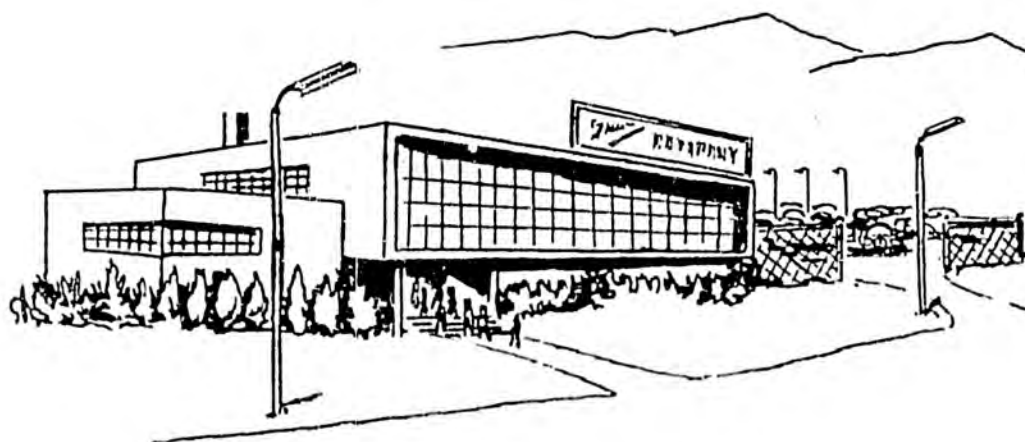


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LOANS TO Local Development Companies



SBA Help in:

*Financing Plant Construction,
Conversion or Expansion,
For Local Community
Economic Development*



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

KEY FEATURES

OF SBA'S LOCAL DEVELOPMENT COMPANY LOAN PROGRAM

| | |
|-----------------------------|---|
| <p>WHO IS ELIGIBLE?</p> | <p>Any corporation which (a) is formed by public-spirited citizens interested in the planned economic growth of a community with at least 75 percent ownership and control held by persons living or doing business in the community, (b) has been incorporated either for profit or non-profit under laws of the State in which it expects to do business (c) is authorized to promote and assist the growth and development of small businesses in its area of operations and (d) has a minimum of 25 stockholders or members.</p> |
| <p>LOAN PURPOSES</p> | <p>To help a development company buy land; build a new factory; acquire machinery and equipment; expand or convert an existing plant, or construct shopping center space, provided the project will assist a specific small business, or in the case of a shopping center, several small businesses.</p> |
| <p>MAXIMUM AMOUNT</p> | <p>\$250,000 ^{500,000} for each identifiable small business to be assisted . . . as a prerequisite to obtaining SBA financing, a development company must provide a reasonable share of cost of project in funds raised by sale of stock, debentures, memberships, or cash equivalent (e.g., land). Minimum amount to be provided by development company will generally be 20 percent of cost of project. SBA will take a second lien position when the local lending institutions will participate in the SBA's first mortgage plan.</p> |
| <p>SOURCE OF LOAN FUNDS</p> | <p>(a) Bank loan guaranteed by SBA to 90 percent of the loan or \$250,000 whichever is the lesser; (b) Bank loan with immediate participation by SBA; (c) Bank First Mortgage loan and SBA direct second mortgage loan; or (d) Direct from SBA.</p> |
| <p>INTEREST RATE</p> | <p>(a) Guaranteed loans: legal and reasonable rate on entire loan balance; (b) Immediate participation: legal and reasonable rate on bank share and 5½ percent on SBA share; (c) First mortgage: legal and reasonable rate on bank loan, 5½ percent on SBA loan; (d) Direct SBA loan: 5½ percent.</p> |
| <p>MATURITY</p> | <p>Maximum maturity of 25 years plus estimated time required to complete construction, conversion or expansion.</p> |
| <p>TYPE OF COLLATERAL</p> | <p>A lien on the fixed assets acquired with loan proceeds to reasonably assure repayment of the loan.</p> |

FOREWORD

Throughout America, communities are learning that they can increase local job opportunities, income, and tax revenues by helping business concerns modernize, diversify, or expand their operations, and by encouraging new businesses. In many instances, assistance is provided through the medium of local development companies.

Since most of the concerns assisted by these development companies are small, the U. S. Small Business Administration (under authority granted by Congress) can lend funds to local development companies for use in financing specific small firms. These loans are made by SBA under Section 502 of the Small Business Investment Act of 1958, as amended.

This booklet will provide guidance for many communities in achieving greater economic growth. The U. S. Small Business Administration stands ready to give all possible help through its programs of development company loans and many other services it makes available directly to the country's 5¼ million small businesses.

Capital for Community Growth

Under Section 502 of the Small Business Investment Act of 1958, as amended, the Small Business Administration is authorized to make loans to State and local development companies for use in assisting specific small businesses. The SBA may lend up to ~~\$750,000~~^{\$500,000} for each small business that is to be assisted. Loans may be used to help small firms to construct, modernize, or expand their plants, and to develop industrial parks and shopping centers.

The SBA has made thousands of loans through which local and State development companies have been able to help start, expand, or modernize small businesses. If yours is a community or area in which a development company has been organized, the company may be able to expand its operations by securing Section 502 loans from SBA.

Who May Get An SBA Development Company Loan?

The SBA may make Section 502 loans to a State or local development company of either a profit or nonprofit type, provided the company has as its principal purpose the furtherance of economic development (Statewide for State development companies, and in a specific area for local companies), and provided the company is authorized to assist in the growth and development of small business.

A State development company is defined by SBA as a corporation organized by special legislative act to operate on a Statewide basis. A local development company is defined as one organized under applicable State corporation law to operate in a specific area. Although this is usually a community or even a county, SBA may approve loans to development companies which operate in larger areas.

State development companies, organized by special State law which prescribes membership by State residents or lending institutions of the chartering State, require no further resident qualification by SBA.

In the case of a local development company, SBA requires that the ownership and control be vested in individuals who reside or do business in the specified area of operations, since the organization should be a community undertaking. The area must be specifically defined and the local or area ownership and control must be not less than 75 percent of the total. No more than 25 percent of the ownership or control of the development company may be held by (a) a single individual or his affiliates if he and his affiliates have a pecuniary interest in the project to be developed (as for example, the contractor who will construct the buildings) or (b) by the holder of any interest in the small business being assisted.

Loan Purposes and Eligibility

The SBA's Section 502 loans may be used to finance construction, modernization, or conversion of plants, including the purchase of land, and to purchase machinery and equipment. These loans may not be used for working capital or for debt repayment, except interim debt incurred for construction of the project involved.

The small business to be aided must be an identifiable concern and the loan must be for a sound business purpose. For loan eligibility purposes, a small business is defined as one that is (1) independently owned and operated, (2) not dominant in its field of operations, and (3) is within the pertinent SBA size standards. A business may be considered small if it has 250 employees or less, large if it employs 1,500 or more, and, within that range may be considered either small or large depending on the SBA size standard applicable to its particular field of operations. There is an alternative size standard. Regardless of number of employees, a business, together with its affiliates, may qualify if its assets do not exceed \$7½ million; its net worth does not exceed \$2½ million; and its average net income, after Federal income taxes, for the preceding two years did not exceed \$250,000. (Average net income to be computed without benefit of any carryover loss.)

Conditions of SBA Development Loans

A Section 502 loan may not be made by SBA if the funds the development company requests are available from the banks or other private lenders. In applying for a loan, the development company must produce certified evidence that the requested funds are not available from private sources.

To the extent that private sources such as banks do have funds available, they may, and frequently do, participate with SBA in helping development companies finance projects.

A development company itself generally is required to provide from its own funds at least 20 percent of the cost of a project, and in any event not less than the amount by which the project cost exceeds the appraised market value. The development company should be prepared to expend these funds before using any proceeds of the SBA loan.

