

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 00 / 2

240 SCOM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

SECTION ONE—DETERMINING THE SALES POTENTIAL

In the service business, your sales potential will depend on the area you serve. That is, how many customers in this area will need your services? Will your customers be industrial, commercial, consumer, or all of these?

When picking a site to locate your business, consider the nature of your service. If you pick up and deliver, you will want a site where the travel time will be low and you may later install a radio dispatch system. Or, if the customer must come to your place of business, the site must be conveniently located and easy to find.

You must pick the site that offers the best possibilities of being profitable. The following questions will help you think through this problem.

In selecting an area to serve, consider the following:

- population and its growth potential
- income, age, occupation of population
- number of competitive services in and around your proposed location
- local ordinances and zoning regulations
- type of trading area (commercial, industrial, residential, seasonal)

For additional help in choosing an area, you might try the local chamber of commerce and the manufacturer and distributor of any equipment and supplies you will be using.

You will want to consider the next list of questions in picking the specific site for your business.

Will the customer come to your place of business?

How much space do you need?

Will you want to expand later on?

Do you need any special features required in lighting, heating, ventilation?

Is parking available?

Is public transportation available?

Is the location conducive to drop-in customers?

Will you pick up and deliver?

Will travel time be excessive?

Will you prorate travel time to service call?

Would a location close to an expressway or main artery cut down on travel time?

If you choose a remote location, will savings in rent offset the inconvenience?

If you choose a remote location, will you have to pay as much as you save in rent for advertising to make your service known?

If you choose a remote location, will the customer be able to readily locate your business?

Will the supply of labor be adequate and the necessary skills available?

What are the zoning regulations of the area?

Will there be adequate fire and police protection?

Will crime insurance be needed and be available at a reasonable rate?

I plan to locate in _____ because

Is the area in which you plan to locate supported by a strong economic base? For example, are nearby industries working full time? Only part time? Did any industries go out of business in the past several months? Are new industries scheduled to open in the next several months?

Write your opinion of the area's economic base and your reason for that opinion here. _____

Will you build? _____ What are the terms of the loan or mortgage? _____

Will you rent? _____ What are the terms of the lease? _____

Is the building attractive? _____ In good repair? _____ Will it need remodeling? _____ Cost of remodeling \$ _____ What services does the landlord provide? _____

What is the competition in the area you have picked?

The number of firms that handle my service _____

Does the area appear to be saturated? _____

How many of these firms look prosperous? _____

Do they have any apparent advantages over you? _____

How many look as though they're barely getting by? _____

How many similar services went out of business in this area last year? _____

Can you find out why they failed? _____

How many new services opened up in the last year? _____

How much do your competitors charge for your service? _____

Which firm or firms in the area will be your biggest competition? _____

List the reasons for your opinion here. _____

SECTION TWO—ATTRACTING CUSTOMERS

When you have a location in mind, you should work through another aspect of marketing. How will you attract customers to your business? How will you pull customers away from your competition?

It is in working with this aspect of marketing that many small service firms find competitive advantages. The ideas which they develop are as good, and often better, than those which large companies develop with hired brains. The workbooks that follow are designed to help you think about image, pricing, customer service policies, and advertising.

IMAGE. Whether you like it or not, your service business is going to have an image. The way people think of your firm will be influenced by the way you conduct your business. If people come to your place of business for your service, the cleanliness of the floors, the manner in which they are treated, and the quality of your work will help form your image. If you take your service to the customer, the conduct of your employees will influence your image. Pleasant, prompt, and courteous service before and *after* the sale will help make satisfied customers—your best form of advertising.

Thus, you can control your image. Whatever image you seek to develop, it should be concrete enough to promote in your advertising. For example, "service with a smile" is an often used image.

Write out what image you want customers to have of your business.

PRICING. In setting prices for your service, there are four main elements you must consider:

- (1) Materials and supplies
- (2) Labor and operating expenses
- (3) Planned profit
- (4) Competition

Further along in this *Aid* you will have the opportunity to figure out the specifics of materials, supplies, labor, and operating expenses. From there you may want the assistance of your accountant in developing a price structure that will not only be fair to the customer, but also fair to yourself. This means that not only must you cover all expenses but also allow enough margin to pay yourself a salary.

One other thing to consider. Will you offer credit? ____ Most businesses use a credit card system. These credit costs have to come from somewhere. Plan for them. If you use a credit card system, what will it cost you? ____ Can you add to your prices to absorb this cost? ____

Some trade associations have a schedule for service charges. It would be a good idea to check with the trade association for your line of business. Their figures will make a good yardstick to make sure your prices are competitive.

And, of course, your prices must be competitive. You've already found out your competitors' prices. Keep these in mind when you are working with your accountant. If you will not be able to make an adequate return, now is the time to find it out.

CUSTOMER SERVICE POLICIES. Customers expect certain services or conveniences, for example, parking. These services may be free to the customer, but not to you. If you do provide parking, you either pay for your own lot or pick up your part of the cost of a lot which you share with other businesses. Since these conveniences will be an expense, plan for them.

List the services that your competitors provide customers.

Now list the services that you will provide your customers.

<i>Service</i>	<i>Estimated Cost</i>
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

ADVERTISING. In this section on attracting customers, advertising was saved until last because you have to have something to say before advertising can be effective. When you have an image, price range, and customer services, you are ready to *tell* prospective customers why they should use your services.

When the money you can spend on advertising is limited, it is vital that your advertising be on target. Before you can think about how much money you can afford for advertising, take time to determine what jobs you want advertising to do for your business. The work blanks that follow should be helpful to your thinking.

The strong points about my service business are _____

My service business is different from my competition in the following ways _____

My advertising should tell customers and prospective customers the following facts about my business and services _____

When you have these facts in mind, you now need to determine who you are going to tell it to. Your advertising needs to be aimed at a target audience—those people who are most likely to use your services. In the space below, describe your customers in terms of age, sex, occupation, and whatever else is necessary depending on the nature of your business. This is your customer profile. For example, an auto repair business may have a customer profile of “male and female automobile owners, 18 years old and above.” Thus, for this repair business, anyone over 18 who owns a car is likely to need its service.

The customer profile for my business is _____

Now you are ready to think about the form your advertising should take and its cost. You are looking for the most effective means to tell your story to those most likely to use your service. Ask the local media (newspapers, radio and television, and printers of direct mail pieces) for information about the services and the results they offer for your money.

How you spend advertising money is your decision, but don't fall into the trap that snares many businessmen. As one consultant describes this pitfall: It is amazing the way many businessmen consider themselves experts on advertising copy and media selection without any experience in these areas.

The following blanks should be useful in determining what advertising is needed to *sell* your strong points to prospective customers.

Form of Advertising	Size of Audience	Frequency of Use	Cost of A Single Ad	Estimated Cost
_____	_____	_____	× \$ _____	= \$ _____
_____	_____	_____	× \$ _____	= \$ _____
_____	_____	_____	× \$ _____	= \$ _____
_____	_____	_____	× \$ _____	= \$ _____
				Total \$ _____

When you have a figure on what your advertising for the next 12 months will cost, check it against what similar stores spend. Advertising expense is one of the operating ratios (expenses as a percentage of sales) which trade associations and other organizations gather. If your estimated cost for advertising is substantially higher than this average for your line of service, take a second look. No single expense item should be allowed to get way out of line if you want to make a profit. Your task in determining how much to spend for advertising comes down to: How much can I afford to spend and still do the job that needs to be done?

SECTION THREE—SELLING TO CUSTOMERS

To complete your work on marketing, you need to think about what you want to happen after you get a customer. Your goal is to provide your service, satisfy customers, and put money into the cash register.

One-time customers can't do the job. You need repeat customers to build a profitable annual sales volume. When someone returns for your service, it is probably because he was satisfied by his previous experience. Satisfied customers are the best form of advertising.

If you previously decided to work only for cash, take a hard look at your decision. Americans like to buy on credit. Often a credit card, or other system of credit and collections, is needed to attract and hold customers.

Based on this description and the dollar amount of business you indicated that you intend to do this year, fill in the following workblocks.

FIXTURES AND EQUIPMENT. No matter whether or not customers will come to your place of business, there will be certain equipment and furniture you will need in your place of business which will allow you to perform your service. List that equipment and its cost to you here.

<i>Type of Equipment</i>	<i>Number Needed</i>	$\times$	<i>Unit Cost</i>	$=$	<i>Cost</i>
_____	_____		\$ _____		\$ _____
_____	_____		\$ _____		\$ _____
_____	_____		\$ _____		\$ _____
_____	_____		\$ _____		\$ _____

PARTS AND MATERIALS. You will probably need some kind of parts or materials to provide your service. List them and their cost to you in the following workblock.

<i>Item</i>	<i>Amount Needed For 12 months</i>	<i>Unit Cost</i>	<i>Cost</i>
_____	_____	\$ _____	\$ _____
_____	_____	\$ _____	\$ _____
_____	_____	\$ _____	\$ _____
_____	_____	\$ _____	\$ _____
_____	_____	\$ _____	\$ _____
_____	_____	\$ _____	\$ _____

[illegible]

**** Who pays? You, the buyer? The supplier? (This cost can be a big expense item.)**

Before you make any supply arrangements, examine the supplier's obsolescence policy. This can be a vital factor in service parts purchasing. You should also look at the supplier's warranty policy.

When you have decided on a system for stock control, estimate its cost. My system for stock control will cost me \$_____ for the first year.

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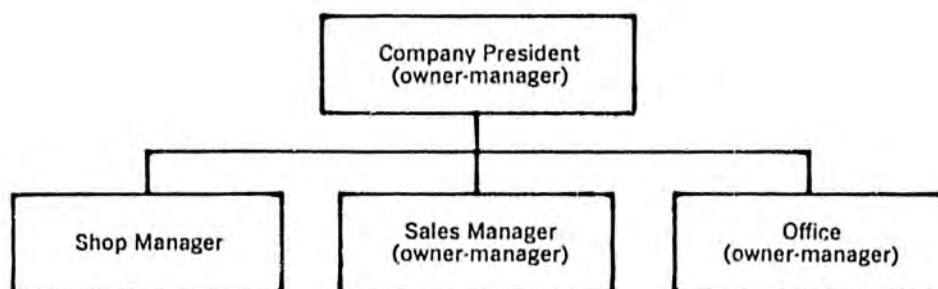
OVERHEAD. List the overhead items which will be needed. Examples are: rent, utilities, office help, insurance, interest, telephone, postage, accountant, payroll taxes, and licenses or other local taxes. If you plan to hire others to help you manage, their salaries should be listed as overhead.

GETTING THE WORK DONE

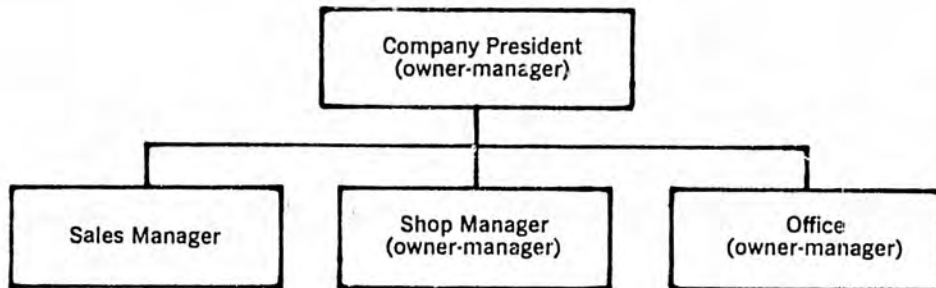
An important step in setting up your business is to find and hire capable employees. Then you must train them to work together to get the job done. Obviously, organization is needed if your business to produce what you expect it to produce, namely profits.

Organization is essential because you as the owner-manager cannot do all the work. As your organization grows, you have to *delegate work, responsibility and authority*. A helpful tool in getting this done is the organization chart. It shows at a glance who is responsible for the major activities of a business. Examples are given here to help you in preparing an organization chart for your business.

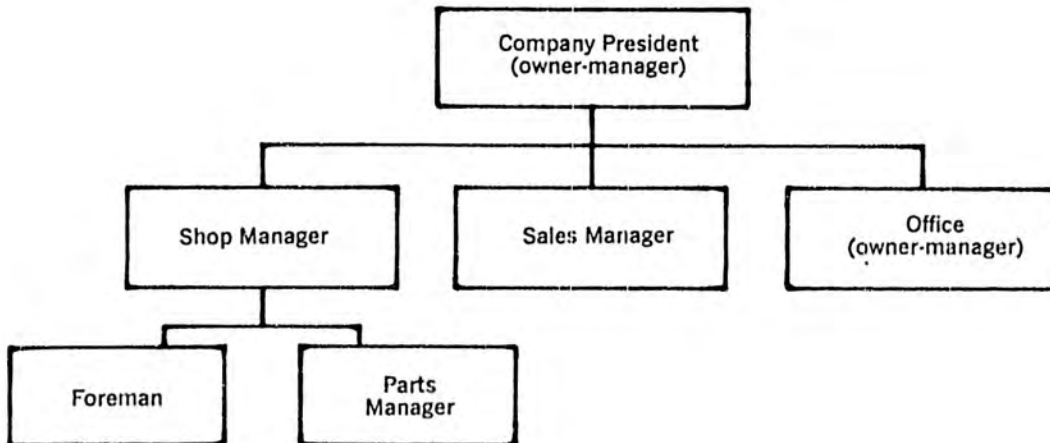
An organization chart for a small service business will reflect the fact that the owner-manager does most of the managing himself. For example, an organization chart for a small service business might look like this:



or like this?



As the service business grows, its organization chart could look like this.



In the space below, draw up an organization chart for your business.

As an additional aid in determining both what needs to be done and who will do it, list each activity that is involved in your business. Next to the activity indicate who will do it. You may do this by name or some other designation such as "worker #1." Remember that a name may appear more than once.

<i>Activity</i>	<i>Name</i>
7	

PUT YOUR PLAN INTO DOLLARS

At this point, take some time to think about what your business plan means in terms of dollars. This section is designed to help you put your plan into dollars.

The first question concerns the source of dollars. After your initial capital investment, the major source of money is the sale of your services. What dollar volume of business do you expect to do in the next 12 months? \$_____.

EXPENSES. In connection with your annual dollar volume of business, you need to think about expenses. If, for example, you plan to do \$100,000 in business, what will it cost you to do this amount of servicing? And even more important, what will be left over as profit at the end of the year? Never lose sight of the fact that profit is *your* pay. Even if you pay yourself a salary for living expenses, your business must make a profit if it is to continue year after year and pay back the money you invested in it.

