

Chapter 6: The Operations Plan

Tab 1: Introduction

The **operations plan** is where you show that you understand how to make your product or provide your service. This is where you explain how you will do the work, how your business will be managed, and where your business will be located. The operations plan has information about:

- The business location
- Licensing, registration, and insurance requirements
- Major inputs and operating costs
- Production methods
- Management methods

Tab 2: Facilities

The **facilities** section includes:

- Physical location of the business
- Lot specifications
- Site ownership or lease arrangements

Facility Specifications

Physical Location

The description of your business location includes:

- The physical address of your business location
- A map of the area
- A copy of zoning requirements

You should also say why you picked this location and its advantages and disadvantages. If there are disadvantages, include an explanation of how you will address them.

Building and Lot

The building and lot specifications include:

- The building's current floor plan, including square footage of each room
- A drawing of the entire lot, including parking spaces
- A description of how the lot will be used for storage, delivery, and other business activities
- A description of how the building's rooms will be used
- A description of any additional features of the building
- A drawing of any proposed remodeling of the building

You should also include advantages or disadvantages of the building or lot and how you will address any issues.

Site Ownership or Lease Arrangements

The site ownership and lease arrangements section includes:

- A description of your ownership or lease arrangement
- If you have a lease, include:

- Monthly rent
- Length of term
- Who will pay for remodeling costs, property taxes, insurance, and maintenance costs (you, or the landlord)

Tab 3: Legal Requirements

Businesses must meet the requirements of the U.S. Internal Revenue Service (IRS) and local municipalities to get a business license. All businesses need to be registered at the federal, state, and local levels.

Depending on where you live and what your business does, you may also need special licenses and permits to operate.

Business Set-up

Federal Taxpayer ID

You can probably use your Social Security number as your business tax ID. However, you might need an Employer Identification Number (EIN) if your business meets certain criteria. You need to have an EIN if you can answer yes to any of these questions:

- Do you have employees?
- Is your business a corporation or a partnership?
- Do you file a tax form for employment, excise, alcohol, tobacco, or firearms income?
- Do you have a Keogh plan (a tax-deferred retirement plan for people who are self-employed)?
- Are you involved with a trust, estate, real estate mortgage investment conduit, nonprofit organization, farmers' cooperative, or plan administrator (someone who manages your retirement savings plan)?

Visit [IRS: Employer ID Numbers](http://www.irs.gov/businesses/small-businesses-self-employed/employer-id-numbers) (www.irs.gov/businesses/small-businesses-self-employed/employer-id-numbers) to find more information about EINs and to apply for one online.

Registering Your Business Name

Some states require that you register your business name within 30 days of starting your business. Even if you're not required to register your business name, it's a good idea to do so. You'll learn if anyone else has the same business name in your state, so you can change your name to keep your customers from being confused.

Contact your state's Secretary of State Office to learn about the laws in your state and to register your business name.

For more information about why you should register your business name, visit [U.S. Small Business Administration: Choose Your Business Name](http://www.sba.gov/business-guide/launch/choose-your-business-name-register) (www.sba.gov/business-guide/launch/choose-your-business-name-register).

Licensing

Almost all businesses need some type of permit or license to operate.

The U.S. Small Business Administration website helps you identify what is required in your state. See [U.S. Small Business Administration: State Licenses & Permits](http://www.sba.gov/business-guide/launch/apply-for-licenses-permits-federal-state) (www.sba.gov/business-guide/launch/apply-for-licenses-permits-federal-state).

State Sales Tax License

States with a sales tax require that businesses have a state sales tax license. Your business needs a sales tax license if you're a:

- Retailer who sells a product or service
- Wholesaler who purchases resale inventory
- Manufacturer
- Leasing company
- Contractor, such as professional firms and construction contractors

You collect sales tax from your customers. Then, you pay that tax to the Tax Commission monthly, quarterly, or annually.

Not all states collect sales tax, so check to see if your state does. For more information and a list of states that collect sales taxes, see [Wikipedia's Sales Taxes in the United States](https://en.wikipedia.org/wiki/Sales_taxes_in_the_United_States) (https://en.wikipedia.org/wiki/Sales_taxes_in_the_United_States).

Professional and Occupational Licenses

Some industries require professional or occupational licenses. An industry license or certification shows that you meet standards set by your industry, and that you follow regulations set by that industry's licensing board. Requirements and fees are different in every state.

Look up license requirements for your state by searching your business industry and "occupational license" and your state's name online.

Local Business License

In many states, businesses must be licensed by the local city or county. Each local jurisdiction and local government has different rules, so you will need to figure out requirements in your area.