The SBA may take part in financing projects in which space is taken by large businesses as well as small—for example, industrial parks and shopping centers. However, SBA funds may be used only for developing spaces which will be occupied by identifiable small businesses. Applications for SBA loans must clearly identify the spaces for whose development the SBA funds will be used.

Security

All Section 502 loans must be so secured as reasonably to assure repayment. The SBA must be satisfied that all property and rights available as collateral security for a loan are of such a character and value as reasonably to assure repayment of the loan. In the case of each loan application, market value of the physical assets of the project will be established by a qualified appraiser. Collateral in shopping center and industrial park loans may consist of separate mortgages covering each of the multiple premises or a blanket mortgage on the entire facility. In addition to mortgages, lease assignments, or other supplemental collateral, including personal guarantees from the principal owners of the small business being assisted, may be required.

Interest Rate

The interest rate on SBA's share of a loan is ^{7 1/4}~~8 1/2~~ percent yearly.

Banks and other lenders who participate with SBA in loans may charge a reasonable, legal rate on their share. Maximum interest rates on loans to which the SBA guarantee may be extended are published quarterly and are available at all SBA field offices.

Loan Maturities and Repayment

SBA loan maturities may not exceed 25 years plus the estimated time required to complete the plant construction, conversion, or expansion. Loan maturities are based, in general, on ability to repay, along with the nature and estimated useful life of the collateral offered as security for the loan. Repayments of principal are normally made in equal monthly installments, but in certain cases quarterly or seasonal payments may be authorized. Monthly payments of interest on the unpaid principal balance are required regardless of the amortization schedule authorized for the loan principal.

How to Qualify for an SBA Development Loan

SBA 502 loans are approved only after demonstration that the proceeds will be used for plant construction, conversion, expansion, or for land acquisition, and that the user of the facility will be an identifiable small business concern. Copies of contracts or agreements between the development company and the small business for use of the facility are acceptable evidence of the concern's identity. Contracts involving leases must provide that the small business lessee be given the right to occupy the facility either for the term of the loan or for a period of five years after its disbursement, whichever is the longer time.

The development company may contract for a small business concern's use of a facility by any of the following methods:

1. By leasing the facility to the small business with option to buy, the rental payments being accepted as installment-purchase payments.
2. By leasing the facility to the small business, without option to buy, but for the period the SBA regulations require.
3. By lending the small business funds with which it constructs the facility and by accepting the firm's promissory note, with the firm obtaining clear ownership when the note is paid.
4. By selling to the small business the completed facility.

Income received by the development company under any of the above arrangements must be no greater than necessary to repay the SBA/bank loans with interest; to pay taxes and maintenance charges; to recover administrative costs and provide a reasonable reserve for contingencies; and to recover the development company's own capital and expenditures with a reasonable return thereon, in order to attract and maintain a broad base of local ownership and stimulate interest in development projects.

How to Apply for a Development Loan

Before applying for an SBA 502 loan, the local development company should first ascertain whether its bank or another lending institution will provide the needed financing, either alone or in participation with SBA. This participation can be immediate as to a portion of the loan, or a private lender can advance the entire amount of a Section 502 loan and SBA will guarantee up to \$350,000 or 90 percent of the loan, whichever is less.

If the private institutions will not lend the entire amount or participate with SBA in providing it, SBA will consider making a direct loan to the development company. To qualify for a direct loan, the development company must submit statements from at least two lending institutions stating that they have declined to lend or to participate in a loan for the requested amount.

The nearest SBA field office will be pleased to provide the necessary forms and advice and counsel on financial problems in connection with Section 502 loan applications.

Relocation Loans

Where the small firm to be assisted is relocating any of its operations from another area, the development company, before applying for the SBA loan, must obtain from a qualified officer of the small firm a certified statement that the move will not substantially increase unemployment in the firm's present area. Substantial unemployment is presumed to occur (a) when the relocation will result in unemployment for one-third of the work force of the small business; (b) when the relocation will cause the area to be classified as an area of substantial unemployment; or (c) when the area already has been classified as one of substantial unemployment or designated as a redevelopment area.

On projects involving relocation for a sound business purpose, one of the small firm's qualified officers must certify that none of the foregoing conditions exists or will result from the relocation. If the firm is expanding, the certification should attest that the firm has no present intention of relocating existing operations elsewhere.

Ineligible Purposes

SBA loans may not be used to assist nonprofit institutions, newspapers, magazines, radio broadcasting or television broadcasting companies; businesses which are primarily engaged in lending or investment; businesses which derive any of their income from gambling.

The agency also will not make a loan if the effect is to provide or free funds for speculation, to encourage monopoly, or to achieve any result that is inconsistent with the accepted standards of the American system of free competitive enterprise.

Fund Raising and Loan Sources for Local Development Companies

I. Sale of LDC capital stock, memberships, and/or debt securities (debentures, deferred notes) to local residents and other interested individuals and businessmen in the community.

II. Loans obtained by the LDC from banks, insurance companies, private lenders, and others. Frequently, these loans are secured by the personal endorsement of the principals of the LDC or other stockholders or members.

III. Contributions and gifts from individuals, businesses, cities, counties, and other public bodies.

- (a) *Personal bank loans by members of the LDC for relending to the LDC.*
- (b) *Gifts in cash or kind (i.e., land) from wealthy residents in the LDC area of operations.*
- (c) *Donations of land and land improvements (i.e., paved access roads, sewer and water lines) by the local town, city, county, or other public body.*

IV. Grants or gifts from private charitable foundations, Federal or State agencies.

- (a) *A list of private charitable foundations is usually available in local public libraries. These tax-exempt organizations are too numerous to list and include, in addition to the Rockefeller and Ford Foundations, hundreds of others. Those listed in or near an LDC's area of operation should be contacted.*
- (b) *Grant funds are sometimes available from Federal agencies for community development purposes with "no strings" attached. Those include the Economic Development Administration and other U.S. Department of Commerce sources, the Office of Economic Opportunity, Model Cities, and Urban Renewal of the Department of Housing and Urban Development, and others.*

V. State lending authorities.

- (a) *Some State lending authorities, such as the New York Job Development Authority, the Pennsylvania Industrial Development Authority, and State development companies can make direct loans to LDC's. The proceeds of these loans can be used for the LDC injection and for other project costs as well.*
- (b) *Other State lending authorities make loans to LDC's for an amount equal to a fixed percentage of the total project cost. Consideration can sometimes be given to the use of these funds as a part or all of the LDC injection.*

VI. National business and social organizations such as:

- (a) *Local chambers of commerce or boards of trade*
- (b) *National Business League*
- (c) *National Urban League*
- (d) *State industrial development and planning agencies*
- (e) *Indian tribal councils*
- (f) *The Puerto Rico Forum*

These organizations usually are not good sources for contributions or loan funds due to limited resources. However, they are knowledgeable in fund raising procedures and can provide valuable assistance to an LDC in conducting a successful fund raising campaign.

VII. Local newspapers, radio and television stations.

- (a) *The intelligent use of news media is vital in any fund raising campaign and usually can be utilized at no cost to the LDC on the basis that the media is performing a public service.*

VIII. Religious, educational (State universities), civic, economic development groups, trade and professional organizations, and unions.

Community interest can be further stimulated by involving organizations of this type in the efforts of the local development company to further the economic development of the community. They can assist in publicizing a fund raising campaign, engage in project research and feasibility studies, and, in general, help to sell the project to the community.