The following workbook is designed to help you make a quick estimate of your expenses. To use this formula, you need to get only one figure—the cost of sales figure for your line of business. If you don't have this operating ratio, check with your trade association or with sources such as those listed in *Ratio Analysis for Small Business*. (For ordering details see "For Further Information," page 23 of this *Aid*.)

	<i>Expressed in Percentage</i>	<i>Expressed in Dollars</i>	<i>Your Percentage</i>	<i>Your Dollars</i>
1. Sales	100	\$100,000	100	\$_____
2. Cost of Sales	—61.7*	—61,700	_____	—\$_____
3. Gross Margin	38.3*	38,300	_____	\$_____

*These figures are taken from *Annual Statement Studies* published by Robert Morris Associates. (See Disclaimer Statement, page 23.) These figures relate to Automobile Repair Services that have annual sales of less than \$250,000. These figures are intended only as a sample. The percentages (costs of sales, advertising, and so on) vary from one line of business to another. The details for ordering this publication are listed on page 23 of this *Aid*. It may also be available at your public library.

START-UP COSTS. If you are starting a new business, list the following estimated start-up costs:

Fixtures and equipment*	\$ _____
Starting inventory	\$ _____
Office supplies	\$ _____
Decorating and remodeling	\$ _____
Installation of equipment	\$ _____
Deposits for utilities	\$ _____
Legal and professional fees	\$ _____
Licenses and permits	\$ _____
Advertising for the opening	\$ _____
Operating cash	\$ _____
Owner's withdraw during pre-start-up time	\$ _____
Total	\$ _____

* If you listed the cost of these items on page 10 of this Aid, transfer your figures.

Whether you have the funds (savings) or borrow them, your new business will have to pay back these start-up costs. Keep this fact in mind as you work on the "Expenses" section, and on other financial aspects of your plan.

BREAK DOWN YOUR EXPENSES. Your quick estimate of expenses provides a starting point. The next step is to break down your expenses so they can be handled over the 12 months. Use the "Expenses Worksheet" form on pages 16 and 17 to make up an expense budget.

MATCHING MONEY AND EXPENSES. A budget helps you to see the dollar amount of your expenses each month. Then from month to month the question is: Will sales bring in enough money to pay the firm's bills on time? The answer is "maybe not" or "I hope so" unless the owner-manager prepares for the "peaks and valleys" that are in many service operations.

A cash forecast is a management tool which can eliminate much of the anxiety that can plague you if your business goes through lean months. Use the worksheet, "Estimated Cash Forecast," on page 18, or ask your accountant to use it to estimate the amounts of cash that you expect to flow through your business during the next 12 months.

EXPENSES

	Sample Figures for Repair Services* Percent of Sales	% of Your Sales	Your Dollars JAN	Your Dollars FEB	Your Dollars MAR
Sales	100%				
Cost of sales	47.51				
Gross profit	52.49				
Controllable expense					
Operating supplies	1.82				
Gross wages	16.98				
Repairs and maintenance	.38				
Advertising	1.45				
Car and delivery	1.52				
Bad debts	.04				
Administrative and legal	.74				
Outside labor	1.21				
Miscellaneous expense	.81				
Total controllable expense	<u>24.95</u>				
Fixed expense					
Rent	3.35				
Utilities	2.05				
Insurance	.95				
Taxes and licenses	.86				
Interest	.12				
Depreciation	<u>1.25</u>				
Total fixed expenses	<u>8.58</u>				
Total expenses	<u>33.53</u>				
Net profit	<u>18.96</u>				

* These percentages are taken from *Barometer of Small Business*, Accounting Corporation of America (see "For Further Information," page 23 of this *Aid*.) These figures are presented *only as a sample* and refer to repair services with an average annual gross volume of under \$50,000. The percentages vary from one business to another.

WORKSHEET

[illegible]

7x

ESTIMATED CASH FORECAST

	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
(1) Cash in Bank (Start of Month)												
(2) Petty Cash (Start of Month)												
(3) Total Cash (add 1 and 2)												
(4) Expected Cash Sales												
(5) Expected Collections												
(6) Other Money Expected												
(7) Total Receipts (add 4, 5 and 6)												
(8) Total Cash and Receipts (add 3 and 7)												
(9) All Disbursements (for month)												
*(10) Cash Balance at End of Month in Bank Account and Petty Cash (subtract (9) from (8))												

*This balance is your starting cash balance for the next month.

IS ADDITIONAL MONEY NEEDED? Suppose at this point you have determined that your business plan needs more money than can be generated by sales. What do you do?

What you do depends on the situation. For example, the need may be for bank credit to tide your business over during the lean months. This loan can be repaid during the fat sales months when expenses are far less than sales. Adequate working capital is necessary for success and survival.

Whether an owner-manager seeks to borrow money for only a month or so or on a long-term basis, the lender needs to know whether the store's financial position is strong or weak. He will ask to see a current balance sheet.

A blank current balance sheet is included below. Even if you don't need to borrow, use it, or have your accountant use it, to draw the "picture" of your firm's financial condition. Moreover, if you don't need to borrow money, you may want to show your plan to the bank that handles your store's checking account. It is never too early to build good relations with your banker, to let him know that you are a manager who knows where he wants to go rather than a store owner who *hopes* to make a success.

CURRENT BALANCE SHEET*
for

(name of your firm)
As of _____
(date)

Assets	Liabilities and Capital
Current assets:	Current liabilities:
Cash:	Accounts payable \$ _____
Cash in bank \$ _____	Notes payable, due within 1 year .. \$ _____
Petty cash _____	Payroll taxes and withheld taxes .. \$ _____
Accounts receivable \$ _____	Sales taxes \$ _____
Less allowance for doubtful	Total current liabilities \$ _____
accounts \$ _____	Long-term liabilities:
Merchandise inventories \$ _____	Notes payable, due after 1 year ... \$ _____
Total current assets _____	Total liabilities \$ _____
Fixed assets:	Capital:
Land \$ _____	Proprietor's capital, beginning of
Buildings \$ _____	period \$ _____
Delivery equipment \$ _____	Net profit for the period \$ _____
Furniture and fixtures \$ _____	Less proprietor's drawings \$ _____
Less allowance for depreciation . \$ _____	Increase in capital \$ _____
Leasehold improvements, less	Capital, end of period \$ _____
amortization \$ _____	Total liabilities and capital \$ _____
Total fixed assets \$ _____	
Total assets \$ _____	

* Format from page 68 of SBMS No. 32, *Financial Record Keeping for Small Stores* (See "For Further Information," page 23 of this *Aid*.)

CONTROL AND FEEDBACK

To make your plan work you will need feedback. For example, the yearend profit and loss statement shows whether your business made a profit or loss for the past 12 months.

But you can't wait 12 months for the score. To keep your plan on target you need readings at frequent intervals. A profit and loss statement at the end of each month or at the end of each quarter is one type of frequent feedback. However, the income statement or profit and loss statement (P and L) may be more of a loss than a profit statement if you rely only on it. You must set up management controls which will help you to insure that the right things are being done from day to day and from week to week. In a new business, the record-keeping system should be set up before your business opens. After you're in business is too late. For one thing, you may be too busy to give a record-keeping system the proper attention.

The control system which you set up should give you information about: stock, sales, and disbursements. The simpler the system, the better. Its purpose is to give you current information. You are after facts with emphasis on trouble spots. Outside advisers, such as an accountant, can be helpful.

STOCK CONTROL. The purpose of controlling parts and materials inventory is to provide maximum service to your customers and to see that parts and materials are not lost through pilferage, shrinkage, errors, or waste. Your aim should be to achieve a high turnover on your inventory. The fewer dollars you tie up in inventory, the better.

In a small business, inventory control helps the owner-manager to offer his customers efficient service. The control system should enable him to determine what needs to be ordered on the basis of: (1) what is on hand, (2) what is on order, and (3) what has been used.

In setting up inventory controls, keep in mind that the cost of the inventory is not your only cost. You will also have costs such as the cost of purchasing, the cost of keeping control records, and the cost of receiving and storing your inventory.

SALES. In a small business, sales slips and cash register tapes give the owner-manager feedback at the end of each day. To keep on top of sales, you will need answers to questions such as: How many sales were made? What was the dollar amount? What credit terms were given to customers?

DISBURSEMENTS. Your management controls should also give you information about the dollars your company pays out. In checking on your bills, you do not want to be penny-wise and pound-foolish. You need to know that major items, such as paying bills on time to get the supplier's discount, are being handled according to your policies. Your review system should also give you the opportunity to make judgments on the use of funds. In this manner, you can be on top of emergencies as well as routine situations. Your system should also keep you aware that tax monies such as payroll income tax deductions, are set aside and paid out at the proper time.

BREAK-EVEN. Break-even analysis is a management control device because the break-even point shows how much you must sell under given conditions in order to just cover your costs with NO profit and NO loss.

Profit depends on sales volume, selling price, and costs. Break-even analysis helps you to estimate what a change in one or more of these factors will do to your profits. To figure a break-even point, fixed costs, such as rent, must be separated from variable costs, such as the cost of sales and the other items listed under "controllable expenses" on the expense worksheet, page 16 of this *Aid*.

The formula is:

$$\text{Break-even point (in sales dollars)} = \text{Total fixed costs divided by } 1 - \frac{\text{Total variable costs}}{\text{Corresponding sales volume}}$$

An example of the formula is: Bill Jackson plans to open a laundry. He estimates his fixed expenses at about \$9,000, the first year. He estimates his variable expenses at about \$700 for every \$1,000 of sales.

$$\text{BE Point} = \frac{\$9,000}{1 - \frac{700}{1,000}} = \frac{\$9,000}{1 - .70} = \frac{\$9,000}{.30} = \$30,000$$

For additional information on break-even points and other methods of computing break-even, see SBMS No. 15, *A Handbook of Small Business Finance* in "For Further Information," page 23 of this *Aid*.

IS YOUR PLAN WORKABLE?

Stop when you have worked out your break-even point. Whether the break-even point looks realistic or way off base, it is time to make sure that your plan is workable.

Take time to re-examine your plan *before* you back it with money. If the plan is not workable better to learn it now than to realize 6 months down the road that you are pouring money into a losing venture.

In reviewing your plan, look at the cost figures you drew up when you broke down your expenses for one year (page 16 of this *Aid*.) If any of your cost items are too high or too low, change them. You can write your changes in the white spaces above or below your original entries on that worksheet. When you finish making your adjustments, you will have a REVISED projected statement of sales and expenses for 12 months.

With your revised figures work out a revised break-even point. Whether the new break-even points looks good or bad, take one or more precaution. Show your plan to someone who has not been involved in working out the details.

Your banker, contact man at SBA, or other advisor outside of your business may see weaknesses that failed to appear as you pored over the details of your plan. And he may put his finger on strong points which your plan should emphasize and convert your strong points in the profit.

PUT YOUR PLAN INTO ACTION

When your plan is as near on target as possible, you are ready to put it into action. Keep in mind that action is the difference between a plan and a dream. If a plan is not acted upon, it is of no more value than a pleasant dream that evaporates over the breakfast coffee.

A successful owner-manager does not stop after he has gathered information and drawn up a plan, as you have done in working through this *Aid*. He begins to use his plan.

At this point, look back over your plan. Look for things that must be done to put your plan into action.

What needs to be done will depend on your situation. For example, if your business plan calls for an increase in sales, one action to be done will be providing funds for this expansion.

Have you more money to put into this business?

Do you borrow from friends and relatives? From your bank? From your suppliers by arranging liberal commercial credit terms?

If you are starting a new business, one action step may be to get a loan for fixtures, employee salaries, and other expenses. Another action step will be to find and hire capable employees.

In the spaces that follow, list things that must be done to put your plan into action. Give each item a date so that it can be done at the appropriate time. To put my plan into action, I must do the following:

<i>Action</i>	<i>Completion Date</i>

KEEPING YOUR PLAN UP TO DATE

Once you put your plan into action, look out for changes. They can cripple the best made business plan if the owner-manager lets them.

Stay on top of changing conditions and adjust your business plan accordingly.

Sometimes the change is within your company. For example, several of your employees quit their jobs. Sometimes the change is with customers; for example, their desires and tastes shift. Sometimes the change is technological as when new raw materials are put on the market introducing the need for new processes and procedures.

In order to adjust his plan to account for such changes, an owner-manager must:

(1) Be alert to the changes that come about in his company, his line of business, his market, and his customers.

(2) Check his plan against these changes.

(3) Determine what revisions, if any, are needed in his plan.

The method you use to keep your plan current so that your business can weather the forces of the market place is up to you. Read the trade papers and magazines for your line of business. Another suggestion concerns your time. Set some time—two hours, three hours, whatever is necessary—to review your plan periodically. Once each month, or every other month, go over your plan to see whether it needs adjusting. If revisions are needed, make them and put them into action.

FOR FURTHER INFORMATION

The following references provide additional information about the various aspects of a business plan. This list is necessarily brief and selective. However, no slight is intended towards authors whose works are not mentioned. Note, also, that these prices are subject to change.

Annual Statement Studies. The Robert Morris Associates, Philadelphia National Bank Building, Philadelphia, PA 19107.

Barometer of Small Business. Accounting Corporation of America, 1929 First Avenue, San Diego, CA 92101. Published semi-annually. Yearbook for previous year each March. Midyear published each September.

Key Business Ratios. Dun & Bradstreet, Inc., 99 Church Street, New York, NY 10007 (usually available in local Dun & Bradstreet offices)

Up Your Own Organization by Donald Dible. The Entrepreneur Press, Mission Station, Drawer 2759, Santa Clara, CA 95051.

The following booklets are published by the Small Business Administration. They can be examined in the nearest SBA office or ordered from the Superintendent of Documents, Washington DC 20402. For current prices write to Superintendent of Documents.

A Handbook of Small Business Finance. SBMS No. 15, 7th ed. 1965.

Ratio Analysis for Small Business. SBMS No. 20, 3rd ed. 1970.

Financial Recordkeeping for Small Stores. SBMS No. 32. 1966.

Small Store Planning for Growth. SBMS No. 33. 1966.

The following free publications are published by the Small Business Administration and are available at the nearest SBA Office.

