DEPARTMENT OF COMMERCE
GUIDEBOOK
For NC State Incentives and Credits for Startup Businesses
ACKNOWLEDGEMENT

This guidebook was prepared at the request of The Office of the Commissioner for Small Business at the North Carolina Department of Commerce. It was authored by David Mayo, a business counselor with The University System’s statewide business and technology extension service, SBTDC. Other SBTDC professionals served as reviewers of the guidebook.

It was initially published in January 2013.
INTRODUCTION

Over the last few years startups considered for incentives by the Department have been of four types: (1) new North Carolina based start-up companies, (2) bankrupt North Carolina companies seeking a re-start with new owners, (3) US companies which are “on-shoring” their foreign production capacities and (4) new wholly owned US subsidiaries of foreign firms.

Many of these new firms have adequate start-up capital, business plans and other documentation to demonstrate a capacity for successful launch. Many more, however, do not have adequate capital, business plans or other documentation and are unable to demonstrate the capacity for successful start-up.

This guidebook was created to help the Department of Commerce more efficiently and effectively evaluate the potential of startup businesses to qualify for North Carolina’s incentive grants and tax credits and, ultimately, to create jobs and build North Carolina’s economy. The guidebook and companion training material enables Department of Commerce field personnel to provide basic technical assistance around business planning to startups, establishes additional requirements for startups pursuing grants and tax credits, and serves as a guide to determine when it is appropriate to send a package to the Commerce Finance Center for review.

Startup businesses that already have the potential for success will easily be able to meet the requirements set forth in this guide, while businesses that are at an earlier stage in their development will be given the tools and assistance to help them become prepared. The new requirements are not meant to be an added burden on Commerce personnel or business owners; rather, the requirements can be viewed as a first step to passing the evaluation process that is already in place in the Finance Center. These additional requirements for consideration for incentives are similar to requirements for businesses applying for commercial loans or seeking out private investments.
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ADDITIONAL REQUIREMENTS

- An adequate business plan (as described in detail in the business plan section of this guidebook)

- Three years pro forma financial projections (as discussed in the financial projections section of the business plan)
  - Year 1 monthly cash flow
  - Year 1 monthly income statement
  - Years 2-3 yearly cash flow
  - Years 2-3 yearly income statement
  - Year 1-3 year-end balance sheet
  - Accompanying assumptions to the pro forma financial statements
  - Sources and uses of capital

- A list of contracts from customers in the pipeline (include type of commitment: deposits in hand, written letter, non-binding commitment, or management expectation of sale)

- Personal financial statements of principals (20% ownership interest or more)

For businesses that are technically in business but with less than 1 year history or are restarting a previously bankrupt company should also include:

- All available tax returns

- Historical financial statements
  - Yearly Cash Flow
  - Yearly Income statement
  - Year-end balance sheet
BUSINESS PLAN SECTION

The business plan section of the guidebook should be used to determine if a business plan is adequate. This section of the guidebook contains explanations of each section of the business plan and a checklist; two mock business plans have been included in Appendix 1 and 2 for reference. Appendix 1 is an annotated business plan that would not be considered adequate, while Appendix 2 is business plan for the same industry that would be considered adequate.

While every business plan in every industry will be somewhat different, all business plans must demonstrate that the industry has been researched to the fullest extent possible, that there is a market need, that the owners, managers, and employees can drive success, and that the company can meet the market need while making a profit and sustaining the business. Some business plans that are acceptable may not meet every single criterion on the checklist, but consistently missing expected content indicates a business plan that is not adequate.

Plans that are poorly written, have grammatical and spelling errors, are created by business planning software, or are excessively long (>25 pages without appendices) or excessively short (<8 pages) would not be considered adequate business plans and should be updated by the business owner before being submitted. Creating a business plan is a key to business success; objections to creating a plan indicate a business owner that is less likely to be successful in their new venture.
BUSINESS PLAN SECTION EXPLANATION

Executive Summary
The Executive Summary is the first section of the business plan that a reader sees. It should be captivating and entice the reader to continue reading through the plan. The Executive Summary should be brief and should not exceed two pages; ideally the Executive Summary would fit on the first page of the document (after cover page, table of contents, confidentiality statement). Although the Executive Summary is the first and one of the most important pages of the business plan, it is the last section that is written. The Executive Summary should cover the highlights, in summary, of the other sections of the business plan but should not be repetitive. Executive Summaries written for the purposes of obtaining a grant should state that as the purpose of the plan and should include a sources and uses of capital schedule for the project (see Finance Section).

Background
The background section should demonstrate that the industry has been well researched and the business fits into an important niche in that industry. Industry research should be based off of credible secondary sources such as: census data, private party research companies such as Dunn and Bradstreet, IBIS, and Marketline, industry trade journals, or library database publications. The company may also choose to use primary research such as surveys, interviews, or focus groups to further research the industry; however, primary sources should be used in addition to secondary sources, not in lieu of.

The background section should also cover how the owner came upon the opportunity and what progress has been made, including booked orders and signed agreements. The background section is the first section that should be written because the industry research will be a foundation for the rest of the plan.