SUMMARY

The Small Business Administration entered the field of area development in a significant way during the past decade, pursuant to the enactment of the Small Business Investment Act of 1958, as amended. This special Act of Congress authorized SBA to make loans to State and local development companies as a means to stimulate the national economy in general and the small business segment thereof in particular. It was intended that Federal funds provided by these programs would supplement the flow of private equity capital and long-term loan funds which small business concerns need for continued growth, expansion, and modernization; funds which were not available in adequate supply due to the reluctance of private financing sources to properly service this segment of the Nation's business.

In many areas, assistance is now being provided through privately-supported local development companies which are oftentimes organized by local chambers of commerce, committees of 100, or simply a group of local, public-spirited citizens who have a sincere interest in furthering the economic development of their community. This kind of organization has grown fastest in areas of limited commercial and industrial development where it is difficult to obtain sufficient funds from private sources to support an adequate program. Quite often, the local banker will assist in spearheading the formation of a local development company in order that he can bring together the resources of business, industry, local, State, and the Federal Government to jointly develop the economic potential of his community.

What is the nature of this SBA program? It is an economic development program, not just another Government loan program. It is a program that works exclusively through a local development corporation made up of local citizens whose primary purpose is to improve their local economy. To become eligible for this kind of loan, these citizens must put up their own personal dollars and, as a corporation, assume the full liability for any project they sponsor. Community interest, not profit, is the motivating force. Many of these corporations are nonprofit; those which are profit corporations are limited in the profit they can earn on their investment to prevailing interest rates, and the personal dollars these citizens invest are subordinate in lien position to the loans of all other lenders comprising the total project funds.

What motivates U.S. citizens to unite in organizations to undertake development programs? Each citizen is probably influenced by a slightly different combination of factors, but principal considerations often include:

1. Creation of Job Opportunities. Most U.S. area development programs are job-oriented, especially in rural sections. Parents are anxious to generate opportunities for their children near home, so that the young people will not have to move to another region to find employment. Citizens of all ages want better jobs for greater personal purchasing power and security. Unemployment breeds political discontent and puts pressure on the Government to expedite development efforts.

2. Expansion of Tax Base. In recent years many development efforts have been stimulated by the need for additional tax revenue to pay for Governmental services and social benefits. Individual homeowners, as well as other interests in an area, may see the need for attracting new investment which will share the tax burden.

3. Indirectly Stimulating Private Business. Many business firms which support development efforts do so in the realization that expansion of industrial activity will produce expansion of the local economy and open new opportunities for them. Hence, hotel owners support tourism efforts; railroads actively promote industries which have heavy freight movements; and utility firms encourage development which will mean greater utilization of energy.

It should be emphasized that a common denominator among successful development efforts is the willingness of the citizens and business firms of the area to place the public interest before any personal or private interest. Public-spirited individuals and business firms thus provide a good portion of the funds used by local development organizations in the United States.

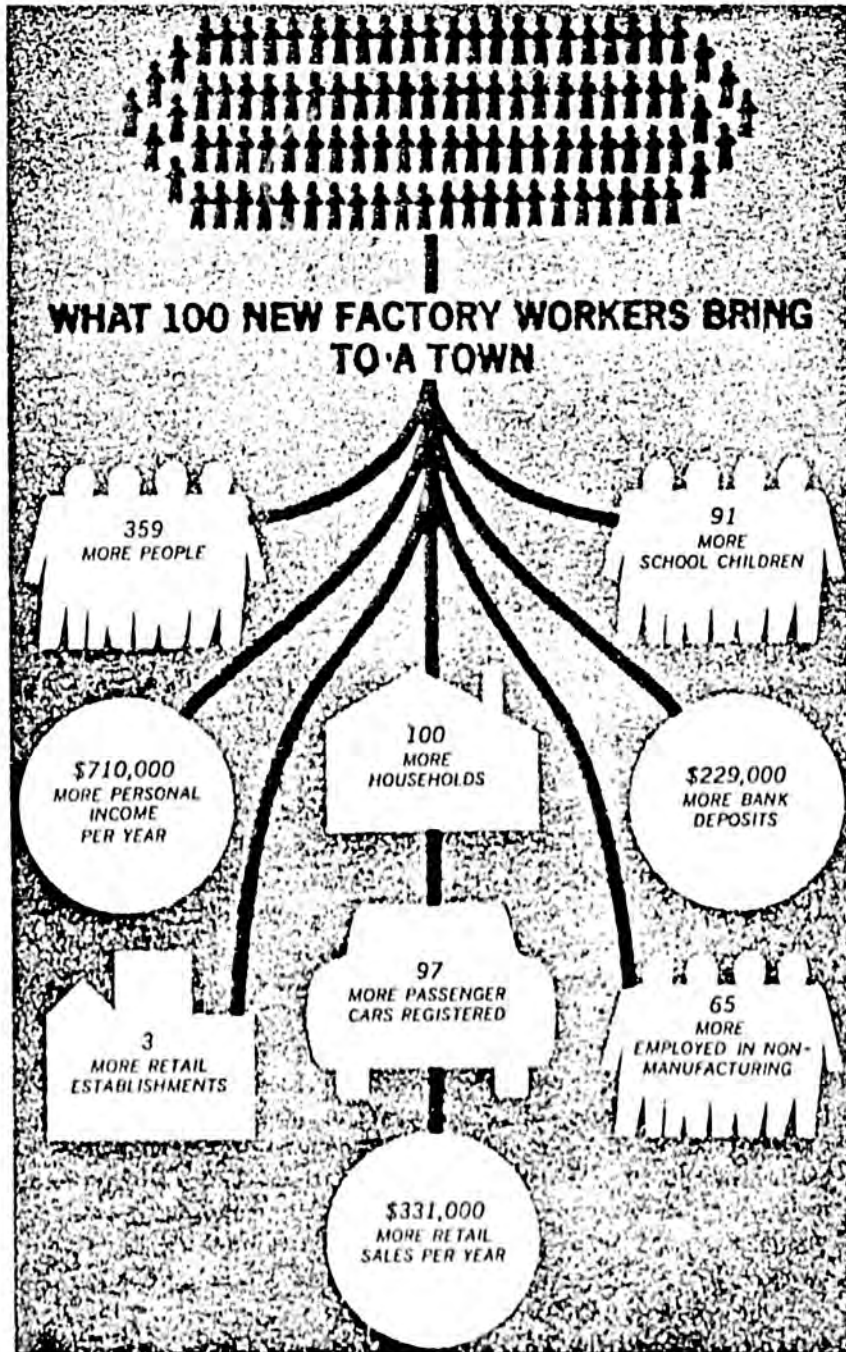
Through the Local Development Company Loan Program, SBA has helped cities and towns across the Nation to build a better and brighter future. It can do the same for your own community, if your community leaders will study the development company loan program, will determine how it can best serve their people, and will act promptly to take full advantage of it.

