

Business Planning for the Alaska Seafood Industry: Getting Started

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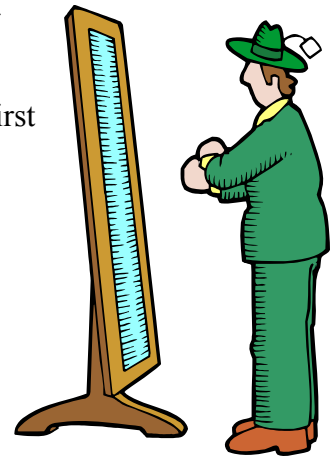
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Getting Started

Writing a business plan can be a time consuming and expensive proposition. Individuals approaching this level of financial and time investment may save money by scoping the idea with a few simple steps. Each of the steps discussed in this section fit nicely into a business plan should you decide to move forward.

Treat the following steps as a court might treat a case before the grand jury. A grand jury takes a quick assessment of the evidence to determine if there is enough reason for a full blown trial. Similarly, you are trying to see if it is worth it to move into a full blown business plan. While hopefully your business venture is not nearly as dire as something before a grand jury, it is useful to take these first few practical steps before taking a bigger plunge.



Self-Evaluation

One of the first things a person needs to undertake prior to starting a new business venture is to ask themselves if they are the right person for the job. This section discusses what it takes to start and run a successful business, and provides self-assessment tools to help determine if you are right for a new venture.

What's An Entrepreneur?

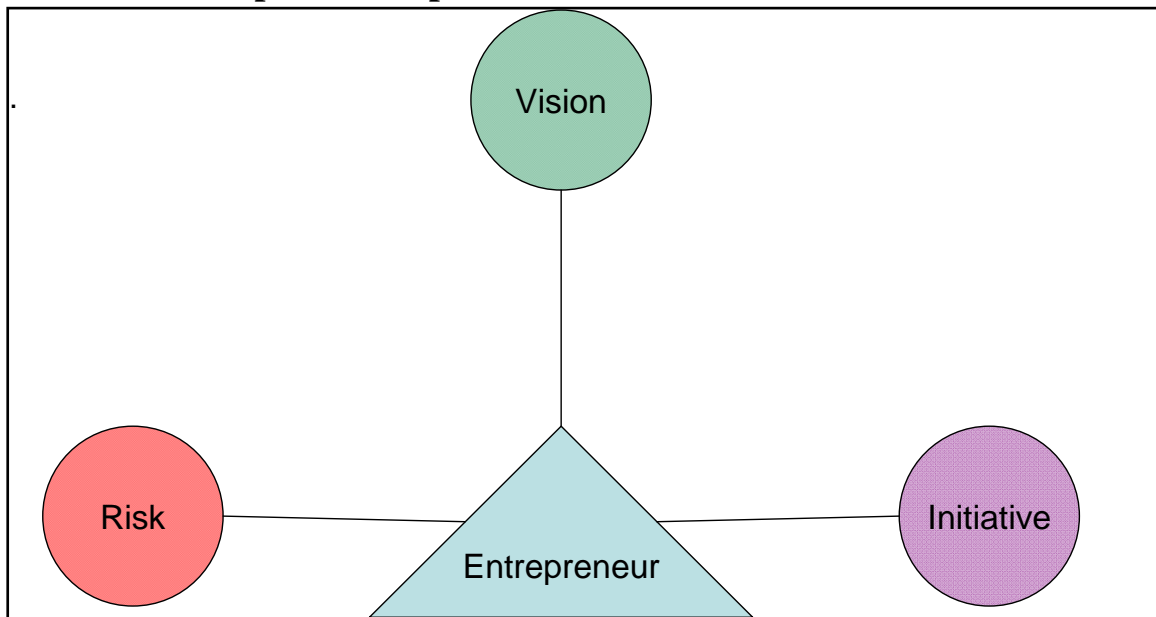
We hear a lot of talk about “entrepreneurs” and “entrepreneurial drive”. Just what is that and if you don’t have any in your cupboard, can you buy some down at the grocery store?