Marketing
The marketing section should describe the target customer, the competition within the market, the competitive advantage if any, and the specifics of market entry planning.
The target market is which group, specifically, the product or service will be marketed towards; the target market cannot be everyone. A strategy that focuses on everyone is not appealing enough to any specific market and cannot be successful. A target market can be described by how a group of buyers thinks, acts, and where they are located. The size of a target market should be large enough to make a project feasible, and the target customers should have enough in common to make them reachable. Market research must be done to determine a target market; secondary data, such as data provided by the Census Bureau, and primary data, such as survey results, can be used to highlight the common characteristics of the target customer. Common characteristics for direct to consumer industries could be disposable income, race, or census tract (location), while characteristics of a business to business target market could be industry NAICS code, region, or number of employees.

Competition should be evaluated showing strengths and weaknesses of main competitors. Every business will have competition; competition may be catering to a different target customer or they may have enough weaknesses to make entry into the market attractive. If no direct competition can be found, then indirect competition should be evaluated. Customers have a limited number of dollars and all dollars are already being used, either by spending or saving; if an idea is truly new to market customers must be convinced to purchase the product or service instead of using the dollars as they are currently.

Some companies may have a competitive advantage, a unique selling point that is valuable to the customer and cannot be copied by competition within one year. A competitive advantage could be a patent or a set of knowledge of the employees that cannot be easily developed. It is important to note that selling price is never a competitive advantage; larger firms can often lower prices and operate at a loss for a period of time.

A marketing strategy broadly consists of pricing, the product itself, geographic and product placement, and a promotional strategy. The marketing strategy together communicates a brand image to the customer; for branding to be successful the marketing strategy should be consistent across all areas. Pricing is the highest communicator of quality; a high price indicates a high quality product while a low price indicates a product of lower quality. Product pricing should be based off of what the market is willing to pay; the pricing in the market is often dictated to an extent by competition. Products that have a strong value proposition to the target market can usually garner a higher price than competition. The product or service itself must also be appropriate for the market and must match the overall branding strategy. A product with a high asking price would be made from premium materials. The placement strategy must also be consistent with the branding strategy; high quality products should be sold in appropriate outlets alongside other high quality products. The promotional strategy considers methods to communicate the
product or service offering to the target market; promotion could include: radio, print ads, social media, website, pay-per-click, sales people, and dozens of other outlets.

Management and Organization

Success in any organization is driven from the top down. Top management should have relevant experience in the industry and have management experience. Someone in the organization must also have experience managing finances. Professional advisors such as attorneys and CPA’s should be listed in this section.

For companies forecasting significant employment growth, there should also be strategies in place to recruit and retain employees; recruitment is even more critical in industries that are experiencing a labor shortage.

Operations

For some organizations the Operations Section may be brief, stating hours of operation, location and permits, but for other organizations there may be further complexity related to production. For companies requiring special quality certifications around production, the operations section should highlight key facets of the production process that will keep the organization in compliance. Complicated arrangements with partners and distributors should be discussed in the Operations Section.

Finance

The finance section should include a sources and uses of funds for the project, break even analysis, and pro forma income statements, balance sheets, and cash flow statements.

A project sources and uses of funds describes the costs of the project and how the project will be financed. Sources of funds can include grants, loans, owners cash, and equity investment, while uses of funds can include working capital, inventory, land, buildings, equipment, and purchases of intangible assets.

Break even analysis reveals how many units or a dollar volume of sales the company must have to no longer operate at a loss. To calculate a break even in units of production, fixed costs for the period, variable costs per unit, and unit selling price must be estimated. For example, if a widget company has fixed costs of $500,000 a widget sells for $1 and costs
$.40 to produce, the selling price per unit is $1, the fixed costs are $500,000 and the variable costs are $.40. Next the contribution margin per unit must be calculated; contribution margin per unit equals (sales price per unit - variable costs per unit). In the previous example the contribution margin per unit equals (1 - .40) or $.60. The number of units it takes to break even equals (Total Fixed Cost/ Contribution Margin per Unit) or ($500,000/.60). It takes 833,334 widgets to break even. Break even in sales dollar volume equals break even units times the selling price per unit. In the example, (833,334 units x $1 per unit) for a break even sales volume of $833,334. Time to break even equals how many months it will take to reach break even sales volume.

The income statement three main sections: revenue, product costs, and period costs. The revenue line represents the dollar volume purchased by the customer; product costs, also called cost of goods sold, are costs that are direct inputs into the product. Product costs will include direct labor, direct materials, and manufacturing overhead. Period costs are costs that occur regardless of products being produced. Period costs include selling, general and administrative expenses, and labor costs not associated with producing products or services. Revenue minus Cost of Goods Sold equals Gross Profit; Gross Profit minus period costs equals net operating profit.