FOR DETAILED INFORMATION ABOUT THE
LOCAL DEVELOPMENT COMPANY LOAN PROGRAM

Write, visit or telephone the nearest SBA field office. These offices are located in the following cities:

| | | |
|----------------------|-------------------------------|-----------------------|
| Agana, Guam | Fairbanks, Alaska | Minneapolis, Minn. |
| Albany, N.Y. | Fargo, N. Dak. | Montpelier, Vt. |
| Albuquerque, N. Mex. | Fresno, Calif. | Nashville, Tenn. |
| Anchorage, Alaska | Gulfport, Miss. | Newark, N.J. |
| Atlanta, Ga. | Hartford, Conn. | New Orleans, La. |
| Augusta, Me. | Hato Rey, P.R. | New York, N.Y. |
| Baltimore, Md. | Helena, Mont. | Oklahoma City, Okla. |
| Birmingham, Ala. | Holyoke, Mass. | Omaha, Nebr. |
| Boise, Idaho | Honolulu, Hawaii | Philadelphia, Pa. |
| Boston, Mass. | Houston, Tex. | Phoenix, Ariz. |
| Buffalo, N.Y. | Indianapolis, Ind. | Pittsburgh, Pa. |
| Casper, Wyo. | Jackson, Miss. | Portland, Ore. |
| Charleston, W. Va. | Jacksonville, Fla. | Providence, R.I. |
| Charlotte, N.C. | Kansas City, Mo. | Richmond, Va. |
| Chicago, Ill. | Knoxville, Tenn. | Rochester, N.Y. |
| Cincinnati, Ohio | Las Cruces, N. Mex. | St. Louis, Mo. |
| Clarksburg, W. Va. | Las Vegas, Nev. | Salt Lake City, Utah |
| Cleveland, Ohio | Little Rock, Ark. | San Antonio, Tex. |
| Columbia, S.C. | Los Angeles, Calif. | San Diego, Calif. |
| Columbus, Ohio | Louisville, Ky. | San Francisco, Calif. |
| Concord, N.H. | Lower Rio Grande Valley, Tex. | Seattle, Wn. |
| Corpus Christi, Tex. | Lubbock, Tex. | Sioux Falls, S.D. |
| Dallas, Tex. | Madison, Wisc. | Spokane, Wn. |
| Denver, Colo. | Marquette, Mich. | Springfield, Ill. |
| Des Moines, Iowa | Marshall, Tex. | Syracuse, N.Y. |
| Detroit, Mich. | Memphis, Tenn. | Tampa, Fla. |
| Eau Claire, Wisc. | Miami, Fla. | Washington, D.C. |
| El Paso, Tex. | Milwaukee, Wisc. | Wichita, Kan. |
| | | Wilmington, Del. |

WHAT NEW INDUSTRIAL JOBS MEAN TO A COMMUNITY!



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SMA

SMALL MARKETERS AID No. 71
SMALL BUSINESS ADMINISTRATION

WASHINGTON D.C.



CHECKLIST

for going into business

Thinking of starting a business?
Ask yourself these questions.

You want to own and manage your own business. It's a good idea—provided you know what it takes and have what it takes.

Starting a business is risky at best. But your chances of making it go will be better if you understand the problems you'll meet and work out as many of them as you can before you start.

Here are some questions to help you think through what you need to know and do. Check each question if the answer is YES. Where the answer is NO, you have some work to do.

BEFORE YOU START

How about YOU?

Are you the kind of person who can get a business started and make it go? (Before you answer this question, use the worksheet on pages 4 and 5.) _____

Think about *why* you want to own your own business. Do you want to badly enough to keep you working long hours without knowing how much money you'll end up with? _____

Have you worked in a business like the one you want to start? _____

Have you worked for someone else as a foreman or manager? _____

Have you had any business training in school? _____

Have you saved any money? _____

How about the money?

Do you know how much money you will need to get your business started? (Use worksheets 2 and 3 on pages 6 and 12 to figure this out.) _____

Have you counted up how much money of your own you can put into the business? _____

Do you know how much credit you can get from your suppliers—the people you will buy from? _____

Do you know where you can borrow the rest of the money you need to start your business? _____

Have you figured out what net income per year you expect to get from the business? Count your salary and your profit on the money you put into the business. _____

Can you live on less than this so that you can use some of it to help your business grow? _____

Have you talked to a banker about your plans? _____

How about a partner

If you need a partner with money or know-how that you don't have, do you know someone who will fit—someone you can get along with? _____

Do you know the good and bad points about going it alone, having a partner, and incorporating your business? _____

Have you talked to a lawyer about it? _____

How about your customers?

Do most businesses in your community seem to be doing well? _____

Have you tried to find out whether stores like the one you want to open are doing well in your community and in the rest of the country? _____

Do you know what kind of people will want to buy what you plan to sell? _____

Do people like that live in the area where you want to open your store? _____

Do they need a store like yours? _____

If not, have you thought about opening a different kind of store or going to another neighborhood? _____

(More questions on page 8)

WORKSHEET NO. 1

Under each question, check the answer that says what you feel or comes closest to it. Be honest with yourself.

Are you a self-starter?

- I do things on my own. Nobody has to tell me to get going.
- If someone gets me started, I keep going all right.
- Easy does it, man. I don't put myself out until I have to.

How do you feel about other people?

- I like people. I can get along with just about anybody.
- I have plenty of friends—I don't need anyone else.
- Most people bug me.

Can you lead others?

- I can get most people to go along when I start something.
- I can give the orders if someone tells me what we should do.
- I let someone else get things moving. Then I go along if I feel like it.

Can you take responsibility?

- I like to take charge of things and see them through.
- I'll take over if I have to, but I'd rather let someone else be responsible.
- There's always some eager beaver around wanting to show how smart he is. I say let him.

How good an organizer are you?

- I like to have a plan before I start. I'm usually the one to get things lined up when the gang wants to do something.
- I do all right unless things get too goofed up. Then I cop out.
- You get all set and then something comes along and blows the whole bag. So I just take things as they come.

How good a worker are you?

- I can keep going as long as I need to. I don't mind working hard for something I want.
- I'll work hard for a while, but when I've had enough, that's it, man!
- I can't see that hard work gets you anywhere.

Can you make decisions?

- I can make up my mind in a hurry if I have to. It usually turns out O.K., too.
- I can if I have plenty of time. If I have to make up my mind fast, I think later I should have decided the other way.
- I don't like to be the one who has to decide things. I'd probably blow it.

Can people trust what you say?

- You bet they can. I don't say things I don't mean.
- I try to be on the level most of the time, but sometimes I just say what's easiest.
- What's the sweat if the other fellow doesn't know the difference?

Can you stick with it?

- If I make up my mind to do something, I don't let *anything* stop me.
- I usually finish what I start—if it doesn't get fouled up.
- If it doesn't go right away, I turn off. Why beat your brains out?

How good is your health?

- Man, I *never* run down!
- I have enough energy for most things I want to do.
- I run out of juice sooner than most of my friends seem to.

Now count the checks you made.

How many checks are there beside the *first* answer to each question? _____

How many checks are there beside the *second* answer to each question? _____

How many checks are there beside the *third* answer to each question? _____

If most of your checks are beside the first answers, you probably have what it takes to run a business. If not, you're likely to have more trouble than you can handle by yourself. Better find a partner who is strong on the points you're weak on. If many checks are beside the third answer, not even a good partner will be able to shore you up.

Now go back and answer the first question on page 2.

WORKSHEET NO. 2

| ESTIMATED MONTHLY EXPENSES | | | |
|----------------------------------|---|----------|---------------------------------------|
| Item | Your estimate of monthly expenses based on sales of \$ _____ per year | | |
| | Column 1 | Column 2 | Column 3 |
| Salary of owner-manager | \$ _____ | \$ _____ | 2 times column 1 |
| All other salaries and wages | | | 3 times column 1 |
| Rent | | | 3 times column 1 |
| Advertising | | | 3 times column 1 |
| Delivery expense | | | 3 times column 1 |
| Supplies | | | 3 times column 1 |
| Telephone and telegraph | | | 3 times column 1 |
| Other utilities | | | 3 times column 1 |
| Insurance | | | Payment required by insurance company |
| Taxes, including Social Security | | | 4 times column 1 |
| Interest | | | 3 times column 1 |
| Maintenance | | | |

| | | |
|--|----|--|
| Legal and other professional fees | | 3 times column 1 |
| Miscellaneous | | 3 times column 1 |
| STARTING COSTS YOU ONLY HAVE TO PAY ONCE | | Leave column 2 blank |
| Fixtures and equipment | | Fill in worksheet 3 on page 12 and put the total here |
| Decorating and remodeling | | Talk it over with a contractor |
| Installation of fixtures and equipment | | Talk to suppliers from who you buy these |
| Starting inventory | | Suppliers will probably help you estimate this |
| Deposits with public utilities | | Find out from utilities companies |
| Legal and other professional fees | | Lawyer, accountant, and so on |
| Licenses and permits | | Find out from city offices what you have to have |
| Advertising and promotion for opening | | Estimate what you'll use |
| Accounts receivable | | What you need to buy more stock until credit customers pay |
| Cash | | For unexpected expenses or losses, special purchases, etc. |
| Other | | Make a separate list and enter total |
| TOTAL ESTIMATED CASH YOU NEED TO START WITH | \$ | Add up all the numbers in column 2 |