Before you receive a business license, you should have an EIN and state sales tax license (if applicable). You may also need permits and approvals from other local departments, such as:

- Planning and Zoning
- Building and Housing
- Health
- Police or Sheriff
- Fire Zoning

Insurance

You should have insurance for your business and your business property, like your business vehicle. You should have these types of insurance:

- Fire
- Theft
- Vandalism
- Accident liability
- Product liability

You might want other types of insurance, depending on your business and your business location. For example, if you are in an area that floods, you should get flood insurance.

Home-Based Businesses

If you operate a business out of your home, you will still need to get insurance for your business. Your homeowner's policy **does not** usually cover your business. Also, your business equipment or products **are not** covered by your homeowner's policy when they are stored in your house. For example, an artist's finished paintings are not covered for their value when stored at home. They are also not covered during transport to and from an art show, or while at the art show. You might need to obtain a rider (add-on provision) to your homeowner's policy, or purchase insurance through a specialty provider to cover your business.

Tab 4: Inputs

The inputs section of the **operations plan** describes the main costs of running your business.

Operating costs are usually broken into three types:

- **Capital expenditures** are costs for things you need to get your business ready to open. They are usually one-time only costs for things that last a long time, like machines.
- **Fixed operating costs** are costs you always pay, even if you don't sell anything. They are generally recurring costs, such as rent, utilities, or insurance.
- **Variable operating costs** are how much it costs for you to produce your product or service. These costs are higher if you make a lot of your product, and smaller if you make less.

You already estimated these costs on the **Start-Up Costs Inventory Worksheet** from Chapter 3: Business Feasibility.

Capital Expenditures

Most capital expenditures are for equipment, furniture, or fixtures. They don't include land or buildings.

Something is a capital expenditure if:

- You use it to run your business
- You don't use it up
- It is not consumed in the normal course of the business
- You can use it for several years or longer
- You can write it off on your taxes, and can get a depreciation tax deduction

Examples: machines, specialized tools, office furniture, computers, display fixtures, and vehicles.

Justifications

List each of your capital expenses with the following information:

- The item with make/model or reference number
- Why you need it
- Where you will get it, and why you chose that supplier
- Costs (per unit costs, units needed, and total costs)
- Terms and conditions (especially if the item has a payment schedule)

Example: John's Finish Carpentry

John needs an enclosed trailer to store and move equipment for his finish carpentry business. He did some research about prices and suppliers and wrote this justification.

Item: Enclosed 6'X12' trailer with drop gate

Purpose: Needed to transport and secure tools and materials while working off site.

Supplier: I selected SLE Equipment because they receive strong customer reviews, offer free delivery, and have a competitive price.

Costs: \$2,399.

Terms: SLE Equipment offers 12-month same-as-cash financing.

Fixed Operating Costs

Fixed operating costs are things you have to pay for even if you don't sell any product or service. They are sometimes called overhead costs. Fixed operating costs include:

- Rent
- Utilities
- Business licenses/registrations
- Insurance
- Property taxes
- Accounting fees
- General Supplies
- Advertising

General supplies

General supplies are tools and other things you need to run your business. They are not very expensive. They might last a while, but they're not considered capital expenditures.

For example:

- A hairstylist might list scissors, razors, a hairdryer, and scheduling software.
- A jewelry maker might list a work lamp, needle-nose pliers, and bead storage containers.
- A caterer might list cutting boards, knives, cooking pots, linens, and bookkeeping software.

Advertising

Advertising costs include costs related to production of things like:

- Business cards
- Brochures
- Flyers
- Website creation
- Social media posts

Cost Estimates

For each fixed cost, list the following:

- Item
- Supplier
- Cost per unit
- Units needed
- Total cost

Variable Operating Costs

Variable operating costs change based on how much product you sell or service you deliver. Because they can change, they are estimated by month, quarter, or by project to adjust for changes in sales.

Examples of variable operating costs include:

- Gas to travel to a worksite or deliver product
- Mailing/shipping costs
- Piece-rate labor
- Credit card fees
- Raw materials used to manufacture a product
- Production supplies

Example: Flora's Wedding Flowers

Flora is doing flowers for two weddings in June. She made this list to estimate her variable operating costs for the month.

- Flowers (\$250): 100 long stem roses, 120 sunflowers, 5 bunches of baby's breath, 5 bunches of wild fern
- Ribbon (\$35): 2 roles of white satin ribbon, 3 roles of wide royal blue satin ribbon
- Containers (\$50): 10 glass vases; 24 ceramic vases
- Other (\$40): 2 roles of green corsage tape; 24 foam bricks
- Travel (\$60): Gas to travel to two weddings (estimated round trip is 200 miles)
- Labor (\$300): 20 hours of temporary help

Justification

For each variable operating cost, list:

- The item and its purpose
- Primary supplier and why this supplier was selected
- Costs (per unit costs, units needed, and total costs per month)
 - Costs can be separated into months or quarters to adjust for changes, such as production and sales increases over time or seasonal fluctuations
- Terms and Conditions
 - Payment arrangements and terms established with each supplier, including a written copy of any contracts or payment agreements
- Secondary supplier in case something happens like a product shortage, delivery problem, or disagreement with the primary supplier

Example: Grinder

Grinder's owner knows that good coffee is vital to her business. She wrote the following inputs description for her coffee.