The balance sheet is a statement of items owned by the business called assets, debts owed called liabilities, and the shareholder’s portion of the business called equity. Assets must always equal Liabilities plus Equity. Assets line items begin with cash and items that will become cash within one year such as Inventory, Accounts Receivable, Prepaid Expenses, and Short Term Investments; these items are called current assets. Next, long term assets are listed; long term assets include Property, Plant, and Equipment and some Intangible assets. The Liabilities section also begins with current liabilities, items that will be due within the next year. Credit cards, lines of credit, the current portion of long term debt, and accounts payable are current liabilities. Long term liabilities include notes payable to the bank and other debts that will not come due within one year. The Equity section will include: additional paid in capital, common stock, and retained earnings.

The Cash Flow Statement describes how cash is collected and dispersed. There are three activities that cause cash to be collected and dispersed in a business: operating, investing, and financing activities. Cash inflow from operating activities is cash collections from customers; this should not be confused with sales on the income statement because sales can be done on account without any cash being collected; the income statement also includes non cash expenses such as depreciation and amortization. Cash outflow from operating activities is cash paid to suppliers and employees. Investing activities cause cash effects from buying or selling equipment. Financing activities include: paying dividends, paying the principal portion of bank loans, receiving loans, or owner cash investment.
Assumptions should be included for all financial statements. Ideally each line item on the statement should have an accompanying assumption.
BUSINESS PLAN CHECKLIST

☐ Executive Summary
  ☐ No More than 2 pages
  ☐ Clear and concise
  ☐ States the purpose of the plan
  ☐ Summary of sources and uses of cash
  ☐ Touches on other areas of the business plan, but is not repetitive

☐ Background
  ☐ Concept or history
    ☐ When did/will the business start
    ☐ Organization: LLC, S-Corp, Sole Proprietor, etc and why
    ☐ Mission/Vision
    ☐ Goals and objectives
  ☐ What does the business sell
  ☐ Industry background
  ☐ Fit in the industry (include market niches)
  ☐ Any major customers and suppliers that are in place
  ☐ Is the industry rising or declining
Marketing

- Target Market
  - Demographics and psychographics or segment for Business to Business
  - Physical area served
  - Market size

- Competition
  - Names and location of most direct competitors
  - Strengths and weaknesses of competition (not just weaknesses)
  - Competitors niche

- Competitive advantage

- Marketing plan
  - Price
    - Based on market research
    - Comparison to competition (may be in competition section)
    - Pricing logic in the marketing section, not the finance section

- Product
  - Attributes of what you are selling
  - Attributes of packaging/ personnel and dress code for service

- Place
  - Your target area
  - What outlets (locations not promotional outlets) will be used to sell the product or service
Promotion

- Promotional campaigns and logic behind them
- Does the promotional campaigns reach a high concentration of the target market
- Promotion is cost effective (reaching the most of the target market for the least amount of ad dollars)

Branding

- The P’s fit together to communicate the desired brand image
- Pricing strategy communicates the desired brand image
- Slogans, logo’s, and other integrated marketing communications in place

Management and Organization

- Top management skills
  - Financial skills
  - Industry skills/experience
  - Management skills
- Professionals advisers
  - CPA
  - Attorney
  - SBC/SBTDC/SCORE/other
- Organizational chart (may be in appendix)
- Staffing
- Recruitment strategy
  - Wages
  - Benefits
  - Culture
- Training and development strategy
- Retention strategy
  - Promotion strategy
  - Wage and benefit increase strategy
  - Conflict resolution strategy

- Operations
  - Operational Basics
    - Location
    - Hours of operation
    - Lease agreement
    - Permits, licenses, other legal requirements for operation
  - Operational Specifics
    - Quality control system
    - Production systems
    - Distribution
    - Strategic partners
    - Special certifications (ex. ISO, AS)
Finance

- Sources and uses of funds (for loan applications)
  - Specific costs not estimates when possible
- Breakeven analysis
  - Time
  - Sales level
  - Quantity (products sold, or man hours worked)
- Cash flow, balance sheet, income statement
  - 3 years historical for existing
  - 1 years monthly projections for income statement and cash flow statement
  - 2 addition years yearly projections
  - Documented assumptions
- Tax returns for existing
Appendix 1 - Business Plan that is not Adequate

Business Plan For Rock and Roll em’ Asphalt Company

The business plan for Rock and Roll em’ is a poor business plan. It is meant to be a teaching tool and presents extreme examples of common mistakes.
Executive Summary

The Rock and Roll em’ Asphalt Company is a startup Asphalt manufacturing plant that will be based in Cary, NC. Cary is the perfect place for an asphalt plant because there are many subdivisions being built and roads being constructed. They have to truck asphalt long distances and pay more than they would like to.

We will lower costs by using the most up to date asphalt manufacturing technology and locating the plant closer to the construction site. The equipment that we would like to purchase is a green technology; in fact, the entire plant will be powered by an onsite biomass conversion facility. By using feedstock like yard clippings that are currently being taken to the dump we can provide a community service and power our plant with clean, renewable energy. The feedstock will be virtually free all we will have to do is collect it.

With a completed business plan, cash to help fund the business, grant funding from the State of NC, and loans, we will be able to completely fund construction and have enough cash to fund the operation for two months until we become profitable. A summary of our project sources and uses of cash is listed below.