GETTING STARTED

Your building

- Have you found a good building for your store? _____
- Will you have enough room when your business gets bigger? _____
- Can you fix the building the way you want it without spending too much money? _____
- Can people get to it easily from parking spaces, bus stops, or their homes? _____
- Have you had a lawyer check the lease and zoning? _____

Equipment and supplies

- Do you know just what equipment and supplies you need and how much they will cost? (Worksheet 3 and the lists you made for it should show this.) _____
- Can you save some money by buying secondhand equipment? _____

Your merchandise

- Have you decided what things you will sell? _____
- Do you know how much or how many of each you will buy to open your store with? _____
- Have you found suppliers who will sell you what you need at a good price? _____
- Have you compared the prices and credit terms of different suppliers? _____

Your records

- Have you planned a system of records that will keep track of your income and expenses, what you owe other people, and what other people owe you? _____
- Have you worked out a way to keep track of your inventory so that you will always have enough on hand for your customers but not more than you can sell? _____
- Have you figured out how to keep your payroll records and take care of tax reports and payments? _____

Do you know what financial statements you should prepare? _____

Do you know how to use these financial statements? _____

Do you know an accountant who will help you with your records and financial statements? _____

Your store and the law

Do you know what licenses and permits you need? _____

Do you know what business laws you have to obey? _____

Do you know a lawyer you can go to for advice and for help with legal papers? _____

Protecting your store

Have you made plans for protecting your store against thefts of all kinds—shoplifting, robbery, burglary, employee stealing? _____

Have you talked with an insurance agent about what kinds of insurance you need? _____

Buying a business someone else has started

Have you made a list of what you like and don't like about buying a business someone else has started? _____

Are you sure you know the real reason why the owner wants to sell his business? _____

Have you compared the cost of buying the business with the cost of starting a new business? _____

Is the stock up to date and in good condition? _____

Is the building in good condition? _____

Will the owner of the building transfer the lease to you? _____

Have you talked with other businessmen in the area to see what they think of the business? _____

Have you talked with the company's suppliers? _____

Have you talked with a lawyer about it? _____

MAKING IT GO

Advertising

Have you decided how you will advertise? (Newspapers—
posters—handbills—radio—by mail?) _____

Do you know where to get help with your ads? _____

Have you watched what other stores do to get people to buy? _____

The prices you charge

Do you know how to figure what you should charge for each
item you sell? _____

Do you know what other stores like yours charge? _____

Buying

Do you have a plan for finding out what your customers want? _____

Will your plan for keeping track of your inventory tell you
when it is time to order more and how much to order? _____

Do you plan to buy most of your stock from a few suppliers
rather than a little from many, so that those you buy from
will want to help you succeed? _____

Selling

Have you decided whether you will have salesclerks or self-
service? _____

Do you know how to get customers to buy? _____

Have you thought about why you like to buy from some
salesmen while others turn you off? _____

Your employees

If you need to hire someone to help you, do you know where
to look? _____

Do you know what kind of person you need? _____

Do you know how much to pay? _____

Do you have a plan for training your employees? _____

Credit for your customers

Have you decided whether to let your customers buy on credit? _____

Do you know the good and bad points about joining a credit-card plan? _____

Can you tell a deadbeat from a good credit customer? _____

A FEW EXTRA QUESTIONS

Have you figured out whether you could make more money working for someone else? _____

Does your family go along with your plan to start a business of your own? _____

Do you know where to find out about new ideas and new products? _____

Do you have a work plan for yourself and your employees? _____

Have you gone to the nearest Small Business Administration office for help with your plans? _____

If you have answered all these questions carefully, you've done some hard work and serious thinking. That's good. But you have probably found some things you still need to know more about or do something about.

Do all you can for yourself, but don't hesitate to ask for help from people who can tell you what you need to know. Remember, running a business takes guts! You've got to be able to decide what you need and then go after it.

Good luck!

WORKSHEET NO. 3

LIST OF FURNITURE, FIXTURES, AND EQUIPMENT

| Leave out or add items to suit your business. Use separate sheets to list exactly what you need for each of the items below. | If you plan to pay cash in full, enter the full amount below and in the last column. | If you are going to pay by installments, fill out the columns below. Enter in the last column your downpayment plus at least one installment. | | | Estimate of the cash you need for furniture, fixtures, and equipment |
|---|--|---|-------------|----------------------------|--|
| | | Price | Downpayment | Amount of each installment | |
| Counters | \$ | \$ | \$ | \$ | \$ |
| Storage shelves, cabinets | | | | | |
| Display stands, shelves, tables | | | | | |
| Cash register | | | | | |
| Safe | | | | | |
| Window display fixtures | | | | | |
| Special lighting | | | | | |
| Outside sign | | | | | |
| Delivery equipment if needed | | | | | |
| TOTAL FURNITURE, FIXTURES, AND EQUIPMENT (Enter this figure also in worksheet 2 under "Starting Costs You Only Have To Pay Once," page 7.) | | | | | \$ |

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BUSINESS PLAN FOR SMALL CONSTRUCTION FIRMS



SUMMARY

A business plan can provide the owner-manager or prospective owner-manager of a small construction 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 do I sell? Where is my market? Who will buy? Who is my competition? What is my sales strategy? How much money is needed to operate my firm? 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 Printing:
January 1974

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 too many 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?

The hammer, trowel, pliers, and wrench are well known tools of the construction industry. They have their various uses and are needed to get the work done. Management is another tool that the owner-manager of a construction firm must use. Each job must be planned and organized if the firm is to run smoothly and efficiently. The business plan will help you increase your skill as a manager.

Because of the diversification in the construction industry, you may be engaged in residential, commercial, or industrial construction. You may be either a general or specialty contractor. But, the same basic managerial skills are needed. This plan will serve as a guide to the various areas that you as a manager will be concerned with. As you work through this plan, adapt it to your own particular needs.

When complete, your business plan will help guide your daily business activities. Because, when you know where you want to go, it is easier to plan what you must do to get there. Also, the business plan can serve as a communications device which will orient key employees, suppliers, bankers, and whoever else needs to know about your goals and your operations.

Whether you are just thinking about starting your own firm or have already started, the business plan can help you. As your skill as a manager increases so will the number of jobs you can effectively control. The careful completion of this plan may point out your limitations. This is important. The successful contractor must not only know his business thoroughly, but must also know his limitations and seek professional advice in these areas.

WHY AM I IN BUSINESS?

Most contractors are in business to make money and be their own boss. Very important reasons. But don't forget, no one is likely to stay in business unless he also satisfies a consumer need at a competitive price. Profit is the reward for satisfying consumer needs in a competitive economy.

In the first years of business, your profits may seem like a small return for the long hours, hard work, and responsibility of being the boss. But there are other rewards associated with having your own business. For example, you may find satisfaction in helping to put groceries on your employees' tables. Or, maybe your satisfaction will come from building a business you can pass on to your children.

Why are you in business? _____

WHAT BUSINESS AM I IN?

