500	23%	595,000	19%	637,500	18%	701,250	18%
<b>Cost of Chain Management</b>	400,000	30%	1,200,000	50%	1,600,000	52%	1,800,000	52%	1,980,000	52%
<b>Other COS</b>	76,475	6%	218,500	9%	380,000	12%	427,500	12%	470,250	12%
<b>Gross Profit</b>	141,525	11%	409,000	17%	525,000	17%	585,000	17%	643,500	17%

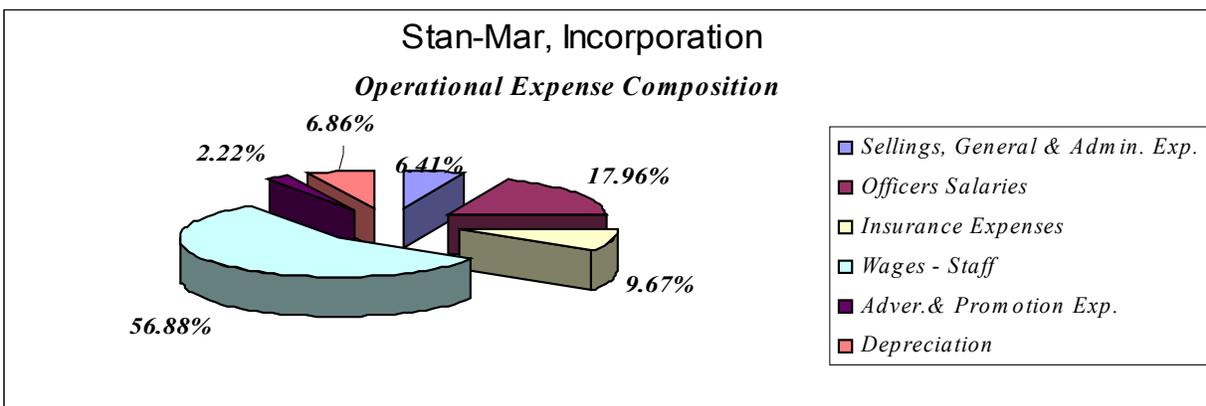


### Cost of Goods Sold

SMI's expansion into the "supply chain management segment" of its primary market will have a dramatic impact on the firm's cost of goods sold. SMI's 20% reduction in inventory costs can be seen in the firm's fiscal year-end 2004 forecast as mentioned above. In fact, not only will SMI's supply chain management cost represent 83% of revenues, wholesale distribute costs will also decline to 83% of revenues, compared to historical costs of 95%.

### Operational Expenses

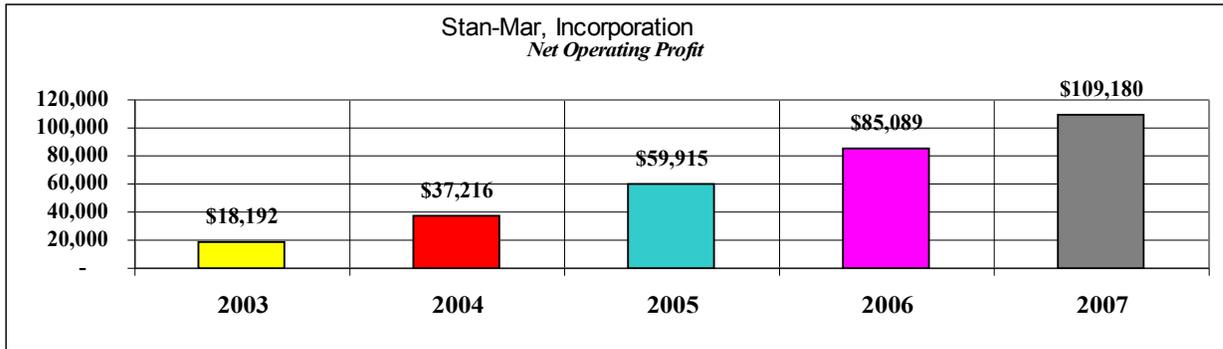
The composition of SMI's operational expense structure is consistent with Georgia Pacific's and not as other wholesale distributors in the Company's industry. Wages paid to operational staff amount to roughly 57% of SMI's total expenses. Staff wages are considered the most critical element of a distributor's operating expense structure. Other operating expenses represent 4% of revenues. SMI's operating profit margin of 3% is normal for a firm of the Company's size and age.