"Checklist for Going Into Business"—SMA 71

"Controlling Cash in Small Retail and Service Firms"—SMA 110

"Accounting Services for Small Service Firms"—SMA 126

"Building Customer Confidence in Your Service Shop"—SMA 128

"Steps in Meeting Your Tax Obligations"—SMA 142

"Factors in Considering a Shopping Center Location"—SMA 143

"Budgeting in a Small Service Firm"—SMA 146

"Sound Cash Management and Borrowing"—SMA 147

"Insurance Checklist for Small Business"—SMA 148

"Recordkeeping Systems—Small Store and Service Trade"—SBB 15

DISCLAIMER STATEMENT (from page 14)

Robert Morris Associates cannot emphasize too strongly that their composite figures for each industry may *not* be representative of that entire industry (except by coincidence), for the following reasons:

1. The only companies with a chance of being included in their study in the first place are those for whom their submitting banks have recent figures.

2. Even from this restricted group of potentially includable companies, those which are chosen, and the total number chosen, are not determined in any random or otherwise statistically reliable manner.

3. Many companies in their study have *varied* product lines; they are "mini-conglomerates," if you will. All they can do in these cases is categorize them by their *primary* product line, and be willing to tolerate any "impurity" thereby introduced.

In a word, don't automatically consider their figures as representative norms and don't attach any more or less significance to them than is indicated by the unique aspects of the data collection.

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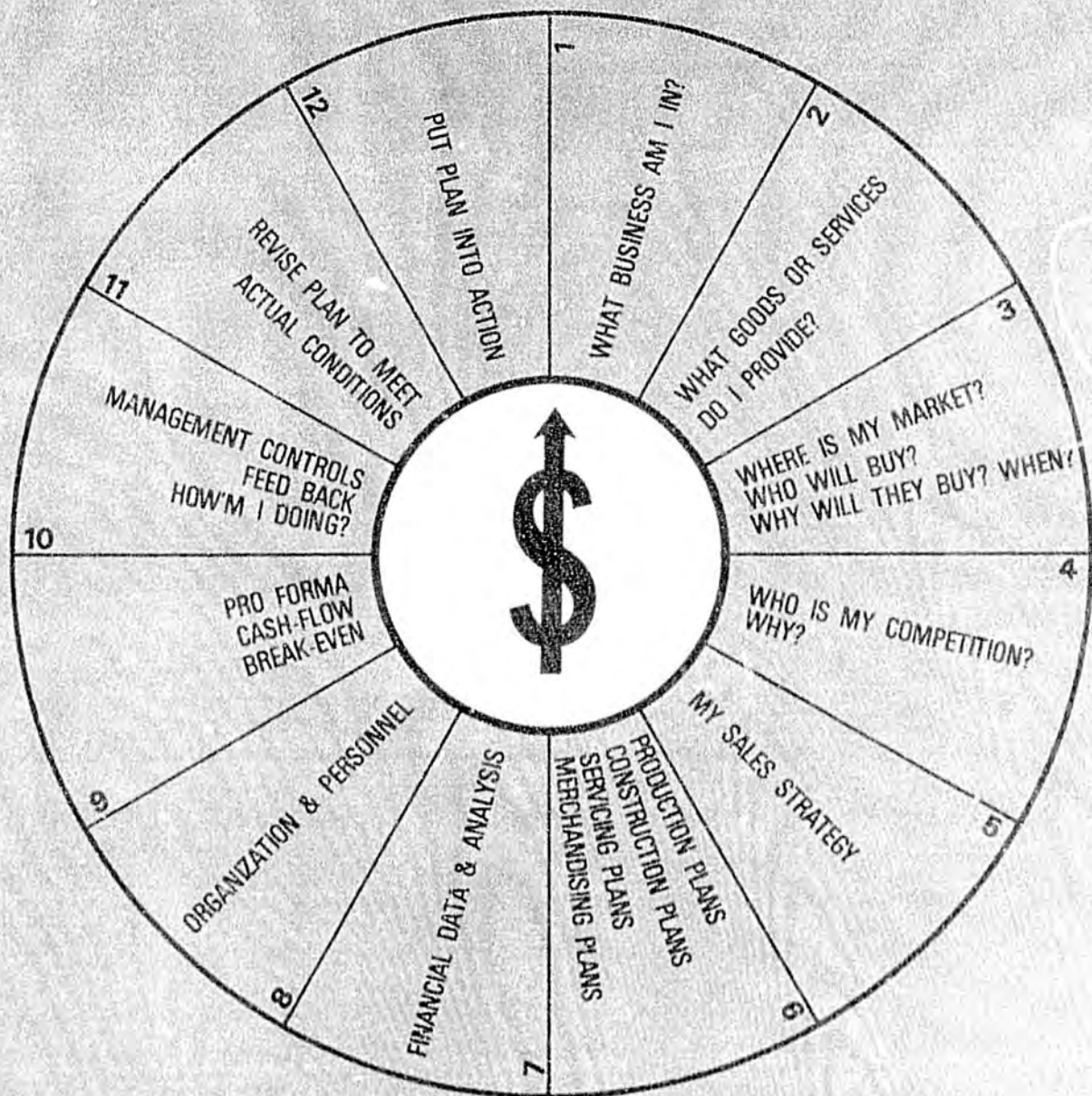


SMALL BUSINESS
ADMINISTRATION

SMALL
MARKETERS AID

No. **150**

BUSINESS PLAN FOR RETAILERS



By Staff Members, Education Division, Office of Management Assistance,
Small Business Administration



SUMMARY

A business plan can provide the owner-manager or prospective owner-manager of a small retail firm with a pathway to profit. This *Aid* is designed to help an owner-manager in drawing up his business plan.

In building a pathway to profit you need to consider the following questions: What business am I in? What goods do I sell? Where is my market? Who will buy? Who is my competition? What is my sales strategy? What merchandising methods will I use? How much money is needed to operate my store? How will I get the work done? What management controls are needed? How can they be carried out? When should I revise my plan? Where can I go for help?

No one can answer such questions for you. As the owner-manager you have to answer them and draw up *your* business plan. The pages of this *Aid* are a combination of text and workspaces so you can write in the information you gather in developing *your* business plan—a logical progression from a commonsense starting point to a commonsense ending point.

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A NOTE ON USING THIS AID

It takes time and energy and patience to draw up a satisfactory business plan. Use this *Aid* to get your ideas and the supporting facts down on paper. And, above all, make changes in your plan on these pages as that plan unfolds and you see the need for changes.

Bear in mind that anything you leave out of the picture will create an additional cost, or drain on your money, when it unexpectedly crops up later on. If you leave out or ignore enough items, your business is headed for disaster.

Keep in mind, too, that your final goal is to put your plan into action. More will be said about this step near the end of this *Aid*.

WHAT'S IN THIS FOR ME?

You may be thinking: Why should I spend my time drawing up a business plan? What's in it for me? If you've never drawn up a plan, you are right in wanting to hear about the possible benefits *before* you do your work.

A business plan offers at least four benefits. You may find others as you make and use such a plan. The four are:

(1) The first, and most important, benefit is that a plan gives you a path to follow. A plan makes the future what you want it to be. A plan with goals and action steps allows you to guide your business through turbulent economic seas and into harbors of your choice. The alternative is drifting into "any old port in a storm."

(2) A plan makes it easy to let your banker in on the action. By reading, or hearing, the details of your plan he will have real insight into your situation if he is to lend you money.

(3) A plan can be a communications tool when you need to orient sales personnel, suppliers, and others at your operations and goals.

(4) A plan can help you to develop as a manager. It can give you practice in thinking about competitive conditions, promotional opportunities and situations that seem to be advantageous to your business. Such practice over a period of time can help increase an owner-manager's ability to make judgments.

WHAT BUSINESS AM I IN?

In making your business plan, the first question to consider is: What business am I really in? At the first reading, this question may seem silly. "If there is one thing I know," you say to yourself, "it is what business I'm in." But hold on. Some owner-managers go broke and others waste their savings because they are confused about the business they are in.

Look at an example. Mr. OPQ on the East Coast maintained a dock and sold and rented boats. He thought he was in the marina business. But when he got into trouble and asked for outside help, he learned that he was not necessarily in the marina business. He was in several businesses. He was in the restaurant business with a dockside cafe—serving when a boating party wanted a meal. He was in the real estate business—buying and selling lots up and down the coast. He was in the boat repair business—buying parts and calling in a mechanic as the demand arose.

The fact was that Mr. OPQ was trying to be "All things to all people." With this approach he was fragmenting his slim resources.

Before he could make a profit on his sales and a return on his investment, Mr. OPQ had to decide what business he really was in and concentrate on it. After much study, he realized that his business really was "a recreation shopping center."

Decide what business you are in and write your answer in the following spaces. To help you decide, think of the answers to questions such as: What do you buy? What do you sell? Which of your lines of goods yields the greatest profit? What do people ask for that you don't have?

What is it that you are trying to do better or more of or differently from your competitors?

MARKETING

When you have decided what business you are in, you are ready to consider another important part of your business plan. Marketing. Successful marketing starts with the owner-manager. He has to know the merchandise lines he sells and the wants and desires of the customers he needs

to reach. The objective is to move the stock off the shelves and display racks at the right price and bring in sales dollars.

The narrative and work blocks that follow are designed to help you work out a marketing plan for your store. The blocks are divided into three sections:

Section One—Determining the Sales Potential

Section Two—Attracting Customers

Section Three—Selling to Customers

SECTION ONE—DETERMINING THE SALES POTENTIAL

In retail business, your sales potential depends on location. Like a tree, a store has to draw its nourishment from the area around it. The following questions should help you to work through the problem of selecting a profitable location.

In what part of the city or town will you locate?

In the downtown business section?

In the area right next to the downtown business area?

In a residential section of the town?

On the highway outside of town?

In the suburbs?

In a suburban shopping center?

List the reasons for your choice here:

I plan to locate in _____ because

What is the competition in the area you have picked?

The number of stores there that handle my lines of merchandise is _____.

How many of these stores look prosperous? _____

How many look as though they are barely getting by? _____

How many similar stores went out of business in this area last year? _____

How many new stores opened up in the last year? _____

What price line does competition carry? _____

Which store or stores in the area will be your biggest competition? _____

List the reason for your opinion here: _____

Is the area in which you plan to locate supported by a strong economic base? For example, are nearby industries working fulltime? Only parttime? Did any industries go out of business in the past several months? Are new industries scheduled to open in the next several months?

Write your opinion of the area's economic base and your reason for that opinion here. _____

When you find a store building that seems to be what you need, answer the following questions:

Is the neighborhood starting to run down? _____

*Is the neighborhood new and on the way up? _____

Are any super highways or throughways planned for the neighborhood? _____

Is street traffic fairly heavy all day? _____

Do the pedestrians who pass the building look as though they would be prospects for your store? _____

How close is the building to the bus line or other public transportation? _____

Are there adequate parking facilities convenient to the building? _____

Are the sidewalks in good repair? _____

Is the street lighting good? _____

Is the parking lot well-lighted if you are open at night? _____

What is the occupancy history of this store building? Does the store have a reputation for failures? (that is, stores opening and closing after a short time? _____

If the store has housed several failures in recent years, can you find out why they failed? _____

Was it the location, excessive rent, or some other factor? _____

What rent will you have to pay each month? _____

What is the physical condition of the store? _____

What services, if any, does the landlord provide? _____

What are the terms of the lease? _____

I expect to do \$_____ in annual sales in this location.

Finally, when you think you have solved the site-location of your new business, ask your banker to recommend the three people who in his opinion know the most about locations in your line of business. Contact these people and listen to their advice, weigh what they say, then decide.

*The local Chamber of Commerce may have information on the population of the area or be able to refer you to other local sources. Census Tracts on Population, published by the Bureau of Census, may also be useful. Other sources of such marketing statistics are trade associations and directories, such as, THE EDITOR & PUBLISHER MARKET GUIDE. Published annually in September. \$15. Editor & Publisher Co., 850 Third Avenue, New York, N. Y. 10022
SURVEY OF BUYING POWER. Published annually in June. \$10. Sales Management Inc., 630 Third Avenue, New York, N. Y. 10017. (The latter breaks population down into eight age groups, to mention two examples, 18 to 24 years old and 25 to 34 years old.)

SECTION TWO—ATTRACTING CUSTOMERS

When you have a location in mind, you should work through another aspect of marketing. How will you attract customers to your store? How will you pull business away from your competition?

It is in working with this aspect of marketing that many small retailers find competitive advantages. The ideas which they develop are as good, and often, better than those which large companies develop with hired brains. The workblocks that follow are designed to help you think about image, pricing, customer service policies, and advertising.

IMAGE

A store has an image whether or not the owner is aware of it. For example, throw some merchandise onto shelves and onto display tables in a dirty, dimly lit store and you've got an image. Shoppers think of it as a dirty, junky store and avoid coming into it. Your image should be concrete enough to promote in your advertising and other promotional activities. For example, "home-cooked" food might be the image of a small restaurant.

Write out what image you want shoppers and customers to have of your store.

PRICING

Value received is the key to pricing. The only way a store can have low prices is to sell low-priced merchandise. Thus, what you do about the prices you charge depends on the lines of merchandise you buy and sell. It also depends on what your competition charges for these lines of merchandise. Your answers to the following questions should help you to decide what to do about pricing.

In what price ranges are your lines of merchandise sold?

Quality? _____ Medium? _____ Low? _____

Which range will you stock? _____ Will you sell only for cash? _____

What services will you offer to justify your prices if they are higher than the prices of your competitors? _____

If you offer credit, will your price have to be higher than if all sales are for cash? _____

The credit costs have to come from somewhere. Plan for them.

If you use a credit card system, what will it cost you? Will you have to add to your prices to absorb this cost? _____

CUSTOMER SERVICE POLICIES

The services you provide your customers may be free to them, but not to you. For example, if you provide parking, you pay for your own parking lot or pick up your part of the cost of a lot which you and other retailers use.

List the services that your competitors provide customers:

<i>Services</i>	<i>Your estimate of the cost of this service</i>
_____	_____
_____	_____
_____	_____
_____	_____

How many of these services will you have to provide just to meet competition? _____

Are there services which would attract customers, but which competitors are not offering?

If so, what are your estimates of the cost of such services?

<i>Service</i>	<i>Estimated Cost</i>
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

Now list the services you plan to offer:

<i>Service</i>	<i>Estimated Cost</i>
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
Total	
	\$ _____

ADVERTISING

In this section on attracting customers, advertising was saved until the last because you have to have something to say before advertising can be effective. When you have an image, price range, and customer services you are ready to *tell* prospective customers why they should shop in your store.