At first glance this may seem like a rather silly question. You may say, "If there is one thing I'm sure of, it's what business I'm in." But wait. Let's look further into the question. Suppose you say, "I build houses." Are you a speculative or custom builder? Are you a remodeler? Are you a subcontractor? Can you schedule a complete job and make money? By planning according to this decision, you should realize the value of this type of thinking in dollars.

| <i>My Product</i> | <i>Types of Customers</i> | <i>Location of Customers</i> |
|-------------------|---------------------------|------------------------------|
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |

Now that you have described what you want in terms of customer and location, what is it about your operation that will make these people want to buy your service? For instance, quality work, competitive prices, guaranteed completion dates, effective advertising, unique design, and so on.

Write your answer here. _____

ADVERTISING

You have determined what it is you're marketing, who is going to buy it, and why they're going to buy it. Now you have to decide on the best way to tell your prospective customers about your product.

What should your advertising tell prospective customers? _____

What form should your advertising take? Ask the local media (newspapers, radio and television stations, and printers of direct mail pieces) for information about their 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 workblock should be useful in determining what advertising is needed to *sell* your construction service.

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

COMPETITION

The competition in the construction industry often results in low profit margins. However, if you are just starting or are a relatively small firm, this does not put you at a disadvantage. The smaller firm can often compete with the bigger outfit because of lower overhead expense. For example, your office may be in your home, saving that expense. You can often work right out of your truck, saving the expense of a field office.

Competition is largely price competition, although a good reputation for quality and efficiency is beneficial. But, the result of any competition is a high failure rate for poor planners and poor performers. This points out the need for careful planning, particularly in the areas of estimating and bidding.

In order to see what you are up against competition-wise, answer the following questions so you can plan accordingly.

Who will be your major competitors? _____

How will you compete against them? _____

SALES STRATEGY

The market for the construction industry is unique in many ways. As a contractor you will find your market to be dependent on such variables as the state of the economy, local employment stability, the seasonality of the work, labor relations, good subcontractors and interest rates. Also, as a contractor, you will find that you are unavoidably dependent on others, such as customers or financing institutions for payment, and other contractors for performance of their work. You will also want to take your cash flow into consideration when you estimate and bid on a job. The money must come in time to meet your own obligations.

Estimating

Whether an owner-manager in the construction business succeeds—makes a profit or not—depends to a great extent on his bidding practices. Therefore, you must make careful and complete estimates.

Many of the more successful contractors attribute their success to their estimating procedures. They build the job on paper before they submit a bid. In doing this, they break the job down into work units and pieces of material. Then, they assign a cost to each item. The total of these costs will be the direct construction cost. You must also figure on the indirect costs of a job. For instance, you will have overhead expenses such as the cost of maintaining your office, trucks, license fees, and so on. The estimate should also consider any interest charges you will pay on money you borrow to get the job under way. You have insurance fees to pay, surety bond premiums, travel expenses, advertising costs, office salaries, lawyer's fees, and so on. These must also be paid out of your gross income.

Trade associations, as one of their services, often provide their members with a package of business forms. The cost estimate form would be included in this package. The obvious advantage in using these forms is that they are specifically designed for the particular trade.

Regardless of what estimate form you use, it should include such headings as "activity," "material," "labor," "subcontracts," and "estimated cost." And it should have areas for direct construction costs, indirect construction costs, overhead, and profit.

In addition, a column for the actual cost compared to the estimate of a specific work item will make this form an invaluable record. Here you would have a handy reference to evaluate the profitability of the job after it is complete. It would show you where your estimate was high or low, and enable you to adjust future bids on similar projects. This added column will also be necessary when it comes time for your financial accounting.

Bidding

Your decision to bid or not to bid on a particular job should be determined by several factors. First, do you have the capacity to complete the job on schedule and according to specifications. Beware of overextending yourself out of business. You have to operate within your known capabilities. On any job, you must follow all the details of the work yourself, or find competent supervision.

Bonding

The practice of bonding has been a traditional way of life for anyone engaged in contract construction. Bonding companies provide bonds for a certain percentage of the contract price. There are three main types of bonds:

(1) Bid bonds assure that the bidder is prepared to perform the work according to the terms of the contract if he is successful in his bid.

(2) Performance bonds assure completion of the job according to plans and specifications.

(3) Payment bonds assure anyone dealing with the bonded contractor that he will be paid.

The effect that bonding companies have had on contractors is evident in the area of competition. The customer, by requiring that the contractor is bonded, is more or less assured of adequate completion of the job. Therefore, contractors are compared on a basis of price. Also, banks are often more lenient to bonded contractors.

Bonding companies usually require the contractor to have proven experience and the organizational financial capacity to complete the project. This can be a real stumbling block to the new construction firm.

With the widespread use of bonding requirements, the competition that is generated often leads the inexperienced contractor to submit bids that are unrealistically low. One or two such mistakes often can spell bankruptcy.

Will you need bonding _____ often, _____ occasionally, _____ seldom?

Where will you get your bond? _____

What will the terms be? _____

The Small Business Administration has a surety bond program designed to help small and emerging contractors who might have previously been unable to get bonding. SBA is authorized to guarantee up to 90 percent of losses incurred under bid, payment, or performance bonds on contracts up to \$500,000. Applications for this assistance are available from any SBA field office.

PLANNING THE WORK

When your marketing efforts result in jobs to be done, the problem becomes one of production. How will you plan the work so that the job gets done on time?

No matter how you plan the work, your plans should assist you in two specific ways: (1) they should help you maintain your production schedule, and (2) they should allow you to adjust production to meet changed conditions, such as bad weather.

In planning the work, keep in mind two things: (1) the timing of starts, and (2) the timing of the various steps in the construction process. The timing of starts will depend on the size and capacity of your company. If you have sufficient help and sufficient supervisory personnel, it will be possible for you to engage in as many projects as you can *control*. The size and nature of the job must be considered here also.

The timing of the steps of construction (the work schedule) will show the various operations in sequence and assign a working day designation to each with a space for the calendar day designation. Several operations may be in progress simultaneously. Such a work schedule will show at a glance whether the work is progressing as scheduled. It will also indicate the materials that will be needed for the following day or week. Thus, it is a handy managerial control to assure that men and materials are at the right place at the right time. Many companies offer commercial scheduling boards designed for this purpose.

Below is a partial work schedule to demonstrate how yours may be set up. Note that there is a column that can be filled in with either a solid mark or an "X" to indicate either partial or completed work. When you look at a particular calendar day, an "X" next to it would indicate that you're on schedule. An open square indicates a delay. Here, then, is a convenient way to see trouble spots that are causing delays and it gives you an opportunity to take corrective action.

| Activity | Working Day | | Calendar Day | Complete |
|---------------------|-------------|--------|--------------|----------|
| | Start | Finish | | |
| 1. Layout | 1 | 1 | 15 | ☒ |
| 2. Foundation Forms | 1 | 2 | 16 | ☒ |
| 3. Foundation Pour | 3 | 3 | 19 | ☒ |

(indicates $\frac{3}{4}$ complete)

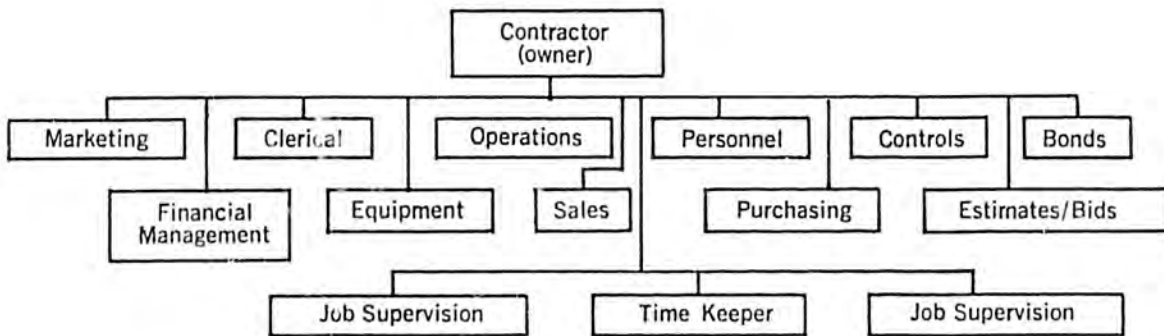
You should save your work schedules. They will form the basis for future estimates. For example, if you are estimating a particular job, you can go to your files and pull out an old schedule for a similar job. Here, at a glance, you have information on the steps of production, an indication of what materials you'll need and when you'll need them, an indication of how long the job will take, and any peculiarities that may affect the completion of the job. When you consider all these things, you'll be more likely to submit an accurate bid.