<table>
<thead>
<tr>
<th>Project Sources</th>
<th>Project Uses</th>
</tr>
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<tbody>
<tr>
<td>One NC/JDIG</td>
<td>Biomass Conversion</td>
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<tr>
<td>Owner Cash</td>
<td>Asphalt Production Equipment</td>
</tr>
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<td>$50,000</td>
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<td>Bank Loan</td>
<td>Working Capital</td>
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<tr>
<td>$700,000</td>
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</tr>
<tr>
<td>Other Green Tech Grant</td>
<td></td>
</tr>
<tr>
<td>$1,000,000</td>
<td></td>
</tr>
<tr>
<td>Total: $4,200,000</td>
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</tr>
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</table>

In addition to the large capital investment that will spur economic growth, over 40 jobs will be created at the plant. With unemployment in the state approaching 9%, this project would be an incredible opportunity for the state to partner with private industry to bring jobs back to NC.
Background

The concept for Rock and Roll em’ has been around since 2004 when my business partner and I attended the Clean Technology Symposium in Richmond. At the symposium we learned that asphalt takes an incredible amount of energy to produce, but there are new technologies that can make the facilities more energy efficient. The Symposium opened our eyes to the fact that this technology is the technology of the future and being environmentally conscious is the key to all of our futures.

Since 2004 we have been preparing for starting this business by learning about the green technology sector including marketing green technologies. We spent three days at a biomass conversion facility learning how the facility works and how to most effectively convert feedstock into electricity. We also spent time touring switchgrass farms to learn how fast growing renewable feedstocks can play a part in our facility.

According to [Wikipedia](https://en.wikipedia.org/wiki/Asphalt), 95% of the asphalt produced in the United States is used in paving roads while the rest is used for shingles. Since most of the asphalt is used for roads our company will focus on selling to the paving industry; we also have several contacts in the industry that have given us a verbal commitment that they will use our asphalt. Since our contacts are smaller construction companies, they are unable to buy small batch sizes from large manufacturers unless a larger batch is being run. Since our facility will solve the problem of energy to heat the batch container we will be able to run small batches for these companies.

The asphalt paving industry is a booming business in bad times spending on infrastructure by the federal government boosts demand, and in good times demand is driven by construction in the private sector. Rock and Roll em’ will structure as a corporation to avoid having to use the personal credit of the owners.

Marketing

Unlike other asphalt companies that only go after the big manufacturers, Rock and Roll em’ will market towards all asphalt companies regardless of size. We plan to target businesses all construction companies that are located in Wake and Durham counties. Googleing paving companies in Wake County brings up 60 companies and 30 in Durham County.

We have no competition in the Cary area. We will be the closest business to local job sites so no one will be able to compete with us on price. Price will be our biggest competitive advantage because of lower electricity costs and proximity to the jobsite.

It is a basic principle of economics that products with lower prices will have higher demand. We plan to enter the market by having a price that is 10% lower than our closest competitor. If you couple this our appeal to the environmentally conscious and our ability to run small batches, we should gain market share quickly in the Cary and surrounding areas.
Our product itself will be of superior quality to asphalt currently on the market. We will use only recycled asphalt and shingle materials to produce our product, and we have a new mix of asphalt that will better stand up to warmer temperatures. As global warming increases, the need for high temperature asphalt in the region will propel us to success.

We will promote our business using a mix of new low cost technology and traditional media. We plan to use Facebook and Twitter to reach out to the environmentally conscious, and we will use a mix of tv commercials and radio ads to reach out to customers. We will also list our business in the yellow pages and create a website. Our slogan featured in all the ads will be For Green and Clean it’s Rock and Roll.

The brand will be a picture of a green asphalt truck, with no smoke stack. The brand is a subtle reminder that our company is doing its part to help reduce emissions and being environmentally conscious.

Management and Organization

Management will be headed up by me, Joe Sparkman, and my business partner, Jerry Niles. Jerry and I both have a background in business; I worked for 12 years in a food packaging plant as a line supervisor, and Jerry has 8 years experience as an artist at a graphic design firm. We are both quick studies and have committed ourselves to learning important areas of business and economics. We understand the importance of being forward thinkers, and making wise investments for the future.

Our company will provide more than just another job, we will be a great place to work. We plan to offer full healthcare benefits, an above average wage, and up to a full week off for community volunteer activities. We will attract our employees by postings on craigslist.org and monster.com. After attracting employees, we will easily be able to retain them because of our wonderful benefits; we really want to create a culture of inclusion; we will even have a “bring your pet to work day” once per week.

We will quickly ramp up to full employment after starting the business. We will immediately need to hire five crew supervisors who will supervise five workers; we will also need a social media marketer, preferably someone with experience with Facebook and Twitter. We will also need finance and operations directors, and possibly a public relations specialist. A unique employee to our business will be a green technology specialist.