When the money you can spend for advertising is limited, it is vital that your advertising be on target. Before you think about how much money you can afford for advertising, take time to determine what jobs you want advertising to do for your store. The work blanks that follow should be helpful to your thinking.

The strong points of my store are _____

My store is different from my competition in the following ways _____

My advertising should tell shoppers and prospective customers the following facts about my store and its merchandise _____

When you have these facts in hand, you are ready to think about the form your advertising should take and its cost. Ask the local media (newspapers, radio and television, and printers of direct mail pieces) for information about the services and the results they offer for your money.

How you spend advertising money is your decision, but don't fall into the trap that snares many businessmen. As one consultant describes this pitfall: It is amazing the way many businessmen consider themselves experts on advertising copy and media selection without any experience in these areas.

The following blanks should be useful in determining what advertising is needed to *sell* your strong points to prospective customers.

Form of Advertising	Size of Audience	Frequency of Use	Cost of A single ad	Estimated Cost
_____	_____	_____	× \$ _____	= \$ _____
_____	_____	_____	× _____	= _____
_____	_____	_____	× _____	= _____
_____	_____	_____	× _____	= _____
				Total \$ _____

When you have a figure on what your advertising for the next 12 months will cost, check it against what similar stores spend. Advertising expense is one of the operating ratios (expenses as a percentage of sales) which trade associations and other organizations gather. If your estimated cost for advertising is substantially higher than this average for your line of merchandise, take a second look. No single expense item should be allowed to get way out of line if you want to make a profit. Your task in determining how much to spend for advertising comes down to: How much can I afford to spend and still do the job that needs to be done?

SECTION THREE—SELLING TO CUSTOMERS

To complete your work on marketing, you need to think about what you want to happen *after* prospects get inside your store. Your goal is to *move stock off your shelves and displays—at a profit*—satisfy customers, and put money into your cash register. You also have to replenish the stock. To do this you have to encourage shoppers to become customers. Moreover, one-time customers can't do the job. You need repeat customers to build a profitable annual sales volume.

At this point, if you have decided to sell only for cash, take a second look at your decision. Don't overlook the fact that Americans like to buy on credit. Often a credit card, or other system of credit and collections, is needed to attract and hold customers.

The workblocks that follow are designed to help you think about in-store sales promotion, buying, stock control, and stock turn.

IN-STORE SALES PROMOTION

In encouraging people to buy, self-service stores rely on layout, attractive displays, signs, and clearly marked prices on the items offered for sale. Other stores combine these techniques with personal selling. The workblocks that follow are designed to help you decide what to do and to estimate the cost of your actions.

If your store is to be self-service, list the display counters, racks, special equipment (such as frozen food display bins), and other fixtures:

<i>Fixture</i>	<i>Number Needed</i>	<i>×</i>	<i>Unit Cost</i>	<i>=</i>	<i>Cost</i>
_____	_____		\$ _____		\$ _____
_____	_____		_____		_____
_____	_____		_____		_____
_____	_____		_____		_____
_____	_____		_____		_____
_____	_____		_____		_____
_____	_____		_____		_____
_____	_____		_____		_____

YOUR PLAN FOR BUYING

I plan to buy merchandise from:

Name of Item	Name of Supplier	Address of Supplier
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

*How many days or weeks does it take the supplier to deliver the merchandise to your store?

**Who pays? You, the buyer? The supplier? (This cost can be a big expense item.)

***What is the supplier's policy on fill-in orders? That is, do you have to buy a gross, a dozen, or will he ship only 2 or 3 items? How long does it take him to deliver to your store?

If you are starting a new store and your line of merchandise calls for "backroom" equipment, such as a meat slicing machine or food grinder, list such equipment:

Type of Equipment	Number Needed	×	Unit Cost	=	Cost
_____	_____		\$ _____		\$ _____
_____	_____		_____		_____
_____	_____		_____		_____
_____	_____		_____		_____

How will you place your fixtures and displays to encourage people to buy? Draw up layouts on scratch paper. When you have a layout that suits you, attach it to this worksheet.

Will you make your display signs or buy them from a signpainter? Either way, determine how many signs you will need for a 12-months operation and their cost.

I will need _____ signs at a cost of \$ _____ per sign. In 12 months, \$ _____ will be spent for display signs.

Discount Offered	Delivery Time*	Freight Costs**	Fill-in Policy***

If your store is a combination of self-service and personal selling, how many salespersons will you need?

I will need _____ salespersons at \$_____ per week. (Include payroll taxes and insurance in this cost.) In 12 months, \$_____ will be spent for sales people.

Personal attention to customers is one strong point which a small store can use as a competitive tool. What training will you provide for your retail salespeople in the following techniques?

How to greet customers _____

How to show merchandise _____

How to do suggestion selling _____

How to handle customer complaints _____

BUYING

In buying merchandise, you need to answer questions such as:

Who sells the line to retailers? It is sold directly by the manufacturer? Through jobbers? Through wholesalers?

What delivery dates can you get?

How quickly can the vendor deliver fill-in orders?

What are his terms of sale?

Can you establish terms of credit with him?

If you plan to carry more than one line of merchandise, you should establish a source of supply on acceptable terms for each line before you open for business.

STOCK CONTROL

In this plan, stock control is included under "Marketing" because "walkouts" can be a problem in a small store. Often shoppers leave without buying because the store did not have the items in the colors they wanted or the sizes they needed. Stock control, combined with suppliers whose policies on fill-in orders are favorable to you, provides a way to reduce "walkouts."

The type of system you use to keep informed about your stock depends on your line of merchandise and the delivery dates provided by your suppliers.

Your stock control system should enable you to determine what needs to be ordered on the basis of: (1) what is on hand, (2) what is on order, and (3) what has been sold. (Some trade associations and suppliers provide systems to members and customers.)

When you have determined the system you will use to control stock, estimate its cost. My system for stock control will cost me \$_____ for the first year.

STOCKTURN

When an owner-manager does his buying job reasonably well, he can expect to turn his stock over several times a year. For example, the stock in a small retail camera shop should turn over 4 to 4½ times a year. Fill in the blanks that follow:

The average stockturn for my line of merchandise is _____ times per year.

I expect to turnover my stock _____ times per year. List the reasons for your answer.

BEHIND-THE-SCENES WORK

In a retail store, behind-the-scenes work consists of the receiving of merchandise, preparing it for display, maintaining display counters and shelves, and keeping the store clean and attractive to customers. The work blocks which follow are designed to help you determine what to do and the cost of those actions.

List the equipment, for example, a marking machine, you will need for: (1) receiving merchandise into your backroom, (2) preparing merchandise for display, (3) maintaining display counters and shelves, and (4) keeping the store clean and attractive to customers.

<i>Name of Equipment</i>	<i>Number Needed</i>	<i>×</i>	<i>Unit Cost</i>	<i>=</i>	<i>Cost</i>
_____	_____		\$_____		\$_____
_____	_____		_____		_____
_____	_____		_____		_____
_____	_____		_____		_____
_____	_____		_____		_____
_____	_____		_____		_____

Kinds of Supplies

	\$	\$

I will need _____ square feet of space for the backroom operation. This space will cost \$_____ per square foot or a total of \$_____ per month.

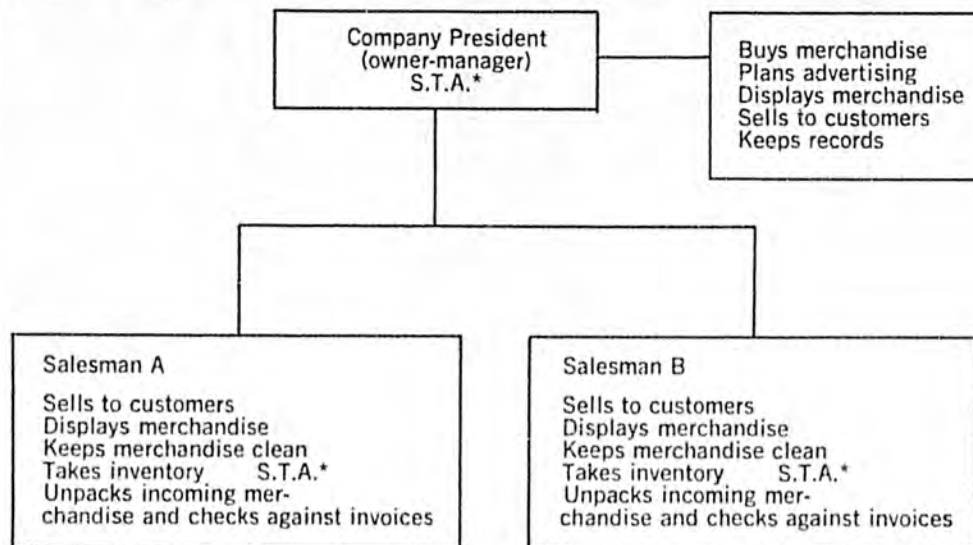
This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper appears to be a standard notebook page.

GETTING THE WORK DONE

Organization is needed if your store is to produce what you expect it to produce, namely profitable sales dollars.

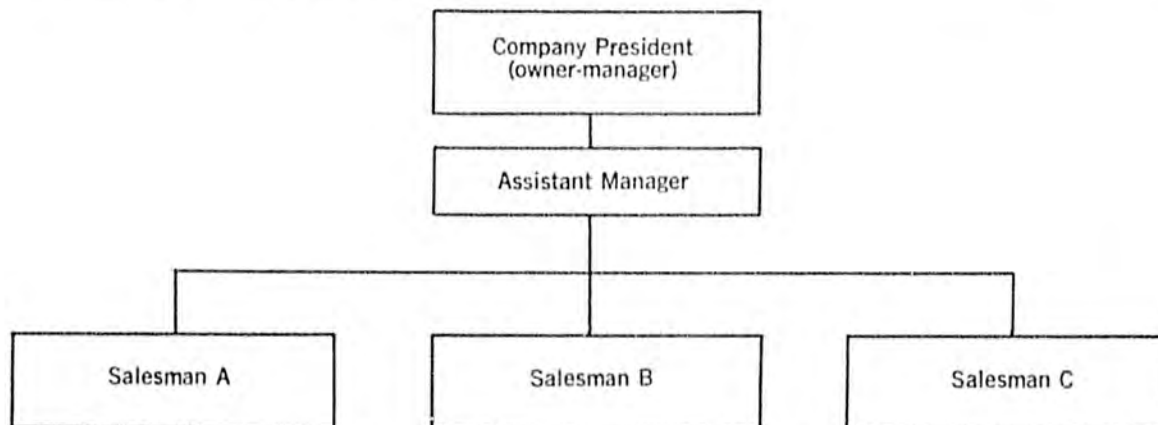
Organization is essential because you as the owner-manager cannot do all the work. You have to *delegate work, responsibility, and authority*. A helpful tool in getting this done is the organization chart. It shows at a glance who is responsible for the major activities of a business. Examples are given here to help you in preparing an organization chart for your business.

An organization chart for a small retail store will reflect the fact that the owner-manager does most of the managing work himself. For example, if your store is run by yourself and two salespersons, the chart should show what you expect each of them to do. It could look like this:



*A small store exists to serve customers. They want to be served promptly and don't like to be ignored even by the stock boy. A device to insure that they are recognized is S.T.A.—Special Team Assignment. When all the salespeople are tied up, the available employee moves into Special Team Assignment.

As the business grows, the owner-manager might set up the job of Assistant Manager. The organization chart should look like this:



In training employees, you may want to emphasize that in a small business everyone has to pitch in and get the job done. Customers are not interested in job descriptions, but they are interested in being served promptly. Nothing is more frustrating to a customer than to be ignored by an employee.

In the space below, draw up an organization chart for your business.

PUT YOUR PLAN INTO DOLLARS

At this point, take some time to think about what your business plan means in terms of dollars. This section is designed to help you put your plan into dollars.

The first question concerns the source of dollars. After your initial capital investments, in a small retail store, the principal source of money is sales. What sales volume do you expect to do in the next 12 months? Write your answer here \$_____.

START-UP COSTS. If you are starting a new store, list the following estimated start-up costs:

Fixtures and equipment*	\$_____
Starting inventory	\$_____
Decorating and remodeling	\$_____
Installation of equipment	\$_____
Deposits for utilities	\$_____
Legal and professional fees	\$_____
Licenses and permits	\$_____
Advertising for the opening	\$_____
Accounts receivable	\$_____
Operating cash	\$_____
Total	\$_____

*If you listed the cost of these items on page 12 of this *Aid*, transfer your figures.

Whether you have the funds (savings) or borrow them, your new business will have to pay back these start-up costs. Keep this fact in mind as you work on the next section, "Expenses," and on other financial aspects of your plan.

EXPENSES. In connection with annual sales volume you need to think about expenses. If, for example, you plan to do sales amounting to \$100,000, what will it cost you to do this amount of business? And even more important, what will be left over as profit at the end of the year? Never lose sight of the fact that profit is *your* pay. Even if you pay yourself a salary for living expenses, your business must make a profit if it is to continue year after year and pay back the money you invested in it.

The following formula is designed to help you make a quick estimate of your expenses. To use this formula you need to get only one figure—the cost of goods sold figure for your line of merchandise. If you don't have this operating ratio for your firm, check with your trade association or with sources such as those listed in *Ratio Analysis for Small Business*. (For ordering details see "For Further Information," on page 24 of this *Aid*.)

	Expressed in Percentage	Expressed in Dollars	Your Percentage	Your Dollars
1. Sales	100	\$100,000	100	\$
2. Cost of Goods Sold	-66*	-66,000		-\$
3. Gross Margin	34*	\$ 34,000		\$

BREAK DOWN YOUR EXPENSES. Your quick estimate of expenses provides a starting point. The next step is to break down your expenses so they can be handled over the 12 months. Use the "Expenses Worksheet" form on pages 18 and 19 to make up an expense budget.

MATCHING MONEY AND EXPENSES. A budget helps you to see the dollar amount of your expenses each month. Then from month to month the question is: Will sales bring in enough money to pay the store's bills on time? The answer is "maybe not" or, "I hope so" unless the owner-manager prepares for the "peaks and valleys" that are in many retail operations.