By carefully keeping such records, you will also have an indication of how many workers you will need. Perhaps, if the work falls behind schedule, you may need to bring more workers to the job to assure scheduled completion and avoid a possibly larger financial loss from penalization, if that is called for in your contract. Also, such records will give you an indication of the organizational structure you may need for your firm.

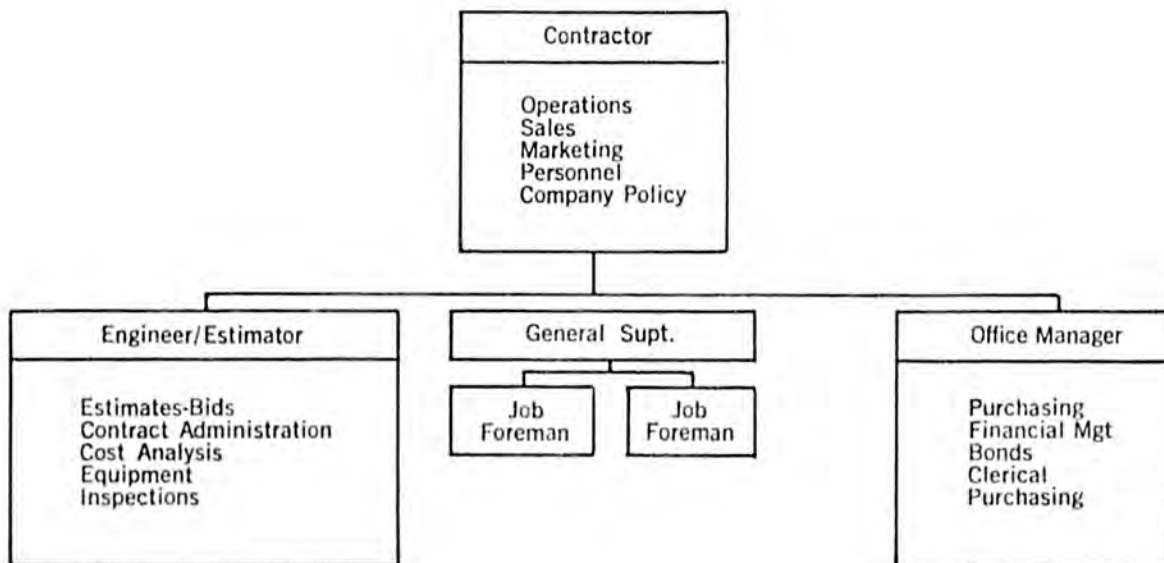
GETTING THE WORK DONE

If your firm is going to run efficiently, you will need organization. Organization is essential because as your company grows you will not be able to do all the work. You have to delegate work, responsibility, and authority. The organization chart is a useful device in getting this done. It shows quite clearly who is responsible for the major activities of your business.

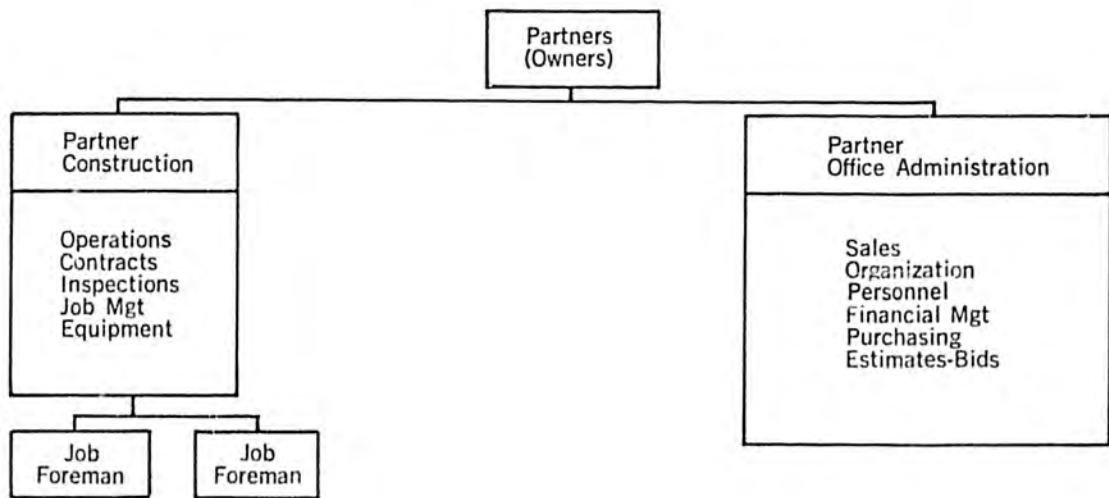
At first, many construction companies are one man shows. It is up to the owner to do almost everything. In this case the organization chart might look something like this:



As the company grows, perhaps specialists are added, such as an engineer/estimator, an office manager, and a general superintendent. The organization chart then begins to look something like this:



Often, people with complementary experience and skills, such as work experience and office experience will form a partnership. The organization chart will look like this:



In the space that follows, draw your organization chart.

WHAT ARE YOUR PERSONNEL REQUIREMENTS?

Will you carry a permanent crew or hire workers as the need arises? _____
Will you use union or nonunion labor? _____
How many workers will you need? _____
How many subcontractors will you need? _____
What is the hourly rate you will pay? _____
What will fringe benefits cost? _____
Will you supervise the work yourself or hire a foreman? _____
If you hire a foreman, what will his salary be? _____
Will you need clerical help? _____ What will it cost? _____

EQUIPMENT

What special equipment will you need (assuming that your work force will supply their own hand tools)?

| <i>Equipment</i> | <i>Rent</i> | <i>Buy</i> | <i>Your Cost</i> |
|------------------|-------------|------------|------------------|
| _____ | _____ | _____ | \$ _____ |
| _____ | _____ | _____ | \$ _____ |
| _____ | _____ | _____ | \$ _____ |
| _____ | _____ | _____ | \$ _____ |
| _____ | _____ | _____ | \$ _____ |

Will you need an office or use your home? _____

If you will need an office, what will the rent and other expenses cost? _____

PUT YOUR PLAN INTO DOLLARS

Just as with the other aspects of managing a construction business, the basic unit of financial management is the job. The financial aspects of a job must be planned as carefully as the actual construction. The payment for each job must cover the direct and indirect construction costs as well as the allocated share of overhead.

Accounting requirements will vary from company to company and from trade to trade. Your accountant will help you set up the accounting system which will best meet your needs.

However, you must make the overall plans yourself. You must develop the goals necessary to guide and manage your business. This overview will prove invaluable in establishing a good working relationship with your banker (or other lender) and bonding company.

In your financial planning, the first consideration is where the dollars will come from. In dollars, how much business (sales) will you be able to do in the next 12 months? \$ _____

EXPENSES

In connection with annual sales volume, you need to think about expenses. For example, if you plan to do \$100,000 worth of work, how much 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?

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 and time you invest in it. Profit helps your firm to be strong—to have a financial reserve for any lean periods.