Chances are there is not any *entrepreneurial drive* down at the local store, but the good news is you already have some in you. “Entrepreneur” is a French word meaning simply “someone who undertakes”. In the context of business, it may be more appropriate to add to the definition by saying “someone who organizes an enterprise, usually a business, especially when it entails initiative and risk”.

An entrepreneur really has three distinct characteristics, *vision*, *initiative*, and *risk*. These are essential components to what an entrepreneur requires to bring a business or new idea to life. If you ask yourself whether you carry all of these three traits, the answer is surely “yes”. If you find a situation where you command these three traits for the same idea, then you are an entrepreneur.

Even in personal life we are entrepreneurial. Have you ever climbed a mountain? Played a sport? Started a band? Formed a reading group? Started a knitting club? OK, starting a knitting club may not be entrepreneurial, but you get the picture.

Chart 1: Entrepreneurship Traits



Initiative - Do you have the drive to follow through with an idea?

Vision - Can you see through obstacles and make your idea happen?

Risk - Are you willing to take a risk on your idea?

A key to developing these traits within yourself and in relation to your idea is confidence. Having confidence in your business idea will give you considerable initiative and make you less concerned about the risks involved. Drafting a business plan that demonstrates high probabilities of success will increase your confidence and increase your entrepreneurial drive.

What Makes a Successful Business?

Great emphasis is placed on entrepreneurship. However, entrepreneurship will go nowhere without managerial and technical skills. Entrepreneurship holds the intangibles to start a business, but it does not have the key skills required to even start the business. In order to start and run a successful business, a business must possess managerial and technical skills.

You will note the last sentence said “a business must possess”, and not “you must possess”. A important trait of an entrepreneur is knowing his or her limitations and building the right team around a project. Some people excel at managing projects, while others excel at handling the minutia of a project. All is critical to make a business work.

As in the case with entrepreneurs, managers and technocrats, have core traits. Similarly, we all possess bits and pieces of those skills. Successful business owners with very few employees tend to have enough technical, managerial and entrepreneurial skills to handle the business by themselves. But as you move into larger, more complicated enterprises, it is important to bring in greater skill sets to handle those functions were existing skills are inadequate.

Exercise 2: Starting Your Business - Personal Evaluation¹

Taking this evaluation will help you understand whether or not you are ready to start your own business and if so, what are your strengths and weaknesses.

It will answer three critical questions:

1. What is motivating me to start a business?
2. How qualified am I to run a business?
3. What barriers to success will I encounter?

By considering each question from professional, personal and financial perspectives, you will gain a realistic picture of your strengths and weaknesses in each critical area. There isn't an answer sheet for this, however at the end, you will more information to decide if you are right for the business.

Professional skills survey:

Professional skills are those related to the business you intend to start. By answering these questions, you begin to understand if you have the technical ability to handle the business.

1. What is the primary reason for being in business for yourself?

2. What skills do you possess related to the business?

¹ This questionnaire was developed through material available from the Tennessee Small Business Development Center, Middle Tennessee State University – Jennings A. Jones College of Business

3. How much time and energy are you willing to invest in this business?

4. Can you begin the business working full- or part-time?

5. Make an inventory of your business management experience and knowledge.

6. What is your capacity for meeting new challenges and following through on commitments?

On the following table, check the box that best fits your competency level with the following business disciplines.

Discipline	Excellent	Good	Poor
Sales	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Marketing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial planning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Advertising	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Accounting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Administrating	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Personnel management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Research	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Financial resources survey

The following three questions seek information about the financial resources available to you. Having adequate resources is critical to starting a business.

1. How much money (call it risk capital) do you have available to invest in this business? How liquid is it? Cash in the bank, stocks, bonds, land, other assets?

2. How much credit could you personally leverage? What is your personal net equity?

3. What are your financial goals? How much would you like to make from this business?

Personal attributes survey

Questions in this section seek input about your personal work ethic, strengths and weaknesses, and technical and managerial abilities. By listing your attributes, you will have a fairly good idea of what your likes and dislikes are and what your strengths and weaknesses are. Once you know these things, you will have a good idea of the qualities you will bring to the business and the areas in which you may require training.

