

Business Planning for a Cold Storage Facility

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1 Introduction to Business Planning

This paper provides a brief overview of the business planning process. Planning is a crucial part of the business development process, providing the prospective business owner with valuable insight into the feasibility of a business idea. Business plans are used to demonstrate the feasibility of a business idea, to provide a blueprint for operating that business, and to provide documentation needed to secure funding and financing.

1.1 Why Plan?

The primary purpose of developing a business plan is to gather the information necessary to make an informed decision about a prospective business. The planning process for a cold storage facility raises many questions, such as:

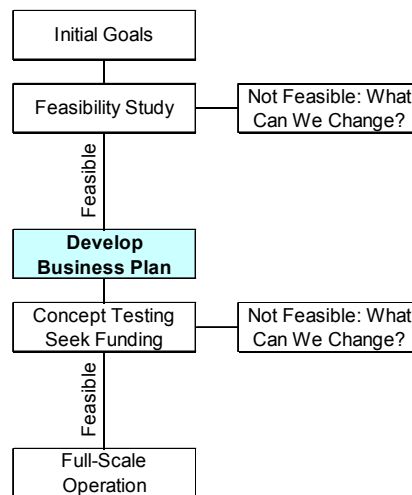
- What industry or industries need cold storage?
- What capacity can be supported?
- Is the project feasible? (Do the numbers work?)
- Who will own the facility, and who will operate it?

These questions, and many others, are addressed during the planning process.

1.2 Stages of Planning

Three broad stages of planning encompass the process of developing a cold storage facility, from initial goals to full-scale operations. Figure 1 shows the planning process. The following three subsections discuss what takes place during each phase, from the perspective of the prospective facility owner.¹

Figure 1. Where Does a Business Plan Fit Into the Business Planning Process?



¹ Although the process is written as if the owner were an individual, the owner could be a government or an entire community.

1.2.1 Phase One: Initial Goals and Feasibility Study

In this phase, the owner works to determine his initial goals and the reasons for developing a cold storage facility. Once those goals have been determined, the owner proceeds with a feasibility study to determine if the idea is feasible. If it is not, the study should address what could be done to make the facility feasible.

The outcome of this phase is a market analysis, feasibility study, and other information that will be needed to prepare a business plan.

1.2.2 Phase Two: Business Plan and Concept Test

In this phase, the owner uses results from the previous phase to develop a business plan and proceed with a concept test. If the test shows that the concept is viable, the owner can seek funding and proceed with a full-scale facility. If the test shows the concept to be infeasible, more work should be done on the business plan and concept to determine what would make the facility feasible.

One way to accomplish a concept test might be to acquire a freezer van and store bait for commercial fishermen and charter companies. This would test the demand for one service without a lot of financial risk.

An important consideration in the concept phase is that the operation expenses are likely to be higher than they would be under full production. This is a result of less efficient operations at a smaller scale, and should be expected.

The outcome of this phase is greater knowledge about the feasibility of a cold storage facility. Once the concept works, the owner may proceed to the final stage.

1.2.3 Phase Three: Full-Scale Operation

In this phase, the owner acquires funding and financing, and proceeds with construction of a full-scale facility. This process relies heavily upon information gathered from the previous two phases, as well as anything learned from the concept test.

The outcome of this phase is a full-scale facility that has begun operations to serve the market identified in the business plan.

2 Walkthrough of the SBA Business Plan

The U.S. Small Business Administration (SBA) has a set of standard business plans that have been developed for various industries. The plan for a small manufacturer is suitable for use with a cold storage facility. Using a business plan developed by SBA or another organization is valuable to ensure that all the necessary information has been collected. However, perhaps the most important reason for using a recognized business plan format is that it will be easier for funding agencies to use. A nonstandard business plan does not lend itself well to acquiring funding.

This section provides a brief description of each of the five sections of the SBA business plan for small manufacturers.

2.1 Business Definition

The business definition section asks two important questions. First, it asks why an owner wants to be in business. Second, it asks what business the owner is in.

The answer to the first question is that a cold storage facility will serve an unfilled or underserved need. In other words, the facility will be the first of its kind in the community, or it will provide needed storage capacity to existing facilities.

The second question has a less obvious answer. The initial answer might be to provide a product. However, the best answer should look at what that product accomplishes. A cold storage provides storage for seafood or other products that require refrigeration or freezing. However, the real reason for the cold storage to operate is to enhance the value of the products stored, or to better the local economy. Finding the best answer will help a great deal in the planning process.

2.2 Marketing

The marketing section discusses the target market and competitors. A feasibility study will provide the answers to questions raised in this section.

With regard to target markets, there are actually two markets. The first is the local market, which creates the demand for storage of seafood, bait, or other products. The second market is the market to which your local customers sell. Some cold storage facilities not only store products, but take packaged products, label them, and send them off at their customers' requests. By recognizing and addressing both markets, the cold storage facility will be better prepared to stay in business.