A cash forecast is a management tool which can eliminate much of the anxiety that can plague you if your sales go through lean months. Use the worksheet, "Estimated Cash Forecast," on page 17, or ask your accountant to use it, to estimate the amounts of cash that you expect to flow through your business during the next 12 months.

IS ADDITIONAL MONEY NEEDED? Suppose at this point, you have determined that your business plan needs more money than can be generated by sales. What do you do?

What you do depends on the situation. For example, the need may be for bank credit to tide the store over during lean sales months. The loan can be repaid during the fat sales months when expenses are far less than sales. Adequate working capital is necessary for success and survival.

Whether an owner-manager seeks to borrow money for only a month or so or on a long-term basis, the lender needs to know whether the store's financial position is strong or weak. He will ask to see a current balance sheet.

*These figures and those in the expenses worksheet are from "Summary of Operating Ratios of 379 'Profitmaking' Retail Hardware Stores" which appears on page 20 of *Ratio Analysis for Small Business* (see for "Further Information," page 24 of this *Aid*). These figures are intended only as a sample. The percentages (cost of goods sold, advertising, and so on) vary from one line of business to another.

ESTIMATED CASH FORECAST

	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
(1) Cash in Bank (Start of Month)												
(2) Petty Cash (Start of Month)												
(3) Total Cash (add 1) and (2)												
(4) Expected Cash Sales												
(5) Expected Collections												
(6) Other Money Expected												
(7) Total Receipts (add 4, 5 and 6)												
(8) Total Cash and Receipts (add 3 and 7)												
(9) All Disbursements (for month)												
(10) Cash Balance at End of Month. in Bank Account and Petty Cash (subtract (9) from (8)*)												

*This balance is your starting cash balance for the next month.

	Sample Figures for Hardware Stores Percent of sales	% of Your Sales	Your Annual Sales Dollar	Your Dollars JAN	Your Dollars FEB	Your Dollars MAR
Net sales	100.00	—	—	—	—	—
Cost of goods sold	66.05	—	—	—	—	—
Margin	33.95	—	—	—	—	—
Salary Expense:		—	—	—	—	—
Owners and managers. . .	7.15	—	—	—	—	—
Salespeople, office, and other	9.60	—	—	—	—	—
Total Salaries	16.75	—	—	—	—	—
Other Expense:		—	—	—	—	—
Office supplies and postage . . .	0.40	—	—	—	—	—
Advertising	1.55	—	—	—	—	—
Donations	0.05	—	—	—	—	—
Telephone and telegraph	0.30	—	—	—	—	—
Losses on notes and accounts receivable	0.15	—	—	—	—	—
Delivery expense (exclusive of wages)	0.50	—	—	—	—	—
Depreciation of delivery equipment	0.25	—	—	—	—	—
Depreciation of furniture, fixtures, and tools	0.35	—	—	—	—	—
Rent	2.70	—	—	—	—	—
Repairs to building	0.10	—	—	—	—	—
Heat, light, water, and power . .	0.80	—	—	—	—	—
Insurance	0.80	—	—	—	—	—
Taxes (not including Federal income tax)	1.10	—	—	—	—	—
Interest on borrowed money . .	0.05*	—	—	—	—	—
Unclassified (including store supplies)	1.20	—	—	—	—	—
Total Expense (not including interest on investment)	27.05	—	—	—	—	—
Net Profit	6.90	—	—	—	—	—

*The interest on funds used for start-up costs if yours is a new store.

WORKSHEET

[illegible]

A blank current balance sheet is included below. Even if you don't need to borrow, use it, or have your accountant use it, to draw the "picture" of your firm's financial condition. Moreover, if you don't need to borrow money, you may want to show your plan to the bank that handles your store's checking account. It is never too early to build good relations with your banker, to let him know that you are a manager who knows where he wants to go rather than a store owner who *hopes* to make a success.

CURRENT BALANCE SHEET*

for

(name of your firm)

As of _____

(date)

Assets

Current assets:

Cash:

Cash in bank \$_____

Petty cash \$_____

Accounts receivable \$_____

Less allowance for doubtful
accounts _____

Merchandise inventories _____

Total current assets \$_____

Fixed assets:

Land \$_____

Buildings _____

Delivery equipment _____

Furniture and fixtures \$_____

Less allowance for depreciation \$_____

Leasehold improvements, less
amortization _____

Total fixed assets _____

Total assets \$_____

Liabilities and Capital

Current liabilities:

Accounts payable \$_____

Notes payable, due within 1 year _____

Payroll taxes and withheld taxes .. _____

Sales taxes _____

Total current liabilities \$_____

Long-term liabilities:

Notes payable, due after 1 year ... _____

Total liabilities \$_____

Capital:

Proprietor's capital, beginning of
period \$_____

Net profit for the period \$_____

Less proprietor's drawings _____

Increase in capital _____

Capital, end of period \$_____

Total liabilities and capital \$_____

*Format from page 68 of SBMS No. 32, *Financial Record Keeping for Small Stores* (See "For Further Information," page 24 of this *Aid*.)

CONTROL AND FEEDBACK

To make your plan work you will need feedback. For example, the yearly profit and loss statement shows whether your business made a profit or loss for the past 12 months.

But you can't wait 12 months for the score. To keep your plan on target you need readings at frequent intervals. A profit and loss statement at the end of each month or at the end of each quarter is one type of frequent feedback. However, the income statement or profit and loss statement (P and L) may be more of a *loss* than a profit statement if you rely only on it. You must set up management controls which will help you to insure that the right things are being done from day to day and from week to week. In a new business, the record-keeping system should be set up *before* the store opens. After you're in business is too late. For one thing, you may be too busy to give a record-keeping system the proper attention.

The control system which you set up should give you information about: stock, sales, and disbursements. The simpler the system, the better. Its purpose is to give you current information. You are after facts with emphasis on trouble spots. Outside advisers, such as an accountant, can be helpful.

STOCK CONTROL. The purpose of controlling stock is to provide maximum service to your customers. Your aim should be to achieve a high turnover on your inventory. The fewer dollars you tie up in stock, the better.

In a small store, stock control helps the owner-manager to offer his customers a balanced assortment. The control system should enable him to determine what needs to be ordered on the basis of: (1) what is on hand, (2) what is on order, and (3) what has been sold.

In setting up inventory controls, keep in mind that the cost of the stock is not your only cost. There are inventory costs, such as the cost of purchasing, the cost of keeping stock control records, and the cost of receiving and storing stock.

SALES. In a small store, sales slips and cash register tapes give the owner-manager feedback at the end of each day. To keep on top of sales, you will need answers to questions, such as: How many sales were made? What was the dollar amount? What were the best selling products? At what price? What credit terms were given to customers?

DISBURSEMENTS. Your management controls should also give you information about the dollars your company pays out. In checking on your bills, you do not want to be penny-wise and pound-foolish. You need to know that major items, such as paying bills on time to get the supplier's discount, are being handled according to your policies. Your review system should also give you the opportunity to make judgments on the use of funds. In this manner, you can be on top of emergencies as well as routine situations. Your system should also keep you aware that tax monies, such as payroll income tax deductions, are set aside and paid out at the proper time.

BREAK-EVEN. Break-even analysis is a management control device because the break-even point shows about how much you must sell under given conditions in order to just cover your costs with NO profit and NO loss.

Profit depends on sales volume, selling price, and costs. Break-even analysis help you to estimate what a change in one or more of these factors will do to your profits. To figure a break-even point, fixed costs, such as rent, must be separated from variable costs, such as the cost of goods sold.

The formula is:

Break-even point (in sales dollars) = $\frac{\text{Total fixed costs}}{1 - \frac{\text{Total variable costs}}{\text{corresponding sales volume}}}$

An example of the formula is: Bill Mason plans to open a store and estimates his fixed expenses at about \$9,000, the first year. He estimates his variable expenses at about \$700 for every \$1,000 of sales.

$$\text{BE Point} = \frac{\$9,000}{1 - \frac{\$700}{\$1,000}} = \frac{\$9,000}{1 - .70} = \frac{\$9,000}{.30} = \$30,000$$

For additional information on break-even points, see SBMS No. 15, *A Handbook of Small Business Finance* in "For Further Information," page 24 of this *Aid*.

IS YOUR PLAN WORKABLE?

Stop when you have worked out your break-even point. Whether the break-even point looks realistic or way off base, it is time to make sure that your plan is workable.

Take time to re-examine your plan *before* you back it with money. If the plan is not workable, better to learn it now than to realize 6 months down the road that you are pouring money into a losing venture.

In reviewing your plan, look at the cost figures you drew up when you broke down your expenses for one year (page 18 of this *Aid*.) If any of your cost items are too high or too low, change them. You can write your changes in the white spaces above or below your original entries on that worksheet. When you finish making your adjustments, you will have a REVISED projected statement of sales and expenses for 12 months.

With your revised figures work out a revised break-even point. Whether the new break-even point looks good or bad, take one more precaution. Show your plan to someone who has not been involved in working out the details.

Your banker, contact man at SBA, or other advisor outside of your business may see weaknesses that failed to appear as you pored over the details of your plan. And he may put his finger on strong points which your plan should emphasize and convert your strong points in the profit.

PUT YOUR PLAN INTO ACTION

When your plan is as near on target as possible, you are ready to put it into action. Keep in mind that action is the difference between a plan and a dream. If a plan is not acted upon, it is of no more value than a pleasant dream that evaporates over the breakfast coffee.

A successful owner-manager does not stop after he has gathered information and drawn up a plan, as you have done in working through this *Aid*. He begins to use his plan.

At this point, look back over your plan. Look for things that must be done to put your plan into action.

What needs to be done will depend on your situation. For example, if your business plan calls for an increase in sales, one action to be done will be providing funds for this expansion.

Have you more money to put into this business?

Do you borrow from friends and relatives? From your bank? From your suppliers by arranging liberal commercial credit terms?

If you are starting a new business, one action step may be to get a loan for fixtures, stock employee salaries, and other expenses. Another action step will be to find and hire capable employees.

In the spaces that follow, list things that must be done to put your plan into action. Give each item a date so that it can be done at the appropriate time. To put my plan into action, I must do the following:

<i>Action</i>	<i>Completion Date</i>

KEEPING YOUR PLAN UP TO DATE

Once you put your plan into action, look out for changes. They can cripple the best-made business plan if the owner-manager let's them.

Stay on top of changing conditions and adjust your business plan accordingly.

Sometimes the change is within your company. For example, several of your sales persons quit their jobs. Sometimes the change is with customers; for example, their desires and tastes shift. Sometimes the change is technological as when new raw materials are put on the market and new products are created.

In order to adjust his plan to account for such changes, an owner-manager must:

(1) Be alert to the changes that come about in his line of business, in his market, and in his customers.

(2) Check his plan against these changes.

(3) Determine what revisions, if any, are needed in his plan.

The method you use to keep your plan current so that your business can weather the forces of the market place is up to you. Read the trade papers and magazines for your line of business. Another suggestion, concerns your time. Set some time—two hours, three hours, whatever is necessary—to review your plan periodically. Once each month, or every other month, go over your plan to see whether it needs adjusting. If revisions are needed, make them and put them into action.



<i>Action</i>	<i>Completion Date</i>

KEEPING YOUR PLAN UP TO DATE

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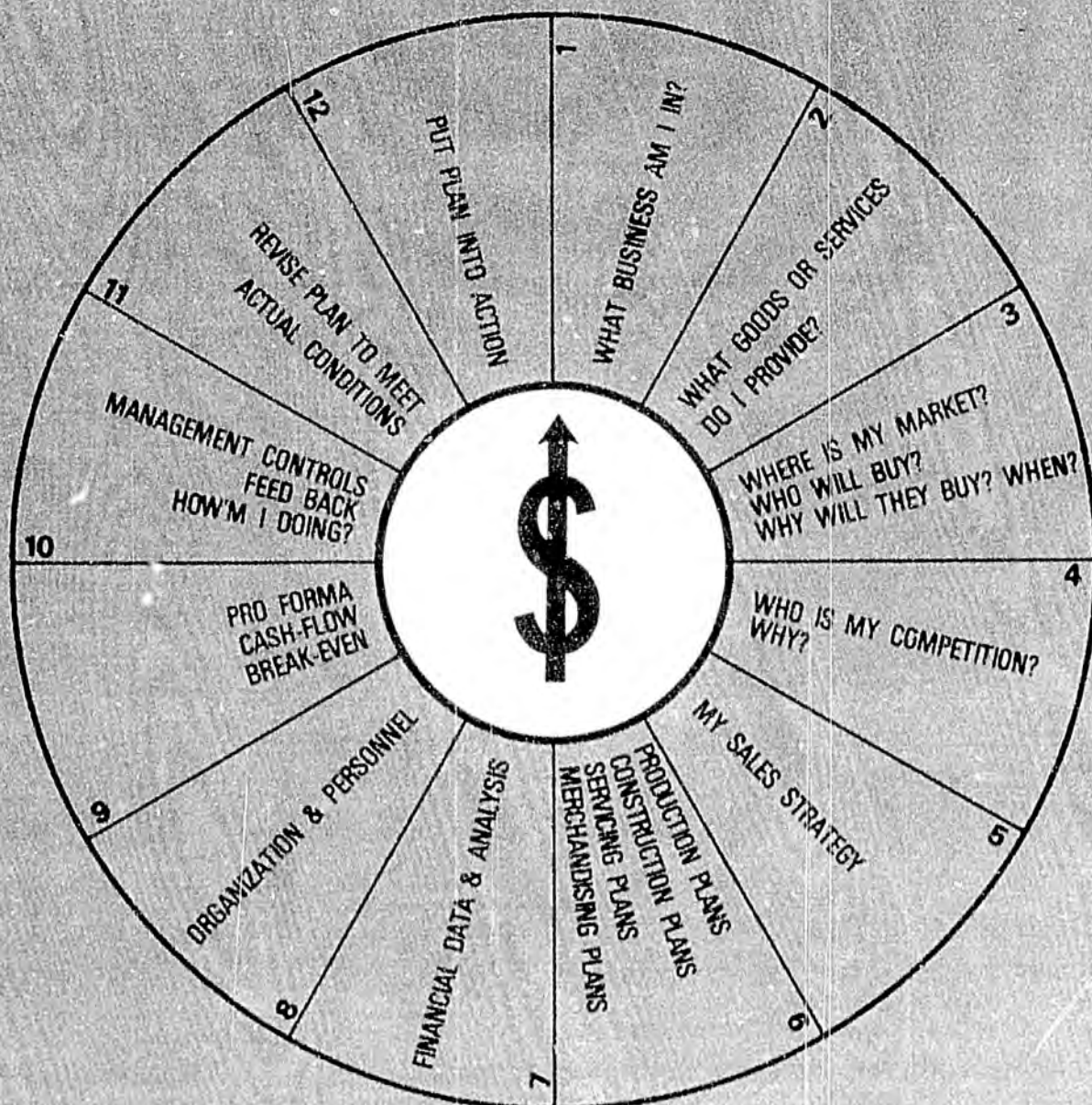


SMALL BUSINESS
ADMINISTRATION

MANAGEMENT AID
For Small Manufacturers

No. **218**

BUSINESS PLAN FOR SMALL MANUFACTURERS



By Staff Members, Education Division, Office of Management Assistance, Small Business Administration

SUMMARY

A business plan can provide the owner-manager or prospective owner-manager of a small manufacturing firm with a pathway to profit. This *Aid* is designed to help an owner-manager in drawing up his business plan.