Item and Purpose: Dark roast, medium roast, and light roast caffeinated and decaffeinated coffee for our various coffee drinks.

Primary supplier and why selected: I plan to purchase coffee from Bitterroot Roasting, a local roasting company. Bitterroot Roasting has good name recognition in the area and offers a competitively priced and good-tasting product. Purchasing from a small local company also aligns with my community values to "buy local".

Costs: \$3000/month (\$10 per pound, 300 lbs per month)

Terms and conditions: Bitterroot Roasting will deliver coffee on a weekly basis. They bill on a monthly basis and charge an additional 5% for outstanding balances beyond the 30-day billing cycle.

Secondary supplier: I will use Colfax Coffee Beans as an alternate supplier. Colfax Coffee Beans is a regionally-based business that can ship within one day of an order. Their products are competitively priced and good quality.

Quiz Yourself

Question 1

Is the cost of shipping a product to a customer a fixed or variable operating cost?

Answer 1

Shipping costs are variable because they depend on having a customer place an order, and on having a product to ship.

Question 2

Is rent for a workspace a fixed or variable operating cost?

Answer 2

Rent is a fixed cost because it needs to be paid regardless of the production of any product or service.

Question 3

Is the cost of renewing a license a fixed or variable operating cost?

Answer 3

Renewing a license is a fixed cost because licenses need to be current as long as the business is operating.

Question 4

Which of these costs are capital expenditures?

- Storage containers
- Computer
- Office desk
- Wood to build a product

Answer 4

- The computer and office desk are capital expenses because they are not used up and have a useful life of several years or more. Also, they can be treated as assets for tax purposes.
- Storage containers are a general supply and fixed operating cost. General supplies are less expensive items that are not considered business assets, but are not used up when you make your product.

- Wood for building a product is a variable operating cost, because it is used up when you make the product. The amount you buy also changes depending on how many products you need to make.

Tab 5: Production Methods

The **production methods** section describes what you will do to make your product or provide your service, and how you will sell it. In this section, you should describe:

- Your methods, tools, and equipment and how and when you use them
- How long it takes to produce the product or service
- Where you will do your work, and how much room you need to do each work activity
- How valuable items are stored or protected (such as in a locked safe or out of the elements)
- The labor needed to produce your product or provide your service
- Your methods for monitoring quality
- Your methods for meeting environmental and safety regulations
- How you will manage and track your inventory
- How your product or service will be distributed or sold

Production Methods Example

Stuarts' Rock and Gem Shop – Production Methods

I will sell rocks and gems to locals and tourists visiting the area. I will buy product from two primary distributors (Minortown and Topgem) and visit two regional gem shows each year to look for unusual specimens. In my store, I will display rocks in bins set on tables and gems in glass display cases. There will be reference books on a corner table that customers can use to look up information about different stones.

In the front of the store, I'll have a computer that I can use to research specific rocks or gems for customers. I will also use the computer to make sales. In the back room, I'll have a work computer and printer for day-to-day accounting and other business activities.

My computer has software that lets me track sales by product type. This will help me keep track of which rocks and gems I need to order. It will also show me which ones are selling the best. This information will help me keep track of customer preferences and sales, and help me see if I am meeting my pricing goals. My shop will have an alarm system and I will lock up the valuable gems in a safe every night. At the end of each month, I will also take a manual inventory of my products so I can see if anything has been stolen or if my sales records have errors.

Tab 6: Management

The **management** section describes how you will manage your business. It includes descriptions of how you will do things like:

- Generate an invoice
- Follow-up on unpaid invoices (accounts receivable)
- File receipts and other paperwork
- Track money received and money spent (bookkeeping)
- Reconcile the business's checkbook and credit card records

- Pay the business's bills (accounts payable)
- Do the taxes
- Offer credit terms to customers
- Keep personal and business expenses separate

Workers

You may use different types of workers to complete some things that are required to run your business. For example, you might hire contract professionals to complete your taxes and monthly bookkeeping or temporary workers during your busy season. Different types of workers are described below.

Unpaid workers

Unpaid workers are people who work for you for free. They could be family members or friends who help you do things to run your business. Describe:

- Who they are
- Their qualifications
- What they will do
- How those things will be done if they cannot continue to do them

Professional services

People who provide an outside service to your business, like a lawyer or accountant, provide professional services. These people are not regular employees, but people you pay for a service. Describe:

- Who they are
- The services they will provide
- Their qualifications
- How those duties will be done if they cannot continue to do them

Temporary labor

Temporary workers are non-employees who provide your business with a temporary service, such as mailing advertisements for an ad campaign or packaging your product during the holiday rush.