List your personal attributes –

	Yes	No
Are you personable?	<input type="checkbox"/>	<input type="checkbox"/>
Do you feel comfortable around other people?	<input type="checkbox"/>	<input type="checkbox"/>
Are you self-motivated?	<input type="checkbox"/>	<input type="checkbox"/>
Are you a hard-worker?	<input type="checkbox"/>	<input type="checkbox"/>
Are you good with numbers?	<input type="checkbox"/>	<input type="checkbox"/>
Do you have effective verbal and written communications skills?	<input type="checkbox"/>	<input type="checkbox"/>
Are you well- organized?	<input type="checkbox"/>	<input type="checkbox"/>

***** End of Exercise 2 *****

The SWOT

A SWOT analysis in this context is an organized brainstorming session. An individual/group is asked to think about all that is good and bad *about* their organization, and all that is good and bad *around* their organization.



A SWOT will touch on all the components of a business plan. The items listed will direct marketing strategies, production systems, organizational and personnel requirements, regulatory hurdles, competition in the market, etc.

Strengths and weaknesses are internal to your company and to an extent you have control over these items. Production levels, location, machinery, facilities, financial condition, alliances, partnerships, employees, management, family, operational efficiencies, and your strategic plan are all possible strengths and weaknesses.







Opportunities and threats are external to your company. You may not be able to control these items, but you can alter your business to take advantage of or mitigate the risk from them. Technology, legislation and political changes, regulations, globalization, cultural and demographic trends, and changes to your input suppliers are all potential opportunities and threats.

Assistance in developing a SWOT is important to allow for more ideas and “honesty” to creep into the analysis. It is important to have good solid disclosure in this phase of planning to avoid failure down the road.

Strengths

Strengths are particular aspects of your idea/operation that are superior or on par with other businesses. You can manipulate these aspects to increase sales, profits and market share.







Examples include:

-  Excellent location – has double the traffic or competitors.
-  Good understanding of regulations and relationship with regulators.
-  Accounting and billing system is strong and leads to better recovery of sales.
-  Good access to important raw materials at a great price.
-  Several years of experience in this production system. Should be turn key.
-  Great network/connection with potential buyers.

Weaknesses

Weaknesses are aspects of your idea/operation that are inferior to other businesses or will be impediments to achieving success. A business is going to need to eliminate or compensate for these weaknesses in order to maximize profitability.

Examples include:






-  Cannot locate key pieces of production equipment at reasonable prices.
-  History of accidents in past make insurance costly. It will take three years of no accidents to lower this cost.
-  Already have too much debt. Banks stop loaning with a debt to equity ratio of 65%. Currently at 68%.
-  Lacks administrative and management expertise to handle new business idea.
Will need to hire someone in a very competitive labor market.
-  Production is very slow. Equipment manufacturers are not helping.
-  Remote location increases all costs. Utilities are about 10% more annually than can afford.

Opportunities

Opportunities are those circumstances beyond the control of your business – such as the marketplace or changing regulations. Opportunities present a potential to improve your

business's position. While a business can only, at best, influence these factors, they can maneuver their operation to take advantage of the situation.





Examples include;

-  US food consumers are beginning to demand Alaska wild salmon over farm salmon.
-  Favorable political party in control.
-  New markets are emerging that have considerably higher purchasing power than others.
-  Changing government regulations may negatively impact our competition.
-  Commodity metal prices are suggesting greater supply will lower prices in the near future.

Threats

Threats are those circumstances beyond the control of your business – such as changing consumer preferences or regulations – that may be detrimental to your position. Like “opportunities”, threats must be handled by shifting internal assets to minimize negative impacts.

Examples include:

-  A large competitor is moving into our target market.
-  Stormy weather conditions continue to threaten physical assets in a location.
-  Pending regulations may dramatically alter the business model.
-  General labor shortage may tighten the available workforce.

Using the following exercise, considering running a SWOT analysis for your business idea. Remember to recruit family, partners and trusted advisors to expand the list of ideas. Require honesty from everyone, even if it means hurting your feelings.