In building a pathway to profit you need to consider the following questions: What business am I in? What goods do I sell? Where is my market? Who will buy? Who is my competition? What is my sales strategy? What merchandising method will I use? How much money is needed to operate my company? How will I get the work done? What management controls are needed? How can they be carried out? When should I revise my plan? Where can I go for help?

No one can answer such questions for you. As the owner-manager you have to answer them and draw up *your* business plan. The pages of this *Aid* are a combination of text and workspaces so you can write in the information you gather in developing *your* business plan—a logical progression from a commonsense starting point to a commonsense ending point.

FIRST PRINTED
JULY 1973

A NOTE ON USING THIS AID

It takes time and energy and patience to draw up a satisfactory business plan. Use this *Aid* to get your ideas and the supporting facts down on paper. And, above all, make changes in your plan on these pages as that plan unfolds and you see the need for changes.

Bear in mind that anything you leave out of the picture will create an additional cost, or drain on your money, when it unexpectedly crops up later on. If you leave out or ignore enough items, your business is headed for disaster.

Keep in mind, too, that your final goal is to put your plan into action. More will be said about this step near the end of this *Aid*.

WHAT'S IN THIS FOR ME?

Time was when an individual could start a small business and prosper provided he was strong enough to work long hours and had the knack for selling for more than the raw materials or product cost him. Small stores, grist mills, livery stables, and blacksmith shops sprang up in many crossroad communities as Americans applied their energy and native intelligence to settling the continent.

Today this native intelligence is still important. But by itself the common sense for which Americans are famous will not insure success in a small business. Technology, the marketplace, and even people themselves have become more complicated than they were 100, or even 25, years ago.

Common sense must be combined with new techniques in order to succeed in the space age. Just as one would not think of launching a manned space capsule without a flight plan, so one should not think of launching a new small manufacturing business without a business plan.

A business plan is an exciting new tool which the owner-manager of a small business can use to plot a "course" for his company. Such a plan is a logical progression from a commonsense starting point to a commonsense ending point.

To build a business plan for his company, an owner-manager needs only to think and react as a manager to questions such as: What product is to be manufactured? How can it best be made? What will it cost me? Who will buy the product? What profit can I make?

WHY AM I IN BUSINESS?

If you're like most businessmen, you're in business to make money and be your own boss. But, few businessmen would be able to say that those are the only reasons. The money that you will make from your business will seldom seem like enough for all the long hours, hard work, and responsibility that go along with being the boss.

Then, why do so many stay in business?

This is hardly the time for philosophy. If you're starting or expanding a business, you have enough to think about. But, whether or not you even think about it, the way you operate your business will reflect your "business philosophy."

Consider this. An owner-manager inspects a production run and finds a minor defect. Even though in nine out of ten cases the user of his product would not notice the defect, the owner decides to scrap the entire run.

What does this tell about his philosophy? It shows that he gets an important reward from doing what he feels is the right thing—in this case, providing a quality product.

The purpose of this section is not to play down the importance of making a profit. Profits are important. They will keep your business going and attract additional capital into your business. But you should be aware that there are other rewards and responsibilities associated with having your own business.

In your planning, you might give some thought to your responsibilities to your employees, your community, your stockholders, your customers, your product, and profit. Jot these down. Later, when you've lined-up your management team, discuss this subject with them. This type of group thinking will help everyone, including yourself, understand the basic purposes for each day's work.

Even though you won't advertise it throughout your market, the way you operate your business will reflect your business philosophy.

WHAT BUSINESS AM I IN?

In making your business plan, the next question to consider is: What business am I really in? At first reading, this question may seem silly. "If there is one thing I know," you say to yourself, "it is what business I'm in." But hold on. Some owner-managers go broke and others waste their savings because they are confused about the business they are really in.

The experience of an old line manufacturing company provides an example of dealing with the question: What business am I really in? In the early years of this century, the founder of the company had no trouble answering the question. As he put it, "I make and sell metal trash cans." This answer held true for his son until the mid-1950's when sales began to drop off. After much thought, the son decided he was in the container business.

Based on this answer, the company dropped several of its lines of metal trash cans, modified other lines, and introduced new products, such as shipping cartons used by other manufacturers and Government agencies.

What business am I in? (Write your answer here) _____

Asking questions like: What does my product do for my customer? Why? When? Where? How? What doesn't it do? What should it do later but doesn't now? can lead to the ultimate conclusion on what business you're in and possibly direct you to new lines of products or enterprises.

MARKETING

When you have decided what business you're really in, you have just made your first marketing decision. Now you must face other marketing considerations.

Successful marketing starts with you, the owner-manager. You have to know your product, your market, your customers, and your competition.

Before you plan production, you have to decide who your market is, where it is, why they will buy your product, whether it is a growth or static market, if there are any seasonal aspects of the market, and what percentage of the market you will shoot for in the first, second, and third year of operation. Your production goals and plans must be based on and be responsive to this kind of fact finding (market feasibility and research).

The narrative and work blocks that follow are designed to help you work out a marketing plan. Your objective is to determine what needs to be done to bring in sales dollars.

In some directories, marketing information is listed according to the Standard Industrial Classification (SIC) of the product and industry. The SIC classifies firms by the type of activity they're engaged in, and it is used to promote the uniformity and comparability of statistical data relating to market research. When you begin your market research, you may find it useful to have already classified your products according to this code. (The *Standard Industrial Classification Manual* is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, for \$4.50. It may also be available at your local library.)

Product

SIC No.

1. _____
2. _____

MARKET AREA. Where and to whom are you going to sell your product. Describe the market area you will serve in terms of geography and customer profile:

WHO ARE YOUR COMPETITORS? List your principal competitors selling in your market area, estimate their percentage of market penetration and dollar sales in that market, and estimate their potential loss of sales as a result of your entry into the market

Name of Competitor and Location	% Share of Market	Estimated Sales	Estimated Sales He Will Lose Because of You
1. _____	_____	\$ _____	_____
2. _____	_____	\$ _____	_____
3. _____	_____	\$ _____	_____

HOW DO YOU RATE YOUR COMPETITION? Try to find out the strengths and weaknesses of each competitor. Then write your opinion of each of your principal competitors, his principal products, facilities, marketing characteristics, and new product development or adaptability to changing market conditions.

Have any of your competitors recently closed operations or have they withdrawn from your market area? (State reasons if you know them):

ADVANTAGES OVER COMPETITORS. On what basis will you be able to capture your projected share of the market? Below is a list of characteristics which may indicate the advantages your product(s) enjoy over those offered by competitors. Indicate those advantages by placing a check in the proper space. If there is more than one competitor, you may want to make more than one checklist. Attach these to the worksheet.

Analyze each characteristic. For example, a higher price may not be a disadvantage if the product is of higher quality than your competitor's. You may want to make a more detailed analysis than is presented here. If you wish to spell out the specifics of each characteristic and explain where your product is disadvantaged and how this will be overcome, attach it to this worksheet. Also, the unique characteristics of your product can be the basis for advertising and sales promotion.

Remember, the more extensive your planning, the more your business plan will help you.

Product(s)	Product No. 1	Product No. 2
Price _____	()	()
Performance _____	()	()
Durability _____	()	()
Versatility _____	()	()
Speed or accuracy _____	()	()
Ease of operation or use _____	()	()
Ease of maintenance or repair _____	()	()
Ease or cost of installation _____	()	()
Size or weight _____	()	()
Styling or appearance _____	()	()
Other characteristics not listed:		
_____	()	()
_____	()	()
_____	()	()
_____	()	()
_____	()	()
_____	()	()

What, if anything, is unique about your product? _____

DISTRIBUTION. How will you get your product to the ultimate consumer? Will you sell it directly through your own sales organization or indirectly through middle-men, such as manufacturer's agents, brokers, wholesalers, and so on. (Use the blank to write a brief statement of your method of distribution and/or manner of sales):

What will this method of distribution cost you? _____

Do you plan to use special marketing, sales, or merchandising techniques? Describe them here:

List your customers by name, the total dollar amount they buy from you, and the amount they spend for each of your products.

Names of Principal Customers	Total Purchasing Volume	By Products	% of Your Sales
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

MARKET TRENDS. What has been the sales trend in your market area for your principal product(s) over the last 5 years? What do you expect it to be 5 years from now? You should indicate the source of your data and the basis of your projections.* Industry and product statistics are usually indicated in dollars. Units, such as numbers of customers, numbers of items sold, etc., may be used, but also relate your sales to dollars.

Product	Source of Data	Sales 5 Years Ago	Current Sales	Projected Sales in 5 Years
1. _____	_____	_____	_____	_____
2. _____	_____	_____	_____	_____

* This is a marketing research problem. It will require you to do some digging in order to come up with a market projection. Trade associations will probably be your most helpful source of information. The Bureau of Census publishes a great deal of useful statistics (see For Further Information on page 23). There are also the following free SBA publications to help you get started: MA187, "Using Census Data in Small Plant Marketing;" MA 192, "Profile Your Customers to Expand Industrial Sales;" SBB9, "Marketing Research Procedures;" and SBB13, "National Directories for Use in Marketing."

List the name and address of trade associations which serve your industry and indicate whether or not you are a member.

List the name and address of other organizations, governmental agencies, industry associations, etc., from which you intend to obtain management, technical, economic, or other types of information and assistance.

SHARE OF THE MARKET. What percentage of total sales in your market area do you expect to obtain for your products after your facility is in full operation?

Products or Products Category	Local Market (%)	Total Market (%)
_____	_____	_____
_____	_____	_____
_____	_____	_____

SALES VOLUME. What sales volume do you expect to reach with your products?

	Total Sales	Product(s) 1	Product(s) 2
First Year	\$ _____	\$ _____	\$ _____
Units	_____	_____	_____
Second Year	\$ _____	\$ _____	\$ _____
Units	_____	_____	_____
Third Year	\$ _____	\$ _____	\$ _____
Units	_____	_____	_____

PRODUCTION

Production is the work that goes on in a factory that results in a product. In making your business plan, you have to consider all the activities that are involved in turning raw materials into finished products. The work blocks which follow are designed to help you determine what production facilities and equipment you need.

MANUFACTURING OPERATIONS. List the basic operations, for example, cut and sew, machine and assemble, etc., which are needed in order to make your product.

RAW MATERIALS. What raw materials or components will you need, and where will you get them?

Material/Component	Source	Price	Comments (location, delivery, financing, etc.)
		\$	
		\$	
		\$	
		\$	
		\$	

What amount of raw materials and/or components will you need to stock?

Are there any special considerations concerning the storage requirements of your raw materials? For example, will you use chemicals which can only be stored for a short time before they lose their potency?

EQUIPMENT. List the equipment needed to perform the manufacturing operations. Indicate whether you will rent or buy the equipment and the cost to you.

Equipment	Buy	Rent	Your Cost
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Your equipment, facilities, and method of operation must comply with the Occupational Safety and Health Act of 1970. You may obtain a copy of *Standards for General Industry* from the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20402, or a field office of the Occupational Safety and Health Administration for 20 cents.

LABOR SKILLS. List the labor skills needed to run the equipment:

Skill Classification	Number of Persons Needed	Pay Rate	Availability
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

List the indirect labor, for example material handlers, stockmen, janitors, and so on, that is needed to keep the plant operating:

Skill Classification	Number of Persons Needed	Pay Rate	Availability
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

If persons with these skills are not already on your payroll, where will you get them?

SPACE. How much space will you need to make the product? Include restrooms, storage space for raw material and for finished products, and employee parking facilities if appropriate. Are there any local ordinances you must comply with?

Do you own this space?	Yes_____	No_____
Will you buy this space?	Yes_____	No_____
Will you lease this space?	Yes_____	No_____
How much will it cost you?	_____	

OVERHEAD. List the overhead items which will be needed in addition to indirect labor and include their cost. Examples are: tools, supplies, utilities, office help, telephone, payroll taxes, holidays, vacations, and salaries for your key men (sales manager, plant manager, and foremen).

HOW MUCH MONEY IS NEEDED?

Money is a tool you use to make your plan work. Money is also a measuring device. You will measure your plan in terms of dollars, and outsiders, such as bankers and other lenders, will do the same.

When you determine how much money is needed to start (or expand) your business, you can decide whether to move ahead. If the cost is greater than the profits which the business can make, there are two things to consider. Many businesses do not show a profit until the second or third year of operation. If this looks like the case with your business, you will need the plans and financial reserves to carry you through this period. On the other hand, maybe you would be better off putting your money into stocks, bonds, or other reliable investments rather than taking on the time consuming job of managing a small business.

If you are like most businessmen, your new business or expansion will require a loan. The burden of proof in borrowing money is upon the borrower. You have to show the banker or other lender how the borrowed money will be spent. Even more important, he needs to know how and when you will repay the loan.

To determine whether your plan is economically feasible, you need to pull together three sets of figures:

- (1) Expected sales and expense figures for 12 months.
- (2) Cash flow figures for 12 months.
- (3) Current balance sheet figures.

Then visit your banker. Remember, your banker or lender is your friend not your enemy. So, meet with him regularly. Share all the information and data you possess with him. If he is to really help you, he needs to know not only your strengths but also your weaknesses.

EXPECTED SALES AND EXPENSE FIGURES. To determine whether your business can make its way in the market place, you should estimate your sales and expenses for 12 months. The form which follows is designed to help you in this task.