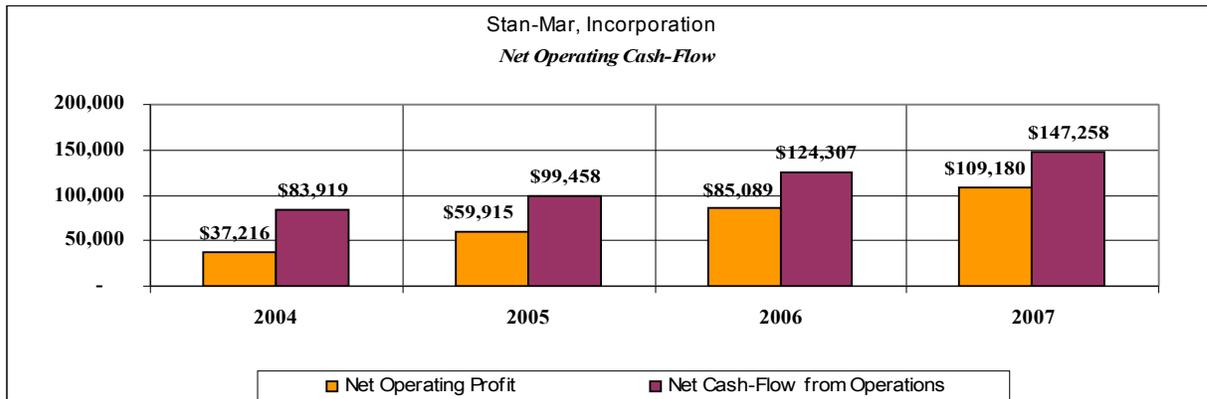
### Net Operating Income

SMI's net operating income margin will be 3% at year-end 2003. The firm's shift to supply chain management is the single most significant factor in the increase in net income. The firm's 3% net operating income margin is the norm for SMI's industry. The projected year-end 2004 net operating profit of \$63,087 will fund SMI's capital expansion and aggressive marketing campaign.



### Net Cash-Flow from Operations

SMI's net cash flow from operations at year-end 2004 will amount to \$83,919; with more-than \$50,000 being utilized to fund the Company's capital expansion. Clearly, by year-end 2004 the firm will have the capacity to be self-sustaining, and begin to retire long-term debt.



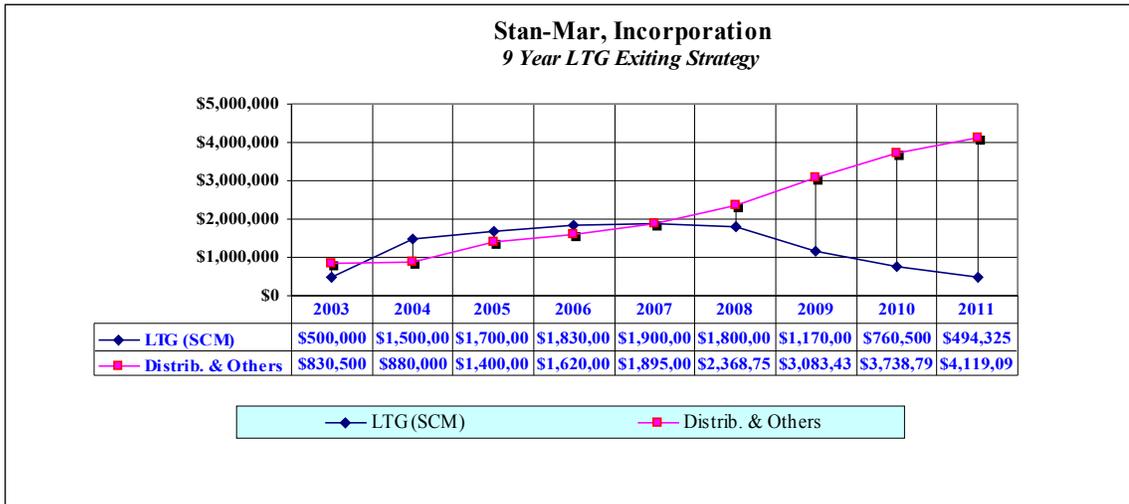
### **LTG 9-Year Exit Strategy**

SMI's nine-year LTG exit strategy reflects a 65% level of reliance on LTG over the next 30-months; with a gradual decline over the final years of the relation. During the final years, LTG will represent approximately 11% of SMI's total revenues from a peak of 85% at year-end 2003. SMI's exit strategy will result in the Company have a well-balanced revenue composition with no single customer representing more-than 15% of total revenues.