We have decided to outsource taxes; we have a longstanding relationship with the tax preparers at H&R Block.
Operations

Our business will operate in Cary, NC preferably near the Cary Parkway. Hours of operation will be standard 9-5 Monday through Friday. The main special requirement for asphalt production is temperature; the entire time a batch is running the temperature must be maintained to within standards; if the temperature falls the batch can be ruined.

Finance

Our company will have a very short time to break even. Because a large part of fixed costs in asphalt are electricity (which we will avoid entirely), we estimate that our variable costs will be 80% of sales and fixed costs will only be $100,000/yr. So we will only need to sell $100,000/.80 or $125,000 in order to break even. We should easily be able to meet this target by month three.

The sources and uses of cash are as follows:

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<tr>
<td>Total: $4,200,000</td>
<td>Total: $4,200,000</td>
</tr>
</tbody>
</table>

Comments:
- Comment [E35]: This may not be the most convenient time for customers.
- Comment [E36]: There are probably safety and other production requirements for this industry. Is the business structured as a sole proprietor, LLC, etc?
- Comment [E37]: Costs to operate biomass facility not explained.
- Comment [E38]: This is not the formula for break even. See Finance Section in BUSINESS PLAN EXPLANATION SECTION.
- Comment [E39]: This business plan is excessively short due to poor analysis.
- Comment [E40]: See comments in the Executive Summary.
Income Statement

Sales: $1,000,000
COGS: $800,000
Gross Profit= $200,000
Operating Expenses: $100,000
Net Operating Income: $100,000

As you can see from our projected income statement, we will generate a healthy profit. We expect this will double in year two.

Cash Flow Statement

Cash In: 1,000,000
Cash Out: 900,000
Cash Flow: 100,000

As shown in our cash flow and income statement, we will have even more cash than we need to run our operation. In case our very conservative estimates are off, we have asked for 200,000 for a working capital safety margin.

Comment [E41]: This income statement is not in enough detail to be useful. It is also not presented as requested in the requirements section.

Comment [E42]: This is not a cash flow statement. It is just a restatement of the income statement. For most industries the cash flow statement will differ greatly from the income statement.

Comment [E43]: Does not list Operating, Investing and Financing.

Comment [E44]: Estimates should not be conservative, they should be realistic. Different case scenarios can be developed and most likely scenario can be used.
Balance Sheet

Assets:
Biomass Equipment: 3,000,000
Asphalt Plant: 1,000,000
Cash 300,000
Accounts Receivable 100,000

Liabilities:
Bank Loan 700,000

Owners Equity:
Common Stock: 1,000
APIC: 4,000,000
Retained Earnings: 100,000

Comment [E45]: Assets do not equal liabilities plus equity. There is not enough detail for the balance sheet to be useful, and the balance sheet should state date of ex. Balance Sheet as of Dec. 31 2010.

Comment [E46]: Liquid assets should be listed first.
Appendix 2 - Business Plan that is Adequate

Business Plan For Rock and Roll em' Asphalt Company

The following adequate marketing plan is not perfect and will not check every box in the business plan checklist, but it does a good job overall in explaining why the business is in existence and how it will be successful.
Executive Summary

The Rock and Roll em' company is a startup asphalt manufacturing company serving the paving industry. The asphalt manufacturing industry remained fairly stable during the recession and is poised to see growth over the next five years. Growth will be driven by further road construction and private residential development. The company will serve the local market by providing the best quality of service for paving companies in the region.

The market approach of Rock and Roll em' will focus on capturing market share in two key niches of the paving industry. Large contractors bidding on multilane highway construction will drive significant sales in the local market. These large projects can last for up to three years, during which time asphalt prices can change dramatically. With a unique approach to materials sourcing, Rock and Roll em' is able to completely eliminate asphalt price variance for its customers for specific projects. This helps construction companies bid confidently on large multi-year projects.

There are also large numbers of small contractors who are unable to source materials in a timely manner. Rock and Roll em' has developed a production scheduling system that has already proven to be successful in meeting the need of this underserved market.

Rock and Roll em' is led by a team of experienced and competent managers that have experience in the asphalt manufacturing industry and the paving industry. Management has experience in all key aspects of managing an asphalt plant including, marketing experience, financial experience, and personnel management. Rock and Roll em' is currently in the process of hiring a plant manager with previous asphalt plant management experience. The company's owners have shown commitment to the project by investing $600,000 in personal assets. The project sources and uses of cash are as follows:

<table>
<thead>
<tr>
<th>Project Sources</th>
<th>Project Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner Land</td>
<td>Property</td>
</tr>
<tr>
<td>$400,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>Owner Cash</td>
<td>Asphalt Plant Construction</td>
</tr>
<tr>
<td>$200,000</td>
<td>$750,000</td>
</tr>
<tr>
<td>SBA 504 Loan</td>
<td>Working Capital</td>
</tr>
<tr>
<td>$900,000</td>
<td>$200,000</td>
</tr>
<tr>
<td></td>
<td>Other Equipment</td>
</tr>
<tr>
<td></td>
<td>$150,000</td>
</tr>
<tr>
<td>Total: $1,500,000</td>
<td>Total: $1,500,000</td>
</tr>
</tbody>
</table>
Background

Rock and Roll em’ will be a local manufacturer of asphalt for the paving industry. By focusing on the needs of paving companies, the company will be able to increase market share while maintaining a level of profitability higher than the industry average. Asphalt has two main uses, paving and roofing. While most of the raw materials used in both industries are similar, the markets are very different. Roofing is closely tied to residential construction making the market considerably more unpredictable than the paving market. While the vast majority of the roofing industry is tied to residential construction, only 30% of the paving industry is tied to subdivision road construction. The remaining 70% of paving activity is related to highway construction. Highway construction projects are planned further in advance, and, for large projects, require large volumes of asphalt to be sourced locally.