Describe:

- The services they will provide
- Their qualifications
- How you will hire them

Employees

Employees work for your business on a part-time or full-time basis. Describe:

- What they will do
- Their qualifications
- How they will be paid and compensated
- How you will hire them

In general, most sole proprietorships do not have employees.

Management Methods Example

Stuart's Rock and Gem Shop – Management Methods

All of my sales will be paid in full, and customers can use credit or debit cards, or cash. I won't accept checks because I have a lot of customers who are tourists, which could make it risky if a check bounces. I won't carry accounts receivable. I will use Microsoft Quickbooks to track sales, inventory, business expenses, and accounts payable.

Workers

My mom will help me clean my shop once a week. If she is busy or sick, then my sister will help instead. My dad will help me build display shelves for my store. He is a retired carpenter, and will help me make sure my shelves are sturdy and safe. My family will work for free until the business is profitable.

I will hire UT Accounting to complete my income taxes and to help me set up my Quickbooks accounting system.

Tab 7: Review

The **operations plan** is where you describe how you will make and deliver your product or service.

A good operations plan describes:

- Your business location and building facilities
- Business licensing and insurance requirements
- Your business operating costs and other related costs
- A description of your production process
- A description of your management methods

Prepare

The **operations plan** is where you show your understanding about how you will run your business. Use the information in this chapter to help you write the operations plan section in your **Business Plan Outline**.

Start by figuring out your major inputs and your fixed and variable operating costs. Next, outline your production methods.

- How will you produce your product or provide your service?
- How long will it take to make your product or provide your service?
- What labor and materials will you need?
- How will you sell your product or service?

Write down any questions you may have or help you may need, and share these and your updated business plan outline with your VR counselor.

Counselor Review

Legal Requirements

It is important to make sure the client has all the proper licenses. Depending on what industry their business is in, they may need a professional license. They will also need business licenses through the state or local government.

Production and Management

- Did the client explain all aspects of the production process, from making and selling the product to ordering inventory and making sure that all production processes meet legal requirements?
- Did the client demonstrate that they are aware of various business management activities required to run a business?
- Are there gaps in operations and management that could be addressed with additional training?
- Would the client benefit from shadowing a business mentor to see first-hand what is required for day-to-day business operations?

Contract Workers

Many small businesses will pay for professional services, such as a lawyer, accountant, or someone like a graphic designer to design a logo or other marketing materials. However, VR often won't pay for these services. If this is the case at our agency, make sure you make this clear to the client. Paying for these services would be a good use of the client's personal contributions to business start-up funds.

Unpaid Workers

Most VR client businesses will not have paid employees. If they do have workers, they will most likely be unpaid family or friends who help out with certain business tasks. Make sure the client has a back-up plan in case an unpaid worker can no longer provide that service.

Check Your Understanding

This section helps you check your understanding of the material covered in this chapter. Go through the questions and write down your answers on a separate piece of paper. Check your answers in the Review Your Answers section.

Check Your Understanding

Operations Plan

Why should you have an operations plan? What does it do?

Parts of the Operation Plan

What should be in your operations plan?

Legal Requirements

What are three business registration, licensing, or insurance requirements you might need to take care of before you start your business?

Fixed Operating Costs

What are fixed operating costs?

Variable Operating Costs

What are variable operating costs?

Review Your Answers

Operations Plan

Question: Why should you have an operations plan? What does it do?

Answer: The operations plan shows that you understand the day-to-day operations of your business and how to make your product or provide your service.

Parts of the Operation Plan

Question: What should be in your operations plan?

Answer: The operations plan should include:

- The business location and facility
- Business license and insurance requirements
- Business costs
- How your product or service is produced and delivered
- How day-to-day business activities will be accomplished, including roles of employees, contractors, and unpaid workers (if applicable)

Legal Requirements

Question: What are three business registration, licensing, or insurance requirements you might need to take care of before you start your business?

Answer: These are some business registration, licensing, and insurance requirements you need to consider:

- If you are responsible for collecting state **sales tax**
- How to **register your business name** with the state
- If you need to secure a **professional license**
- If you need to secure a **business license**
- What kinds of **insurance** you need for your business. These could include: general liability coverage, product or professional liability coverage, coverage for business property and vehicles, and worker's compensation.

Fixed Operating Costs

Question: What are fixed operating costs?

Answer: Fixed operating costs are the expenses you have to pay every month whether or not you make or sell anything. Fixed operating costs include things like rent, utilities, and insurance.

Variable Operating Costs

Question: What are variable operating costs?

Answer: Variable operating costs are costs that you don't have unless you make or provide your product or service. These costs change based on how much product you sell or service you deliver. Variable operating costs include things like shipping costs, gas for work travel, and the raw materials you need to make your product.