**Stan-Mar, Incorporation  
9 Year LTG Exiting Strategy**

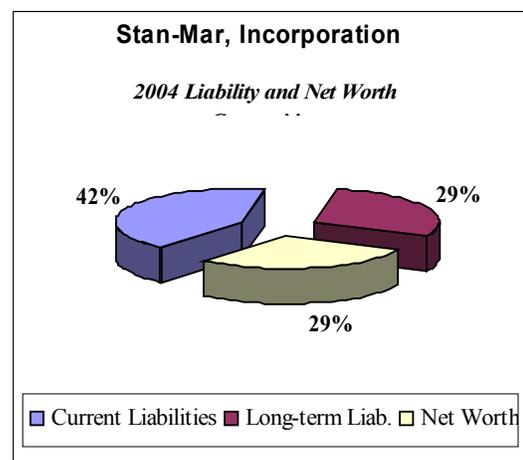
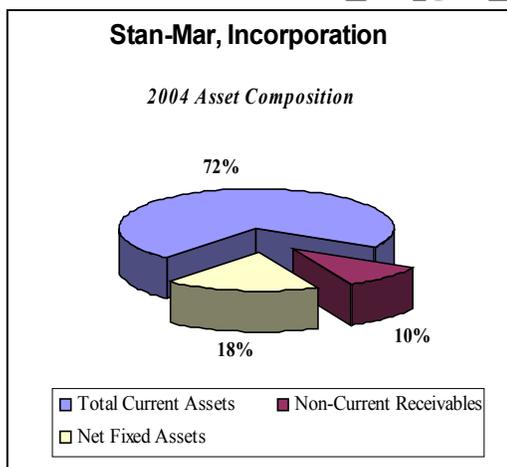
Revenue Source	2003	2004	2005	2006	2007	2008	2009	2010	2011
LTG (SCM)	\$500,000	\$1,500,000	\$1,700,000	\$1,830,000	\$1,900,000	\$1,800,000	\$1,170,000	\$760,500	\$494,325
LTG (Distrib)	\$750,000								
SBA (SCM)			\$250,000	\$300,000	\$425,000	\$531,250	\$701,250	\$841,500	\$883,575
PSC (SCM)		\$350,000	\$400,000	\$450,000	\$475,000	\$593,750	\$783,750	\$940,500	\$987,525
HP (Distrib)		\$127,500	\$150,000	\$195,000	\$225,000	\$281,250	\$371,250	\$445,500	\$467,775
Qwest (Distrib)		\$172,500	\$200,000	\$225,000	\$250,000	\$312,500	\$412,500	\$495,000	\$519,750
PCL (Distrib)					\$25,000	\$31,250	\$41,250	\$49,500	\$51,975
Others (Distrib)	\$80,500	\$230,000	\$400,000	\$450,000	\$495,000	\$618,750	\$773,438	\$966,797	\$1,208,496
<b>Total</b>	<b>\$1,330,500</b>	<b>\$2,380,000</b>	<b>\$3,100,000</b>	<b>\$3,450,000</b>	<b>\$3,795,000</b>	<b>\$4,168,750</b>	<b>\$4,253,438</b>	<b>\$4,499,297</b>	<b>\$4,613,421</b>

SCM = Supply Chain Management      Distrib. = Distribution



### Balance Sheet Structure

At year-end 2004, SMI's Balance Sheet will reflect total assets of \$849,730 centered in current assets 72% and fixed assets at 18%. SMI's accounts receivable and inventory dominated the firm's current asset base; while fixed assets represented 10% of total assets. The composition of the Company's asset base reflects the industry norm, and is outlined in exhibits B.



### Working Capital

SMI's working capital at year-end 2004 amounted to \$93,479; with a current ratio of 1.27x and quick ratio 0.72x, both above the industry norm. Accounts receivables generated a cash conversion cycle of 20 days on average during fiscal 2004; while accounts payable turned every 45 days.



### Capital Expansion

During 2003, SMI will invest \$50,000 in capital assets to fund the above-mentioned acquisition of a “storage lot” at 3800 York Street, Denver, Colorado; where the Company will also erect an office facility. By year-end 2004, SMI will acquire and develop the commercial property close to the firm’s York Street facility for roughly \$350,000; funded via long-term debt. Additional operational equipment includes computers, warehouse, office furniture, and fixtures. Before year-end 2005, SMI will start to develop its “fleet of trucks” with the purchase of two vehicles for roughly \$100,000. The Company does not plan to make any other major acquisitions after year-end 2005.

### Long-term Debt and Net Worth

SMI expects to fund its capital expansions in 2003 and 2004 via long-term debt, collateralized by the firm’s fixed assets. The firm’s leverage shifts from 10.12x at year-end 2003 to 3.11 at year-end 2007.

### Important Assumptions

SMI’s financial plan depends on important assumptions, most of which are shown below:

- The SMI – LTG strategic alliance is implemented;
- Projected revenue growth is realistic;
- Access to financing is sufficient to maintain SMI's financial plan; and
- SMI will be the only minority women owned business entering this arena for the next 12 months.