The asphalt industry is highly fragmented and local in nature. After asphalt is produced, it must be kept heated until used; it is also heavy, so transportation costs are significant. The industry has experienced a slight decline over the past five years due to the recession. The decline was somewhat mitigated by increased infrastructure spending from federal stimulus during the recession. The five year industry forecast is strong according to IBIS and Marketline. Pent up demand for neighborhood construction will cause a swift increase in construction over the next two years driving demand for paving in the residential sector. Government funds have already been committed for projects over the next three years. Governmental budget cuts are a potential threat in the medium term.

In addition to improving industry revenue, industry profit margins and industry employment are forecasted to grow. The number of industry operators is also forecasted to grow. During the recession there was a shakeout in the industry; many of the operators who closed their doors were heavily invested in the roofing materials sector. Growth in number of operators will help meet the need in the roofing materials sector, but a small number of new firms will be direct competitors.

Rock and Roll em’ is positioned well within the paving industry. Paving companies see the value in the business model, six companies have signed agreements to buy all of their asphalt from the company pending award of the new I-350 highway project. Rock and Roll em’ reached out to all seven companies that placed bids on the project; six out of the seven signed agreements.

Rock and Roll em’ has already negotiated a site agreement adjacent to the rock quarry, conveniently located near a major interstate. The company has formed as an LLC for limited liability and will elect to be taxed as an S-corporation.
Marketing

Target Markets:

Rock and Roll em’ will pursue two attractive market segments: small pavers who work as subs on projects that require night-time highway shutdown and large pavers who bid on government highway projects.

In a recent survey of 350 contractors by the trade journal, "Paving Contractors," 73% of small pavers listed working around asphalt manufacturers schedule as one of the top five barriers to success. Rock and Roll em’s new approach to production scheduling will be able to accommodate the needs of small and large pavers. By focusing on the night time contractors, a small after hours premium can be charged, for this previously underserved market. The Rock and Roll em’ approach to production scheduling can also apply to small daytime contractors, but daytime capacity will be used by larger contractors working on new highway construction.

In the same survey, large contractors listed uncertainty around price variability for asphalt as one of their top barriers to success. By negotiating raw materials prices at time of award, Rock and Roll em’ can eliminate 100% of the project price variance. This has been so attractive to large contractors that most contacted have given written agreements that state: if Rock and Roll em’ is able to meet the required production volume that the contractor will purchase all of the asphalt for a given project if the contractor is awarded.

Hoovers Online, a Dunn and Bradstreet company, lists 64 paving companies operating within a 30mi range of the proposed Rock and Roll em’ location. All but two of these companies are small contractors. Rock and Roll em’ has already been in contact with 17 of these companies to participate in beta testing of the Rock and Roll em’ Paving Production Partner (PPP) mobile app. Most of the reviews of the app were positive; feedback was taken from any negative reviews to improve the app.

Since large contractors bid on contracts further from their base of operation, researching a relevant client base is better done by looking at past and current bids on federal projects. Over the past five years 23 different large paving contractors have bid on local projects. 15 contractors have actually won local federal paving projects over the past 5 years.

Competition:

Competition in the asphalt market is based on quality of service, quality of product, and price. There are 4 other asphalt manufacturers within a 30 mile radius: Pave All, Shingle Source, Low Bids, and Quality Asphalt. Pave All and Shingle Source would not be considered direct competition. Shingle Source strictly makes shingles while Pave All makes ultra high grade asphalt for high end driveways and walking paths. An analysis of the most
direct competitors can be found below. In addition to direct competition, there is also substitute competition, concrete is a substitute that is being used in some neighborhood paving projects; while the treat is minimal, if petroleum prices rise faster than concrete raw material inputs concrete producers could take market share away from the asphalt producers.

Quality Asphalt-

Quality Asphalt would be considered the most direct competition. Quality Asphalt has been in business since 1982; they have a reputation for making the highest quality product at a reasonable price. They generally have repeat, satisfied customers. They typically cater to medium sized construction contractors that are working on state and local projects. Quality Asphalt has the best value of any local producer, but they have trouble with quality of service. A small production capacity means that larger customers take first priority and smaller customers have to wait until larger customer’s orders are filled.

Quality Asphalt also has aging equipment, they are still running some of the same equipment that was purchased in 1982; a former employee that has been recruited as Rock and Roll em’s plant manager, said that maintenance costs of equipment and poor personal credit of the owners have hampered Quality’s ability to expand.