The second topic of this section is competitors. Competition is good as long as there is a market. Once all of the market demand has been accommodated by other facilities, it becomes much harder to justify a new facility. It would not be wise to open a new cold storage facility in a community that has more cold storage facilities than are needed for local fisheries and other industries. However, it would be wise to open a facility where the needs are unfilled or underserved. The same holds true at a regional level.

2.3 Production

The production section looks at the operations of a potential facility. As with marketing, much of this information can be developed through a feasibility study.

The purpose of this section is to determine how the facility will turn raw materials into a finished product. For the most part, a cold storage facility uses electricity, water, labor, and equipment, to produce its product. Other considerations include the space used by the facility, and any indirect expenses (overhead).

2.4 Financing and Cash Flow

The financing and cash flow section addresses the amount of money required to develop a facility, and the amount of money that will be needed to keep it going once it has started operating.

There are three financial measurements used in the SBA business plan. These are expected sales and expenses, anticipated cash flow, and, if an expansion is involved, a current balance sheet. Sales and expenses show how the facility will look during operations. Will the facility earn a profit, break even, or lose money? Anticipated cash flow shows whether a facility will be able to pay its bills. It is cash—and not expected sales—that keeps a business running. For an existing facility undergoing an expansion, a balance sheet showing the current facility and its financial health is important.

This section of the business plan contains very detailed information. The SBA business plan provides guidance on how to develop this section. A feasibility study will typically produce all of the information found in this section, and will prove invaluable in providing supporting data for the financial figures.

2.5 Implementation: Making the Plan Work

The implementation section discusses common issues that arise when implementing a business idea, and focuses thinking on ways to overcome those challenges. Several issues are discussed in this section, including inventory control, quality control, and breaking even. Each of these issues is vital to the success of a cold storage facility.

Inventory control refers to product turnover, and is important in a number of ways. Having product sit in a cold store for extended periods decreases the quality and freshness of the product, even if temperatures are low. Eventually the product will be sent out, and the remaining shelf life will depend on how long the product was held. Increasing inventory turnover also benefits the cold storage owner by increasing the revenue earned by the facility.

Quality control is a vitally important issue, especially when a cold storage is going to be used to increase the value of local seafood products. The storage temperature determines the amount of time product may be stored at a desired level of quality, and temperature fluctuations are also an issue.

Finally, a facility must at least break even in its operations, or it will require ongoing funding from another source. The break-even point is where the utilization rate of the cold store is high enough so that profits on stored product cover fixed expenses. The break-even utilization depends on the types of products stored, including the species of product and the form it takes. If high-value items are stored, the break-even utilization might be lower than if low-value products are stored, since profit margins on high-value storage will be higher.

This section of the business plan deserves a great deal of thought, because the issues raised in this section are important in keeping a cold storage facility running. Many of these issues are managerial issues, and need to be decided by the owner, the operator, and others assisting with implementation.

3 Funding and Financing Your Facility

Funding and financing are available for many sources and for many purposes. This section provides a basic overview of some of the agencies and programs that may provide funding and financing for some aspect of a cold storage facility.

The examples given are well-known organizations that have provided funding and financing for a variety of interests in Alaska. For that reason, they are offered as examples of lenders, but not necessarily viable sources of cold storage funding. It is important to make contact with potential lenders early in the planning process to determine what sort of documentation is needed to qualify for a loan or grant.

3.1 Funding Sources

The following four sources may offer funding for planning, constructing, or operating a cold storage facility. These are examples that are used to illustrate potential funding sources only, and these sources do not necessarily have programs that would fund a cold store.

Small Business Administration (SBA). The U.S. Small Business Administration offers a wide variety of resources to support the development and operation of small businesses, as well as offering various loan programs. The Administration was founded in 1953 with the mission of supporting small business through a variety of roles. www.sba.gov

Economic Development Administration (EDA). The U.S. Economic Development Administration was founded in 1965 and provides grants to support a variety of economic development activities, including infrastructure development and business development. www.doc.gov/eda

Bureau of Indian Affairs (BIA). The U.S. Bureau of Indian Affairs may offer funding for business and economic development for qualified borrowers. www.doi.gov/bureau-indian-affairs.html

Denali Commission. The Denali Commission is a federal-state partnership founded in 1998 “to provide critical utilities, infrastructure, and economic support throughout Alaska,” and providing support for remote communities within the state. The Denali Commission might have some funds to support cold storage facilities, possibly by funding training for local employees. www.denali.gov

3.2 Financing Sources

The following four sources may offer financing for planning, constructing, or operating a cold storage facility. As with the example funding sources, these examples are used to illustrate potential financing sources only, and it is possible that some of them would not offer loans to cold stores.