CASH FLOW FIGURES. Estimates of future sales will not pay an owner-manager's bills. Cash must flow into the business at the proper times if bills are to be paid and a profit realized at the end of the year. To determine whether your projected sales and expense figures are realistic, you should prepare a cash flow forecast for the 12 months covered by your estimates of sales and expenses.

The form that follows was designed to help you estimate your cash situation and to get the appropriate figures on paper.

PROJECTED STATEMENT OF

	TOTAL	JAN	FEB
A. Net Sales			
B. Cost of Goods Sold			
1. Raw Materials			
2. Direct Labor			
3. Manufacturing Overhead			
Indirect Labor			
Factory Heat, Light, and Power			
Insurance and Taxes			
Depreciation			
C. Gross Margin (Subtract B from A)			
D. Selling and Administrative Expenses			
4. Salaries and Commissions			
5. Advertising Expenses			
6. Miscellaneous Expenses			
E. Net Operating Profit (Subtract D from C)			
F. Interest Expense			
G. Net Profit before Taxes (Subtract F from E)			
H. Estimated Income Tax			
I. Net Profit after Income Tax (Subtract H from G)			

* Format adapted from SBMS No. 15, *A Handbook of Small Business Finance*.
See "For Further Information," page 23 of this *Aid*.

SALES AND EXPENSES FOR ONE YEAR *

MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

This image shows a single page of white paper with horizontal black ruling lines. The lines are evenly spaced and run across the width of the page. There is no handwriting or other markings on the paper.

ESTIMATED CASH FORECAST

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
(1) Cash in Bank (Start of Month)												
(2) Petty Cash (Start of Month)												
(3) Total Cash (add (1) and (2))												
(4) Expected Accounts Receivable												
(5) Other Money Expected												
(6) Total Receipts (add (4) and (5))												
(7) Total Cash and Receipts (add (3) and (6))												
(8) All Disbursements (for month)												
(9) Cash Balance at End of Month in Bank Account and Petty Cash (subtract (8) from (7))*												

* This balance is your starting cash balance for the next month.

CURRENT BALANCE SHEET FIGURES. A balance sheet shows the financial conditions of a business as of a certain date. It lists what a business has, what it owes, and the investment of the owner. A balance sheet enables you to see at a glance your assets and liabilities.

Use the blanks below to draw up a current balance sheet for your company.

CURRENT BALANCE SHEET

for

(name of your company)

as of

(date)

ASSETS

CURRENT ASSETS

Cash	\$ _____
Accounts Receivable	_____
Inventory	_____

FIXED ASSETS

Land	\$ _____
Building	\$ _____
Equipment	_____
Total	_____

Less	
Depreciation	_____ \$ _____

TOTAL _____

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ _____
Accrued Expenses	_____
Short Term Loans	_____

FIXED LIABILITIES

Long Term Loan	\$ _____
Mortgage	_____

NET WORTH	\$ _____
-----------	----------

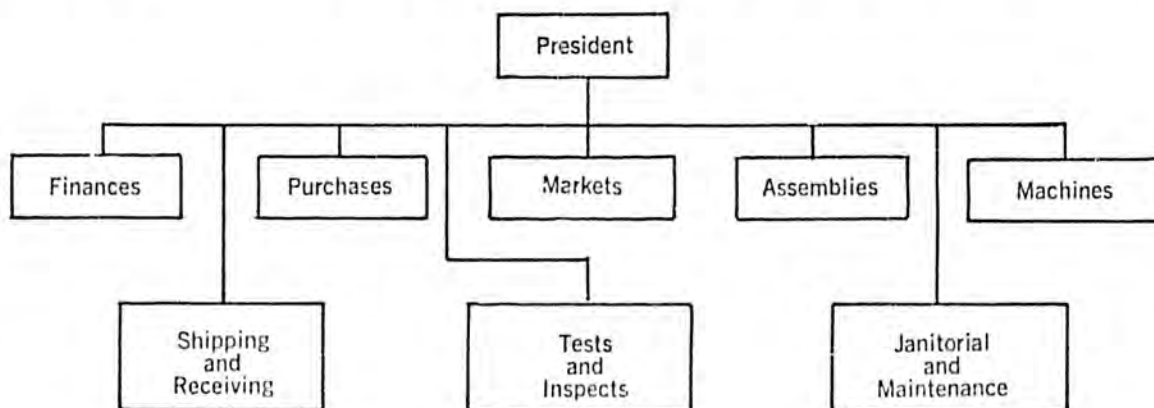
TOTAL \$ _____

GETTING THE WORK DONE

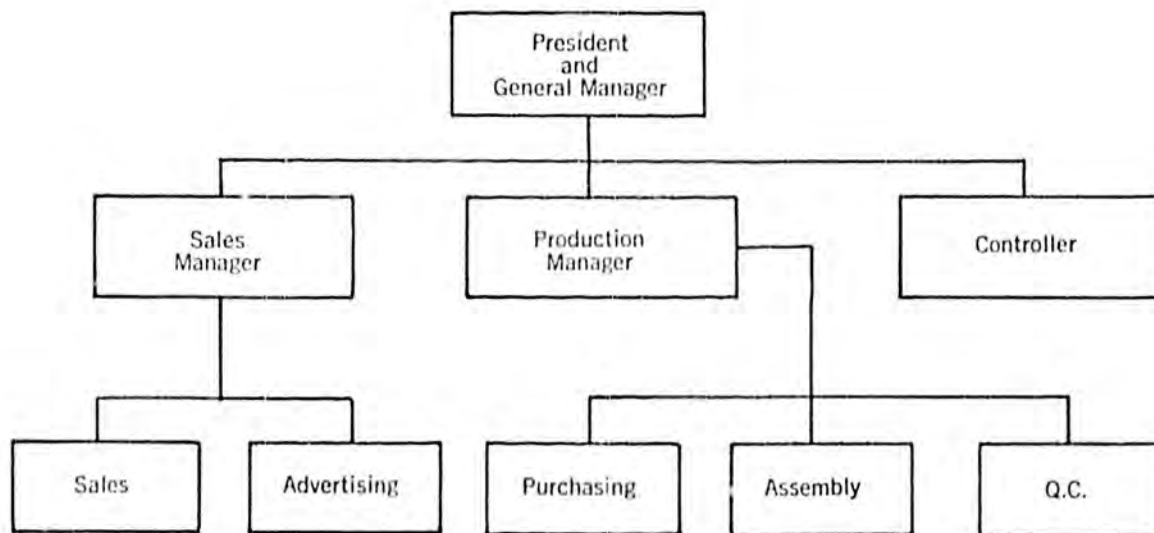
Your manufacturing business is only part way home when you have planned your marketing and production. Organization is needed if your plant is to produce what you expect it to produce.

Organization is essential because you as the owner-manager probably cannot do all the work. In which case, you'll have to delegate work, responsibility, and authority. A helpful tool in getting this done is the organization chart. It shows at a glance who is responsible for the major activities of a business. However, no matter how your operation is organized, keep control of the financial management. Examples are given here to help you in preparing an organization chart for your business.

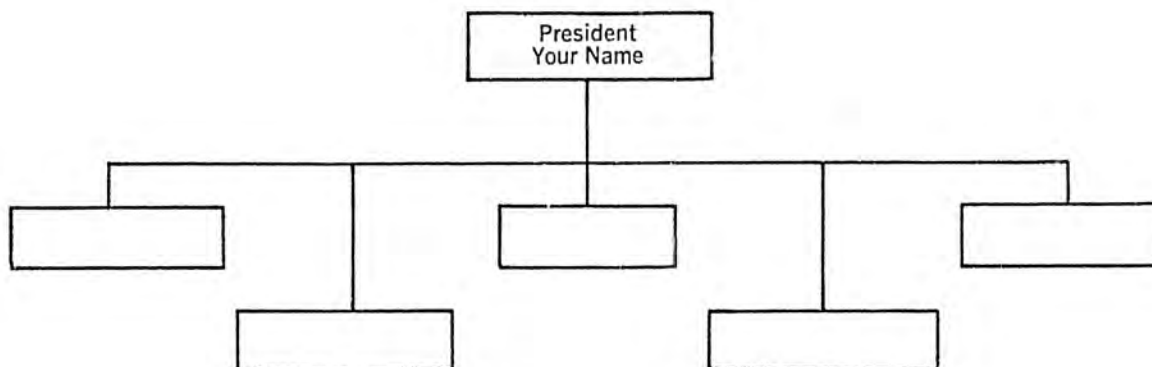
In the beginning, the president of the small manufacturing company probably does everything.



As the company grows to perhaps 50—100 employees, the organization may begin to look something like the chart below.



In the space that follows or on a separate piece of paper, draw an organization chart for your business.



It is important that you recognize your weaknesses early in the game and plan to get assistance wherever you need it. This may be done by using consultants on an as-needed basis, by hiring the needed personnel, or by retaining a lawyer and accountant.

The workblock below lists some of the areas you may want to consider. Adapt it to your needs and indicate who will take care of the various functions. (One name may appear more than once.)

Manufacturing _____

Marketing _____

Research and Technical Backup _____

Accounting _____

Legal _____

Insurance _____

Other: _____

MAKING YOUR PLAN WORK

To make your plan work you will need feedback. For example, the year end profit and loss statement shows whether your business made a profit or loss for the past 12 months.

But you can't wait 12 months for the score. To keep your plan on target you need readings at frequent intervals. A profit and loss statement at the end of each month or at the end of each quarter is one type of frequent feedback. However, the P and L may be more of a *loss* than a profit statement if you rely only on it. In addition, your cash flow projection must be continuously updated and revised as necessary. You must set up management controls which will help you to insure that the right things are being done from day to day and from week to week.

The management control system which you set up should give you precise information on: inventory, production, quality, sales, collection of accounts receivable, and disbursements. The simpler the system, the better. Its purpose is to give you and your key people current information in time to correct deviations from approved policies, procedures, or practices. You are after *facts* with emphasis on *trouble spots*.

INVENTORY CONTROL. The purpose of controlling inventory is to provide maximum service to your customers. Your aim should be to achieve a rapid turnover on your inventory. The fewer dollars you tie up in raw materials inventory and in finished goods inventory, the better. Or, saying it in reverse, the faster you get back your investment in raw materials and finished goods inventory, the faster you can reinvest your capital to meet additional consumer needs.

In setting up inventory controls, keep in mind that the cost of the inventory is not your only cost. There are inventory costs, such as the cost of purchasing, the cost of keeping inventory records, and the cost of receiving and storing raw materials.

PRODUCTION. In preparing this business plan, you have estimated the cost figures for your manufacturing operation. Use these figures as the basis for standards against which you can measure your day-to-day operations to make sure that the clock does not nibble away at profits. These standards will help you to keep machine time, labor man-hours, process time, delay time, and down time within your projected cost figures. Periodic production reports will allow you to keep your finger on potential drains on your profits and should also provide feedback on your overhead expense.

QUALITY CONTROL. Poorly made products cause a company to lose customers. In addition, when a product fails to perform satisfactorily, shipments are held up, inventory is increased, and a severe financial strain can result. Moreover, when quality is poor, it's a good bet that waste and spoilage on the production line are greater than they should be. The details—checkpoints, reports, and so on—of your quality control system will depend on your type of production system. In working out these details, keep in mind that their purpose is to answer one question: What needs to be done to see that the work is done right the first time? Will you have to do extensive quality control on raw materials? This is an added expense you must consider.

SALES. To keep on top of sales, you will need answers to questions, such as: How many sales were made? What was the dollar amount? What products were sold? At what price? What delivery dates were promised? What credit terms were given to customers?

It is also important that you set up an effective collection system for "accounts receivable," so that you don't tie up your capital in aging accounts.

DISBURSEMENTS. Your management controls should also give you information about the dollars your company pays out. In checking on your bills, you do not want to be penny-wise and pound-foolish. You need to know that major items, such as paying bills on time to get the supplier's discount, are being handled according to your policies. Your review system should also give you the opportunity to make judgments on the use of funds. In this manner, you can be on top of emergencies as well as routine situations. Your system should also keep you aware that tax moneys, such as payroll income tax deductions, are set aside and paid out at the proper time.

BREAK EVEN. Break-even analysis is a management control device because the break-even point shows about how much you must sell under given conditions in order to just cover your costs with NO profit and NO loss.

In preparing to start or expand a manufacturing business you should determine at what approximate level of sales a new product will pay for itself and begin to bring in a profit.

Profit depends on sales volume, selling price, and costs. So, to figure your break-even point, first separate your fixed costs, such as rent or depreciation allowance, from your variable costs per unit, such as direct labor and materials.

The formula is

$$\text{break-even volume} = \frac{\text{total fixed costs}}{\text{selling price} - \text{variable cost per unit}}$$

For example, Ajax Plastics has determined its fixed costs to be \$100,000 and variable costs to be \$50 per unit. If the selling price per unit is \$100, then Ajax's break-even volume is

$$\text{break-even volume} = \frac{\$100,000}{\$100 - \$50} = 2000 \text{ units}$$

On page 9 of this *Aid* you estimated your expected sales for each product and total sales. In the space below, compute the break-even point for each.

Product 1: _____ Product 2: _____ Total Sales: _____

For additional information on break-even points, see SBMS No. 15,
A Handbook of Small Business Finance in "For Further Information," page 23 of this *Aid*.

KEEPING YOUR PLAN UP TO DATE

The best made business plan gets out of date because conditions change. Sometimes the change is within your company, for example, several of your skilled operators quit their jobs. Sometimes the change is with customers. Their desires and tastes shift. For example, a new idea can sweep the country in 6 months and die overnight. Sometimes the change is technological as when new raw materials and components are put on the market.

In order to adjust a business plan to account for such changes, an owner-manager must:

(1) Be alert to the changes that come about in his company, in his industry, in his market, and in his community.

(2) Check his plan against these changes.

(3) Determine what revisions, if any, are needed in his plan.

You may be able to delegate parts of this work. For example, you might assign your shop foreman the task of watching for technical changes as reported in trade journals for your industry. Or you might expect your sales manager to keep you abreast of significant changes that occur in your markets.

But you cannot delegate the hardest part of this work. You cannot delegate the decisions as to what revisions will be made in your plan. As owner-manager you have to make those judgments on an on-going basis.

When judgments are wrong, cut your losses as soon as possible and learn from the experience. The mental anguish caused by wrong judgments is part of the price you pay for being your own boss. You get your rewards from the satisfaction and profits that result from correct judgments.