Low Bids-

Low Bids is, as the name suggest, the supplier of low cost asphalt. Low Bids is a vertically integrated company that owns a sand pit and an asphalt plant. This gives a cost advantage to Low Bids, but also gives a quality of product disadvantage. The sand from Low Cost’s sand pit is a grit that is too small to make high-quality asphalt. Low Bids customers are typically new to the local market or contractors that have a poor reputation. Low Bids represents a treat to Rock and Roll em’ because large out-of-region contractors may not know the poor reputation of Low Bids. Low Bids has a large production volume.

Competitive Advantage:

Rock and Roll em’ has two competitive advantages. 1. An unmatched mix of management skills that can provide a quality of service that is unmatched in the industry. 2. A technology advantage- the PPP app has taken a year of development and testing and has buy in of a significant portion of the customer base.

Go to Market Plan:

Price-

Rock and Roll em’s prices will run $15/ton higher than the industry average. The management team feels that customers will be willing to pay a slightly higher price for more certainty and convenience.
This increase in price and lower than average raw material input costs will drive a Net Operating Income that is 25% of sales; this is 6 percentage points higher than the industry average.

Product-

Rock and Roll em’ product quality will be in line with most industry participants. A certain level of product quality is expected and required by customer. Source of raw materials, is the most important driver of product quality. Gravel and sand filler will be purchased from the rock quarry adjacent to the facility and recycled asphalt will be used to the extent available.

Place-

Rock and Roll em’ will serve a region within approximately 40 miles of the facility. Being located within 3 miles of an interstate highway helps increase the range of service 10 miles further than traditional operations.

Promotion-

Promotion will occur exclusively through direct sales. Small pavers will be targeted through listings from Hoovers. Large pavers will be contacted directly when they bid on large projects.

When a large project comes up for bid, Rock and Roll em’ locks in raw materials prices by buying an appropriate amount of oil futures contracts and setting up a contractual agreement with the rock quarry. About 5% asphalt is made up of petroleum, but up to half of the price variance is due to fluctuations in oil prices. The rock quarry owners have agreed to give us a 10% discount on specific large projects. They understand the Rock and Roll em’ business model and see that it could drive a higher volume for the quarry. With prices of all major raw materials fixed for the project, a price guarantee for up to 3 years is available for a construction project. To management’s knowledge nothing like this has ever been offered to the paving industry.

After explaining how this can be accomplished large pavers are receptive and generally sign a written contract. The certainty of price for the bid is worth an extra $15/ton for these contractors.

By offering small batch runs at night the company will be able to charge a premium over other facilities. The PPP app allows a contractor to place an order anytime and pick up their order in two hours. All indications are that there are enough night time projects going on at any time to keep the plant operating at near full capacity. Most contractors are not using their computer at the job site, so an Android and Iphone app will be invaluable for ordering. If the plant is operating at full capacity the next available time for pickup will be displayed.
There was a lot of good feedback from a beta test of the app. During beta testing participants were asked to place a mock order whenever needed on nighttime jobs. Enough mock orders were created to keep the plant operating at ¼ capacity on average. This was greater than expected for the small beta test.

Print materials will be developed to leave on face to face calls with contractors. The graphic design firm that worked on the app design will create print collateral and direct mailings for the target customers.

Brand:

The Rock and Roll em’ brand will stand for equity, treating all customers both large and small equally, and certainty, setting price months or years in advance. Pricing policy, the product and service, the placement, and the promotion of the company all focus on the needs of the target customer. The company has identified a market need and is committed to a full force marketing effort to reach the customer.

Management and Organization

Success in any organization is driven from the top. Rock and Roll em’s top management has key industry experience, management experience, and finance experience to drive success.

Joe Sparkman-

Joe Sparkman spent 9 years as head of estimating at a large paving contractor in Las Angeles. Joe supervised 24 estimators and participated in all executive level meetings. Joe reported directly to the CFO and participated extensively in budgeting and forecasting.

Joe will serve as President and CEO of Rock and Roll em’

Jerry Niles-

Jerry Niles spent 11 years working at large asphalt plants in the South East. Jerry began his career in marketing, but spent the last 7 years working in purchasing and finance. Jerry was a plant comptroller and most recently CFO at a large asphalt plant in Norfolk, VA.

Jerry will serve as the CFO of Rock and Roll em’.

In addition to a strong executive management team, an advisory board with various business backgrounds has been formed, board experience includes: banking, futures trading, operations management, and management consulting.
Joe and Jerry have also begun interviewing key employee positions including plant manager and a marketing director.

Most jobs at the plant will be low skilled jobs requiring little training; employee retention will be most critical for management level jobs. A comprehensive benefits package that is comparable to other asphalt manufacturers will be offered to the employees; in addition, a tiered vacation leave policy will be implemented based on years of service. Night time workers will be compensated at a 5% premium.