Bank loans and private lenders. Bank loans and private lenders are a typical source of financing for small businesses. More information can be obtained by contacting local or regional banks to inquire about business services.

Alaska Industrial Development and Export Authority (AIDEA). The Alaska Industrial Development and Export Authority’s mission is “to encourage economic growth and diversification in Alaska.” In pursuing that mission, it might offer financing for a cold storage facility. If AIDEA does not provide financing, it might help to facilitate financing from another lender. www.aidea.org

U.S. Department of Agriculture (USDA). The U.S. Department of Agriculture was founded in 1862 to support agriculture at a time when nearly half of the people in the United States were farmers. Today, USDA

offers a variety of programs to support food production in the U.S. It also offers rural development loan and grant programs, some of which might apply to new cold storage facility. www.usda.gov

Commercial Fisheries and Agriculture Bank. The Commercial Fisheries and Agriculture Bank is a private, member-owned cooperative. Its mission is “to be the premier lender to the commercial fishing, agriculture, timber, tourism and resource based industries in Alaska.” The Bank might offer financing for cold storage facilities. www.cfabalaska.com

For more information, the Department of Community and Economic Development has produced a manual of grants, loans, and similar programs available in Alaska. Currently in its 15th edition (July 2003), the *Economic Development Resource Guide* is a wealth of information on funding and financing opportunities.

4 Effective Use of a Consultant

When governments and other organizations study the feasibility of a cold store, they must consider a lot of information in order to make a reliable decision on whether to proceed with the facility. Bringing consultants into the process can be very valuable, but it may also create some difficulties. This section discusses the advantages and disadvantages of using a consultant.

Consultants may be used in a variety of capacities. In addition to preparing business plans, consultants may provide assistance in market analysis, technical and engineering feasibility, financial feasibility, funding and financing mixes, operational issues, and performance evaluation.

4.1 Advantages of Using a Consultant

There are several advantages to using consultants at some point in your planning process:

- A well-picked consulting team can provide experience, expertise, efficiency, and guidance.
- Consultants are independent third parties, and bring credibility when dealing with potential lenders. This is important in the implementation phase, when very little capital may be available without additional funding.
- Consultants are removed from the situation, and are able to offer an objective assessment. A good consultant will not only be honest and tell you when a facility does not make sense, but may offer insights and other guidance about what might be changed to make a facility work. An engineering consultant might demonstrate how to make a facility work by altering its size, construction materials, or other factors.
- Consultants have experience in conducting market analyses, and can provide realistic assessments of how large a market is, and how much of that market might be captured by a new business. Business plans often take an optimistic view about how much of the market a business will serve, and a consultant can verify that assumptions are reasonable.
- Consultants can analyze assumptions about market size and operations to determine how sensitive a facility's success is to changing prices of inputs and other factors. If a facility is built to support a local fishery, a consultant might develop models to evaluate the appropriate size of a facility given uncertainty about the size of the harvest.
- Consultants have connections with key players in industry and can gain access to information that might not be readily available. While competing facilities might be reluctant to divulge information to a prospective facility, a consultant might have access to some of that information on a confidential basis to check the validity of assumptions.
- Consultants have experience with similar facilities and can offer suggestions about how to make a facility work. Often this experience can help an owner avoid common mistakes and challenges associated with a new facility.
- Even when a community, cooperative, or other group has developed a business plan or proposal, a consultant can offer assistance by performing a due diligence review of the assumptions. This is a way to address issues that a potential lender might have before problems arise.
- Consultants can assist with filling out documentation when applying for loans and grants, when experience with grant writing and attention to detail is important.

4.2 Disadvantages of Using a Consultant

A major disadvantage of using a consultant to develop a business plan is that it may lead to a lack of buy-in by the owner or owners of a potential facility. Owners and operators must be committed to the success of a facility in order for the business plan to have any value. Keeping this in mind, what follows is a list of things that consultants should not do.

- A consultant won't tell you your goals and objectives. You must decide why you want a cold storage facility.
- A consultant won't make your decisions. Consultants provide guidance, but the ultimate decision must come from the facility owner.
- A consultant won't decide on the appropriate level of risk for a community. Likewise, a consultant won't tell you how much you are willing to commit to a facility. If the facility is expected to lose money, the owner needs to make the decision whether to proceed. Likewise, the owner needs to decide if breaking even is sufficient, or if a particular amount of profit is acceptable.
- A consultant won't give you buy-in and commitment. This is something that must come from the owner, the community, the cooperative, or other affected party.

5 References and Resources

Alaska Department of Community and Economic Development, Division of Community Advocacy. *Economic Development Resource Guide, 15/e*. July 2003. Available at <http://www.dced.state.ak.us>.

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