Sometimes, serious problems can be anticipated and a course of action planned. For example, what if sales are 25 percent lower than you anticipated, or costs are 10 percent higher? You have prepared what you consider a reasonable budget. It might be a good idea to prepare a "problem budget," based on either lower sales, higher costs, or a combination of the two.

You will also have to exercise caution if your sales are higher than you anticipated. The growth in sales may only be temporary. Plan your expansion. New equipment and additional personnel could prove to be crippling if sales return to their normal level.

Keep in mind that few owner-managers are right 100 percent of the time. They can improve their batting average by operating with a business plan and by keeping that plan up to date.



FOR FURTHER INFORMATION

The following references provide additional information about the various aspects of a business plan. This list is necessarily brief and selective. However, no slight is intended towards authors whose works are not mentioned.

Financial Statements of Small Business. S. B. Costales, 18 Ventura Drive, Danielson, Conn. 06239. \$6.50.

Annual Statement Studies. The Robert Morris Associates, Philadelphia National Bank Building, Philadelphia, Pa. 19107.

Key Business Ratios. Dun & Bradstreet, Inc., 99 Church St., New York, N. Y. 10008 (usually available in local Dun & Bradstreet offices).

Up Your Own Organization. Dible, Donald. 1971. \$14.95. The Entrepreneur Press, Mission Station, Drawer 2759, Santa Clara, Calif. 95051.

Thomas' Register of American Manufacturers. Annual (8 vols. and index). Thomas Publishing Company, 461 Eighth Ave., New York, N. Y. 10001.

OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION

Standards for General Industry. For sale by Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, or a field office of the Occupational Safety and Health Administration.

BUREAU OF THE CENSUS

The Bureau of the Census issues a catalog listing of their many publications. The catalog is issued quarterly, with monthly supplements, available from the Superintendent of Documents, Washington, D. C. 20402. Ask for *Bureau of Census Catalog*. Annual subscription, \$2.25.

(Prices are subject to change.)

SMALL BUSINESS ADMINISTRATION

The following booklets are published by the Small Business Administration. They can be examined in the nearest SBA office or ordered from the Superintendent of Documents, Washington, D. C. 20402.

A Handbook of Small Business Finance. SBMS No. 15, 7th ed. 1965.

Ratio Analysis for Small Business. SBMS No. 20, 3d ed. 1970.

Management Audit for Small Manufacturers. SBMS No. 29, 2d ed. 1971, 65 cents.

The following *Management Aids* and *Small Business Bibliographies* are published by the Small Business Administration and are available free from the nearest SBA office:

"Designing Small Plants for Economy and Flexibility." MA No. 169.

"Numerical Control for the Smaller Manufacturer." MA No. 181.

"Using Census Data in Small Plant Marketing." MA 187.

"Should You Make Or Buy Components?" MA No. 189.

"Delegating Work and Responsibility." MA No. 191.

"What Is The Best Selling Price?" MA No. 193.

"Profile Your Customers To Expand Industrial Sales." MA 192.

"Marketing Planning Guidelines." MA No. 194.

"Are Your Products And Channels Producing Sales?" MA No. 203.

"Keep Pointed Toward Profit." MA No. 206.

"Pointers On Scheduling Production." MA No. 207.

"The Equipment Replacement Decision." MA No. 212.

"Marketing Research Procedures." SBB 9.

"National Directories for Use in Marketing." SBB 13.

Copies of this Aid are available free from field offices and Washington headquarters of the Small Business Administration. Aids may be condensed or reproduced. They may not be altered to imply approval by SBA of any private organization, product, or service. If material is reused, credit to SBA will be appreciated. Use of funds for printing this publication approved by the Office of Management and Budget March 20, 1975.

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Alaska Pacific Bank

Business Trends
Working Papers 1 through 7

Bailey, Donahue, and Kasson

"A Canvass of Attitudes Concerning Alaska's Permanent
Fund"

Battelle

"State and Local Planning Procedures Dealing with
Social and Economic Impacts from Nuclear Power
Plants"

"Legal, Institutional and Political Problems in Pro-
ducing Electric Power from Geothermal Resources in
California"

Earl R. Combs, Inc.

Letter 4/25/77

Belden Daniels

Comments on PF Work Draft

"Thinking about the Alaska Permanent Fund: A Cautious
Approach for Alaskan Policymakers"

"Models and Options for the Alaska Permanent Fund:
Functions, Regionalization and Accountability"

Contracts

Dupere and Associates

Contract

Fidelity Organization

Comments on Work Draft

Milton Friedman

"Israel's Other War"

"Fair Versus Free"

Transcript from 6/9/77 Meeting

"Where Carter is Going Wrong"

John Galbraith

Letter 8/12/77

Kidder, Peabody & Company

"Investment Management for Alaska's Second Decade"

Stock Notes

A. D. Little

Proposal

"Qualifications and Related Experience"

McKinsey & Company

"Challenge of the Permanent and Renewable Resource Funds"

"The Statsforetag Story"

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The Firm and Its Practice

Manufacturers Hanover Trust

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Financial Digest

Business Report

Presentation to Permanent Fund

Massachusetts Science and Technology Foundation
Final Report

Morgan Guaranty
Prospectus

Northrim Associates
Prospectus

PIE West
PIE West Outlook

Potential Consultants
Robert Blixt

Price Waterhouse
Contract
"Working Guide for Audit Committee Members"
"Board of Directors and the Independent Accountant"
Outline of Consultancy
Report for SIAC Meeting
Report on Organization, Management and Control of
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Rowan Group, Inc.
Public Participation in the Surplus Wealth Question
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12/16 & 17/76, 1/6/77

Survey--White Weld

Transcripts: 11/5 & 6/76, 10/13/76

Barry Stein

"Social Multiplier Effects in Community Economic
Development"

"How Successful are CDC's?"

"Local Economic Development"

"Decentralizing American Economy"

Resume'

Statement 12/2/75

"Community Context of Economic Conversion"

Lester Thurow

"The Myth of the American Economy"

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Arlon Tussing

"The Role of Public Enterprise"

"Economic Considerations in Establishment of Alaska's
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VITA

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CETA

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State Loan Programs and the Permanent Fund

The Alaskan Economy

Community Renewable Resource Center

Development and Planning in Alaska

An Economic Program for the Coming Decade

Proposal: Examination of the Consequences of Alternative
Investments of the Permanent Fund

Focus North

Government Growth Crowds Out Investment

How to Spend the Next Billion Dollar Windfall

IBA--5-Year Report

Investing State Funds

Department of Labor

Alaska Economic Trends

Alaska State Manpower Review

Alaska Economic Outlook

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Alaska Labor Force Estimates by Industry and Area

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Quebec Industrial Development Assistance Act

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Tourism: Community Profiles

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Activity--HPF Interim

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A Discussion of Issues

Alaska's Growth and Future Choices

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Second Annual Report

Alaska Municipal League

Policy Statement

Alaska Native Claims Settlement Act

Municipal Lands Trust Program

Alaska Native Management Report

Alaska Petrochemical Company

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Alaska Power Authority

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Permanent Fund Work Program

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Involvement in Permanent Fund Legislation

Alaska Forum Issue Development

Thought Paper on Permanent Fund

Annual Report

Economic Analysis

Energy

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Environmental Impact--Gas Transportation
Public Hearings Announcement

Fiscal Tools

Fund Projections

Gardiner Memos

Goals and Objectives

Gross Brookings Institute

Habitat North

Scope of Services

Haggart Memos

Hammond and Office Memos

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House Work Plan

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Jim Rhode

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Permanent Fund & Growth of Alaskan Economy

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MANAGEMENT ASSISTANCE



**U.S. Small Business
Administration**

INTRODUCTION

The SBA management assistance programs are keyed to furthering the establishment, growth and success of small businesses. The need for this assistance is pointed up by failures that occur in the small business community every year.

It is estimated that managerial deficiencies cause 9 out of 10 business failures. This represents a tremendous loss to the nation's economy. Many of these business failures probably could have been avoided had the owners received management assistance in time.

A major objective of the SBA is to remedy this situation. Through the facilities of the Office of Management Assistance, SBA works to improve and strengthen the management capabilities of small business men and women.

This pamphlet briefly describes various SBA management assistance services. For additional information, please call or write the SBA office near you. A Management Assistance Officer will be there to counsel you. A complete listing of SBA field offices is at the end of this pamphlet. For the exact address, see the U.S. Small Business Administration in your local telephone directory under United States Government.

Small business owners today must understand and use modern methods if they expect to compete successfully. More and more, they are becoming aware of this need and are seeking out the information and counsel which will help them improve their management skills and productivity.

SBA identifies management problems, develops alternate solutions and helps implement and expand business plans through the Management Assistance Officers who staff the Agency's counseling program. In addition to these professionals, SBA relies heavily on national volunteer organizations such as SCORE (Service Corps of Retired Executives) and ACE (Active Corps of Executives) for individual counseling.

Counseling on problems of marketing, accounting, product analysis, production methods, research and development is given in SBA field offices. Advice and training are also offered at no charge to people considering going into business on their own.

Moreover, SBA constantly urges private sector organizations to serve the small business community. An example of such advocacy is the University Business Development Center.



THE SMALL BUSINESS INSTITUTE

SBA's newest management assistance resource is the Small Business Institute (SBI). With the cooperation of faculty, senior and graduate students of nearly 400 of the nation's leading schools of business, extended personal counseling is being given to small business owners at no charge.

In a few short years, the program has already been of practical assistance to small business and has given valuable "real life" experience to the student-counselors, improved college-community relations, and saved some businesses from almost certain bankruptcy.

Although participation in the SBI Program is primarily for SBA clients (loan recipients and holders of 8(a) contracts) in most localities, business owners who are interested in availing themselves of this service should contact the Management Assistance Officer in their nearest SBA office. He will be able to determine their eligibility.

SCORE®

(Service Corps of Retired Executives)

SCORE is an organization of over 6,000 retired business executives—both men and women—who volunteer their services to help small business owners solve their problems. The collective experience of these SCORE volunteers spans the full range of American enterprise.

Assigned SCORE counselors visit the owners in their places of business. Through careful observation, an analysis is made of each business and its problems. On a complex problem, other volunteer experts may be asked to assist. Finally, a plan is offered to correct the trouble and help the owner through the critical period. This service is provided at no cost to the small business owner.

ACE (Active Corps of Executives) augments SCORE's services and keeps management counseling on a continually updated basis. Its members are active executives from all major industries, professional and trade associations, educational institutions, and many of the professions. Over 2,500 ACE members throughout the country volunteer their specialized kinds of expertise, not usually found in every SCORE chapter.

THE CALL CONTRACTING PROGRAM

The Call Contracting (formerly 406) Program provides management and technical assistance to firms and individuals qualifying under Section 7 (i) and 7 (j) of the Small Business Act, as amended in 1974. It also allows SBA to initiate and maintain this counseling service for small firms as required. The assistance provided ranges from such categories as Junior and Senior Accounting to Complex Engineering and Electronics, according to the specific needs of the individual recipient, and is offered without charge.

The professional consultants who provide this assistance must meet strict standards and are selected through competitive bidding, or careful negotiation. At least one of these contractors is located in each of SBA's ten regions, and some regions have several.

To determine eligibility for the Call Contracting Program, either as a recipient of the counseling assistance, or as a consultant, contact the Management Assistance Officer at your nearest U.S. Small Business Administration office.

INTERNATIONAL TRADE

The SBA works closely with the Department of Commerce, Eximbank, Overseas Private Investment Corp., and other governmental and private agencies to provide small business with assistance and information on export opportunities. The underlying purpose is to increase small business participation in international trade. Increased emphasis is being given to this aspect.

MANAGEMENT TRAINING

To reach the greatest possible number in the small business community, SBA co-sponsors management training with universities, colleges, distributive education units, trade and professional associations, chambers of commerce, and local business organizations. In some communities, management training is also offered over commercial and educational TV stations.

To meet local small business needs, SBA's management training program encompasses four types of training for present and prospective small business owners: courses, conferences, problem clinics, and pre-business workshops.

Courses

Management courses provide classroom training on a variety of management subjects. Courses may be general surveys of 8 to 10 different areas of business management or a series of in-depth sessions on a single subject. Instructors are drawn from teaching staffs of educational institutions or from professionals such as management consultants, bankers, lawyers, accountants and others who have teaching ability in addition to expertise in a particular subject.

Instructors are selected and paid by the co-sponsoring organizations. The owner-student is usually charged only a nominal fee to cover expenses.

Conferences

A conference is usually a one-day or one-evening session (though frequently parts of two or three days) for a group of 50 to 100, and it covers a single management subject. A conference normally features speakers, panel discussions, question-and-answer periods, and work sessions.

Problem Clinics

In a problem clinic, small groups of owner-managers under the guidance of a leader or moderator give intense, in-depth treatment to a single subject.

Much of the discussion here comes from the participants' own knowledge and experience. SBA and its co-sponsors act as catalysts to bring together people with interest in a common problem, such as expanding marketing areas, crime prevention, or personnel training in specific types of business.

Prebusiness Workshops

Prebusiness workshops are designed for persons who are interested in operating their own business or those who have been in business for a year or less. They may be one day sessions or a series of evening meetings totalling six to eight hours.

The purpose of the workshops is to help prospective owner-managers make a careful analysis of what is involved in starting and managing a small business. Workshops are designed to deal with the fundamentals of good management applicable to any type of business. They are not



Are you thinking of going into a business of your own?

intended to provide in-depth training; but, rather, constitute a management orientation and a guide toward preparation by prospective owners before a business is started.

Training Materials

SBA makes available a variety of materials for its co-sponsored management training programs. Some of them are: prebusiness workshop package, instructors manuals, 16mm sound/color movies, transparencies for overhead projection, and a "Guidebook for Coordinators of Management Training for Small Business." This booklet provides detailed information to help co-sponsors plan, promote, and implement small business management training programs in cooperation with SBA.

UNIVERSITY BUSINESS DEVELOPMENT CENTER

The University Business Development Center (UBDC) is example of SBA's urging private sector organizations to seek new ways to serve the small business community. UBDC is designed to draw together the total resources—including faculty and students—of a university and to make these resources available to new and existing small businesses. Other government agencies which have pertinent campus programs and additional volunteers from the private



sector are also part of the UBDC program. Although the UBDC started as a pilot program in 1976, if there is a university near you, check your nearest SBA office. There may be a UBDC in your area.

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