Back of the Envelope

A few steps in analyzing a potential business venture is to determine:

1. Business start up costs
2. Operating costs (or working capital)
3. A sensible timeline
4. A profitable price

If done quickly, this exercise is not going to be completely accurate, but it will provide a good idea about a project's feasibility.

Initial Investment and Working Capital

The initial investment is a crucial number to nail down. All future revenue projections will need to cover this investment. Along with the start up investment into fixed assets, business development and fees, calculations must also consider how much money is needed to cover operating expenses until revenues begin coming in. Inaccurately projecting working capital needs is a leading cause for business failure.

Initial investment costs, those for the capital equipment, property and business development costs, might include:

- Building, land, remodeling
- Inventory including raw materials
- Production equipment
- Office equipment
- Regulatory fees – prepaid taxes, permits
- Marketing costs
- Patents, trademarks, acquisitions

Initial working capital includes –

- Overhead
- Marketing
- Inventory
- Labor

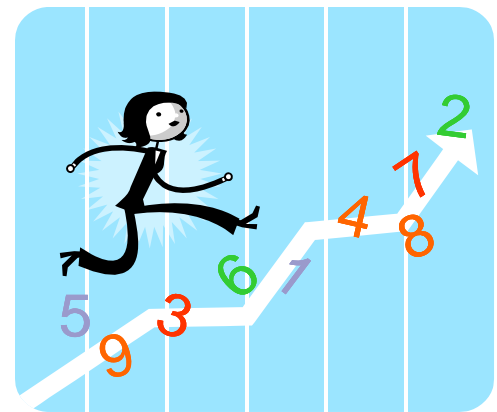
- Accounting
- Sales
- Taxes

Determine a Timeline

Understanding how long it will take to accomplish all of the start up activities helps plan when and how to initiate your business. A good timeline helps you ease away from current commitments/employment, line up appropriate financing, and determine how long before the business begins to generate income off its sales. For instance, it is senseless to hire employees at the same time permits are applied for if it is going to take three years to complete the permitting process.

Here are several broad areas that factor into a comprehensive timeline, including:

- Regulatory requirements
- Facility construction / remodeling
- Production equipment purchase & installation
- Production cycle
- Obtain adequate financing
- Source materials
- Hiring personnel
- Obtain markets



Running the Numbers

The potential profitability of a business venture must be estimated to indicate whether greater review is warranted. Establishing preliminary profitability measures not only provides information to forward or reject an idea, but it sets the stage for changes to the business idea in order to increase profitability.

There are three essential components to develop at this stage, a sales price, fixed costs and variable costs. The work done when you scoped out the initial investment costs is an

important component of this section and likely enough you've already completed some of the work.

At this point, an estimate sales price will be your "best guess". Your knowledge of current prices for the product in the stores or generally how much the service costs will factor into the sales price. If your knowledge is not extensive enough to determine a reasonable sale price or fee structure, you will need to research it another way. Other sources might include –

- Potential customers.
- Third party reports.
- Company reports on publicly traded companies.

At this point an accurate sales price is not as critical as other components. Your sales price will need to be one that is in excess of costs and can also be impacted by where and how you market your products.

Expenses, broken out between fixed and variable, are important at this juncture.

- Fixed costs are those that remain relatively consistent regardless of the level of production/output from a business. These expenses tend to be tied to management, overhead including rent and utilities, depreciation and insurance.
- Variable costs are expenses that vary directly with the level of production and sales. These would include direct labor and materials. Variable costs will be listed on a per unit basis. For instance, direct labor is \$0.10/per unit. If your total variable cost per unit is greater than the per unit sales price you expect to receive, you will not make any money.

Once the fixed and variable costs are identified, a "breakeven point" may be determined. A breakeven point is the sales volume necessary to cover your variable and fixed costs. A simple formula using total fixed cost, and sales and variable costs per unit, will tell you a necessary sales volume.