**Operations**

The plant will be closed on Thanksgiving and Christmas, but will otherwise remain open throughout the year 24 hours a day. The plant will operate two production lines. Each line will have to be shut down for maintenance once every two weeks for about 6 hours; during this time the plant will operate at half capacity and any requests from smaller customers will be put into a first available cue. All current customers will be notified 48 hours before a line shut down.

There are no specific quality certifications required for this industry, but for continuous quality improvement ISO 9001 will be pursued at the plant. From day one following ISO protocols will help develop a culture of excellence at Rock and Roll em’. Asphalt standards are job specific and may vary slightly. Changes in blend are fairly simple and are not a cause of concern.

Rock and Roll em’ will be required to have OSHA visits and pollution testing. The company welcomes both of these regulatory visits and hopes to exceed regulators safety and environmental expectations.

The company has closely aligned itself with the local rock quarry; this will be a mutually beneficial partnership that will drive increased revenue and profits at both facilities. Some industry participants seek to achieve the same result by purchasing quarries or oil refineries, but management believe a more successful approach will be to focus on the core business and partner into vertical integration.

The company will slowly ramp up production during year 1, operating one line on a limited basis while construction is completed on the rest of the plant. This period of light production will not only be used to finish the physical production plant, but to recruit and train needed employees and complete ISO certification. Large contracts are not due to start until year 2. Growth should ramp quickly in year two and continue into year 3.

**Finance**

Rock and Roll em’ will quickly grow to become a profitable business; however, the asphalt manufacturing industry is capital intensive, requiring a large initial investment. The industry is also working capital intensive. Net 30 credit terms are given to customers, and
the company is given net 15 by petroleum suppliers and net 2-10 net-30 from the quarry. The inventory cycle will be lower than the industry average because of production planning practices and proximity to the quarry; inventory days will average about 10 most of which will be petroleum based inventory. The sources and uses of cash for the project are as follows. Rock and Roll em’ is seeking a NC incentive grant, but since this is not up-front money it has not been included in the sources and uses of cash.

<table>
<thead>
<tr>
<th>Project Sources</th>
<th>Project Uses</th>
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<tbody>
<tr>
<td>Owner Land</td>
<td>Property</td>
</tr>
<tr>
<td>$400,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>Owner Cash</td>
<td>Asphalt Plant Construction</td>
</tr>
<tr>
<td>$200,000</td>
<td>$750,000</td>
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<tr>
<td>SBA 504 Loan</td>
<td>Working Capital</td>
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<tr>
<td>$900,000</td>
<td>$200,000</td>
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<tr>
<td></td>
<td>Other Equipment</td>
</tr>
<tr>
<td></td>
<td>$150,000</td>
</tr>
<tr>
<td>Total: $1,500,000</td>
<td>Total: $1,500,000</td>
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</tbody>
</table>

The business owners have purchased the land to be used for the project. Although the land is technically held by a real estate holding company, its purpose is set aside for business use and was used for the owner’s portion of the SBA 504 loan. Being located in a Tier 1 county gives special advantages for grant applications as well as qualification for the 504 loan program. A contractor has been selected for plant construction with a quote of $750,000 upon plant completion; equipment (mostly non-rolling, fixed equipment) will be purchased from Asphalt Suppliers of America. The specific equipment and price list are available upon request. Working capital need is based off of the best case scenario when more cash will be needed to fuel growth. The projected worst case scenario required less working capital than a best case scenario.
The following projections are based off of the most likely scenario, which is between a worst case and best case scenario. All three projections are available upon request.

Fixed costs will be incurred on a monthly basis; the business will be above breakeven from month one. Cash flow will fluctuate based on when large projects are underway. Increases in accounts receivable will outpace accounts payable.
Notes to the Financial Statements

Income statement:

1. Sales are based off of construction schedule in Year 1 and large projects in the pipeline for years 2 -3.
2. Direct Labor in Year 1 is based off of a percentage of sales.
3. Direct Materials is based off of standard amounts of asphalt to produce forecasted sales level.
4. Advertising expenses are collateral materials for salespeople and a small google ad's budget.
5. Bad Debts are industry percentage of sales. This will likely be much more volatile than the forecast.
6. Commissions are a percentage of sales. It is assumed that 50% of large paving work will be generated by salespeople.
7. Depreciation is on fixed assets. Straightline depreciation is used for all assets. Depreciation schedule can be provided upon request.
8. Gas refill is for gas power for plant heaters. For the first year, gas will not vary with sales because the sales tank will be vastly oversized; for planning purposes $2,000 will be purchased per month. For years 2 and 3 gas will vary with sales based on the estimated need by the asphalt equipment sales company.
9. Licenses and Fees are for annual inspection fees.
10. Payroll taxes are percentage of payroll.
11. Repairs and maintenance are for costs associated with routine maintenance on plant shutdowns.
12. Utilities are minor because most utility costs are gas heater costs. The plant is not heated nor cooled; electricity costs are due to running mixing machines.
13. Wages are compensation for officers. Owners need a small level of wages to sustain personal expenses; distributions will be taken after reaching a high level of profitability.

Notes for Balance Sheet and Cash Flow available upon request.