Breakeven Point

$$\frac{\text{Fixed Costs}}{(\text{Sales Price Per Unit} - \text{Variable Cost Per Unit})}$$

For example, Fred wants to sell salmon skin wallets. He has the methodology down and a good idea of his costs. Fred calculates his overhead costs in a year are \$30,000 and each wallet typically costs about \$3.85 to make. Fred believes he can sell the wallets for \$15 to the tourists that come through his community. In order for Fred to at minimum breakeven, he will need to sell 2,690 wallets. Here's the calculation:

Salmon Wallet Business

$$\frac{\$30,000}{(\$15.00 - \$3.85)} = \frac{\$ 30,000}{\$ 11.15} = 2,691 \text{ salmon wallets}$$

You will notice this calculation does not factor in the initial cost of investment. It also does not factor in compensation for Fred. When starting a business it is really important that the owner not forget to provide themselves some level of compensation. Fred will need a \$15,000 dollar loan to buy equipment, materials and ample working capital to get the business up and running. A quick call to his loan officer determines he might be able to get a three year loan at 8% interest with principal and interest payments due each year. This equals just over \$5,640 annually. Fred also determines he will need \$30,000 for the year to cover his own living expenses while he starts this business. With these new expenses, Fred will need to sell quite a few more wallets.

Salmon Wallet Business with Loan Repayment and Compensation

$$\frac{\$65,641}{(\$15.00 - \$3.85)} = \frac{\$ 65,641}{\$ 11.15} = 5,887 \text{ salmon wallets}$$

Fred now has some decent information to make an informed decision about whether or not he should pursue a business plan. If the number of tourist coming through his community is less than 10,000, it would be ridiculous to think half would buy the wallet.

However, if the number is 1,000,000, then he might be able sell a wallet to less than 1%. This “reality check” is a good first start to determining whether or not it is worth the time to develop a more detailed business plan.

The following exercises provide a template for determining initial investment costs, a timeline, working capital requirements and cost projections. Use them if you would like, but as the section title suggests, you could easily just use the back of an envelope.

Exercise 4: Establishing a Timeline

Review each of the items on the following list and determine if there are relevant actions required to start the business idea.

A. Regulatory requirements

List and briefly describe all the regulatory hurdles (bonding, permitting, licensing, etc.) the business will need to start up and be operational. Estimate the amount of time necessary to meet each of the separate requirements. Note if one is contingent on another.

	Regulatory Requirement	Estimated Time (months)
1.	_____ _____	_____
2.	_____ _____	_____
3.	_____ _____	_____
4.	_____ _____	_____

B. Facility construction / remodeling

Describe any type of construction or remodeling required to initiate the building. Be sure to factor in bid time, contractor availability, and contingency time for unforeseen events.

Estimated time for completion: _____

C. Production equipment purchase & installation

Describe the equipment necessary for operations and the estimated time for purchase, shipment and installation. Be sure to factor in bid time, installation contractor availability, and contingency time for unforeseen events.

Estimated time for completion: _____

D. Production cycle

How long it will take to complete one production cycle of your product or service. This means from the time the production is initiated to the time you will receive cash payment.

Estimated time for completion: _____

E. Obtain adequate financing

If you need any outside help to pay for the cost of your start up operation, how long will it reasonably take to have the cash in hand? List proposed source and time estimated to meet all due diligence requirements.

	Financing Opportunity	Estimated Time (months)
1.	_____ _____	_____
2.	_____ _____	_____

3. _____

F. Source materials

List each major raw material requirement, or those that may be difficult to obtain, and estimate how much time it will take from the time you order them until they arrive.

	Raw Materials/Inventory	Estimated Time (months)
1.	_____	_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____
6.	_____	_____

G. Hiring personnel

Determine general type of employees required and how long it is anticipated it will take to solicit, interview, hire and train the new employees.

	Personnel Requirements	Estimated Time (months)
1.	_____	_____
2.	_____	_____
3.	_____	_____
4.	_____	_____
5.	_____	_____

6. _____

H. Obtain markets

Describe the steps required and how long it will take to market your product before it leads to initial sales.

Estimated time for completion: _____

I. Others

Describe and estimate time for any other requirement anticipated in the start up and initial operation of the business.

	Other	Estimated Time (months)
1.	_____ _____	_____
2.	_____ _____	_____
3.	_____ _____	_____

Exercise 5: Determining the Initial Investment

Fill in the following worksheet with the anticipated costs to start your business. Try to be as comprehensive as possible.

Item	Subtotals	Totals
Property		
Lot 1	_____	
Lot 2	_____	_____
Building/Remodeling		
Construction/Labor	_____	
Materials	_____	
Other	_____	_____
Inventory:		
Major 1	_____	
Major 2	_____	
Major 3	_____	
Other	_____	_____
Production equipment and installation:		
Major 1	_____	
Major 2	_____	
Major 3	_____	
Other	_____	_____
Office equipment		
Major 1	_____	
Major 2	_____	
Other	_____	_____
Regulatory fees		
Permits	_____	
Licenses	_____	
Taxes	_____	
Other	_____	_____
Marketing expense		
Travel	_____	
Logo/label/packaging design	_____	
Other	_____	_____
Patents, trademarks, acquisitions		_____

Research/Product development		_____
Contingency		_____ %
Total		_____

Exercise 6: Determining Sales and Expenses

Fill in the following worksheet with the anticipated sales price and expense to start your business. Try to be as comprehensive as possible. Variable costs are entered as a cost per unit. List fixed expenses at a monthly rate.

	Product 1	Product 2	Product 3	Total
Sales price per unit	_____	_____	_____	_____
Variable costs (per unit)				
Inventory	_____	_____	_____	_____
Inventory Freight	_____	_____	_____	_____
Direct labor	_____	_____	_____	_____
Indirect labor	_____	_____	_____	_____
Factory utilities	_____	_____	_____	_____
Factory supplies	_____	_____	_____	_____
Production Insurance/Taxes*	_____	_____	_____	_____
Repairs	_____	_____	_____	_____
Maintenance	_____	_____	_____	_____
Depreciation/Plant & Machine	_____	_____	_____	_____
Total variable costs	_____	_____	_____	_____
Fixed costs				
Salaries and commissions				_____
Advertising				_____
Shipping and Freight				_____
Legal, accounting and professional fees				_____
Lease fees				_____
Rent				_____
Utilities				_____
Insurance				_____
Office supplies				_____
R&D				_____
Depreciation				_____
Interest				_____
Taxes				_____
Other _____				_____
Other _____				_____
Other _____	_____			
Total fixed costs	_____			

* enter only if insurance/taxes are variable based on production

List personal working capital needs until revenues provide enough profits? \$ _____

Loan Information: (see Loan Payment sheet for payment requirements.)

Principal: \$ _____ Interest: ____% Term: _____

Required monthly payment: \$ _____

Exercise 7: What is the Breakeven Point?

Using information from the Exercise 4 – 6, fill in the following blanks and determine your necessary breakeven sales volume.

Fixed Costs (Exercise 5):

Personal working Capital needs (Exercise 6):

Monthly Debt Service (Exercise 6):

Total Fixed Costs

+	_____

Solve the following formula:

$$\frac{\text{Fixed Costs}}{(\text{Sales price/unit} - \text{Variable cost/unit})} = \frac{\$ \text{###,###}}{\$/\text{unit} - \$/\text{unit}} = \frac{\$ \text{###,###}}{\$/\text{unit}} = \underline{\text{Breakeven volume}}$$

Work area:

$$\frac{\$ \quad .00}{(\$ \quad - \$ \quad)} = \frac{\$ \quad .00}{\$ \quad } = \underline{\hspace{2cm}}$$

Business Environment Review

Depending on the results of your SWOT analysis and financial projections, you may not need to spend much time conducting this preliminary review. If your conservative and comprehensive financial projects demonstrate a great potential for profits, there is little need to delay on initiating a comprehensive business plan. The same can be said if it is determined the project has absolutely no financial merit. However, if the projections demonstrate marginal but potential returns, it may be important to dig a little deeper with people you trust and available sources of information.

Take a longer look at the business environment. Key areas to further review include:

- Markets and competition
- Government regulations
- Availability of raw material
- Places to operate
- Available funding sources

Another important activity is talking with trusted counselors and potential partners in the industry. These sources of information may provide critical insight that will demonstrate the project's potential. After this review ask whether or not this changes the SWOT, timeline or financial projections.