The "Expenses Worksheet" on page 14 is designed to help you figure your yearly expenses. To use this worksheet, you need to get one set of figures—the operating ratios for your line of business. If you don't have these figures, check with the trade association which serves your area of the construction industry or with sources such as those listed in *Ratio Analysis for Small Business*. (For ordering details, see "For Further Information" on page 19 of this *Aid*).

MATCHING MONEY AND EXPENSES

After you have planned for your month to month expenses, the next question is: Will there be enough money coming in to meet these expenses and to sustain your company in the event that there is down time until your next job?

The cash forecast is a management tool which can eliminate much of the anxiety that can plague you during lean months. Use the worksheet, "Estimated Cash Forecast," 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.

Remember that the expenses of buying the materials and supplies for a particular job may occur a month or two before a payment is made. The "Estimated Cash Forecast" should show this.

ESTIMATED CASH FORECAST

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|--|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Expected Available Cash | | | | | | | | | | | | |
| Cash Balance | | | | | | | | | | | | |
| Expected Receipts | | | | | | | | | | | | |
| Job A | | | | | | | | | | | | |
| Job B | | | | | | | | | | | | |
| Job C | | | | | | | | | | | | |
| Bank Loans | | | | | | | | | | | | |
| Total Expected Cash | | | | | | | | | | | | |
| Expected Cash Requirements | | | | | | | | | | | | |
| Job A | | | | | | | | | | | | |
| Job B | | | | | | | | | | | | |
| Job C | | | | | | | | | | | | |
| Equipment Payments | | | | | | | | | | | | |
| Taxes | | | | | | | | | | | | |
| Insurance (including surety bond payments) | | | | | | | | | | | | |
| Overhead | | | | | | | | | | | | |
| Loan Repayments | | | | | | | | | | | | |
| Total Cash Required | | | | | | | | | | | | |
| Cash Balance | | | | | | | | | | | | |
| Total Loans Due To Bank | | | | | | | | | | | | |

| | Sample Figures for Specialty Contractors* | % of Your Sales | Your Annual Sales Dollar | Your Dollars JAN | Your Dollars FEB | Your Dollars MAR |
|--------------------------------|--|-----------------------|-----------------------------------|------------------------|------------------------|------------------------|
| Sales | 100.00% | — | — | — | — | — |
| Cost of sales | 44.45 | — | — | — | — | — |
| Gross profit | 55.55 | — | — | — | — | — |
| Controllable expenses | | | | | | |
| Outside labor | 1.15 | — | — | — | — | — |
| Operating supplies | 2.34 | — | — | — | — | — |
| Gross wages | 22.78 | — | — | — | — | — |
| Repairs and maintenance | .59 | — | — | — | — | — |
| Advertising | 1.12 | — | — | — | — | — |
| Car and delivery | 2.04 | — | — | — | — | — |
| Bad debts | .03 | — | — | — | — | — |
| Administrative and legal | .48 | — | — | — | — | — |
| Miscellaneous expense | 1.03 | — | — | — | — | — |
| Total controllable expense | 31.56 | — | — | — | — | — |
| Fixed expenses | | | | | | |
| Rent | 1.00 | — | — | — | — | — |
| Utilities | 1.42 | — | — | — | — | — |
| Insurance | 1.16 | — | — | — | — | — |
| Taxes and licenses | .85 | — | — | — | — | — |
| Interest | .10 | — | — | — | — | — |
| Depreciation | 1.65 | — | — | — | — | — |
| Total fixed expenses | 6.18 | — | — | — | — | — |
| Total expenses | 37.74 | — | — | — | — | — |
| Net profit (before income tax) | 17.81 | — | — | — | — | — |

* These percentages are taken from *Barometer of Small Business*, Accounting Corporation of America (see "For Further Information," page 19 of this *Aid*). These figures are presented *only as a sample* and refer to specialty contractors with an annual gross volume between \$50,000 and \$200,000. The percentages vary from one business to another.

IS ADDITIONAL MONEY NEEDED?

In your planning you may find periods when you will be short of cash. For example, when you start a job you will need materials and supplies. Perhaps it may be a month or two before your first payment. What do you do in the interim if trade credit will not completely satisfy your cash needs?

Your bank may be able to help with a short term loan. If a banker is to lend you money on either a short or long term, he will want to know whether your company's financial condition is weak or strong. He will ask to see a balance sheet.

A blank balance sheet is included on page 16. 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 company's account. It is never too early to build good relations with your banker. For the time may come when you will have to borrow.

CURRENT BALANCE SHEET

for
(name of your firm)

as of _____
(date)

Assets

| | |
|-----------------------------------|----------|
| Current Assets | |
| Cash | \$ _____ |
| Receivables | \$ _____ |
| Cost of jobs in progress | \$ _____ |
| Inventories of supplies and tools | \$ _____ |
| Total Current Assets | \$ _____ |
| Fixed Assets | \$ _____ |
| Other Assets | \$ _____ |
| Total Assets | \$ _____ |

Liabilities

| | |
|-----------------------------------|----------|
| Current Liabilities | |
| Notes payable | \$ _____ |
| Accounts payable | \$ _____ |
| Miscellaneous current liabilities | \$ _____ |
| Total Current Liabilities | \$ _____ |
| Equipment Contracts | \$ _____ |
| Owner's equity | \$ _____ |
| Total Liabilities | \$ _____ |

CONTROL AND FEEDBACK

To make your plan work you will need feedback at the various stages of your management process. When you approach a job as a manager, you will need to plan the job, direct the job, and control the job. Throughout this process, you will need adequate financing. Thus, whatever management controls you set up should supply you with the information you need to keep your operation "on the money."

During the planning stage, you will need to carefully calculate your bid estimate. To direct the job, you will need your job cost analysis to make sure that the job is going to make a profit. And, to control the job, your forces must be organized. This requires the organized production of any given job (work schedule), competent personnel, and your personal follow-up to insure efficient performance.

IS YOUR PLAN WORKABLE?

Now that you've planned this far, step back and take a look at your plan. It is realistic? Can you do enough business to make a living?

Now is the time to revise your plan if it isn't workable, not after you've invested your time and money. If you feel that some revisions are needed before you start your own business, then make them. Go back to the cash flow and adjust the figures. Better, show your plan to someone who has not had a hand in making out your business plan. Your banker, contact man at SBA, or any outside advisor may be able to point out your strong points which if emphasized could turn into dollars.

If you have strong doubts about your business or your ability to run it, it might be better to delay going into business until you feel as comfortable with the tools of management as you are with the tools of your trade.

KEEPING YOUR PLAN UP TO DATE

How many people in this world can predict the future? Very few indeed! You can expect things to change. You can expect circumstances to be different from what you expected. This is only natural. The difference between successful and unsuccessful planning is often only the ability to keep alert and watch for changes. Stay on top of changing conditions and adjust your plan accordingly.

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

1. Be alert to the changes that come about in his industry, his market, and in his customers.
2. Check his plan against these changes.
3. Determine what revisions, if any, are needed in his plan.

Whatever methods you use to keep up with changing conditions is up to you. Once a month or so, go over your plan. 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, prices are subject to change.

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

Barometer of Small Business. Published semiannually. Yearbook for previous year each March. Midyear published each September. Both can be obtained as an annual subscription.

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

National Trade and Professional Associations of the United States. Columbia Books, Inc., 734 15th Street, NW, Room 601, Washington, D.C. 20005. Published annually.

Summary of State Regulations and Taxes Affecting General Contractors. The American Insurance Association 85 John Street, New York, N.Y. 10038.

Up Your Own Organization by Donald Dible. 1971. The Entrepreneur Press, Mission Station, Drawer 2759, Santa Clara, Cal. 97051.

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.

Guides for Profit Planning. SBMS No. 25. 1960.

Starting and Managing a Small Building Business. S&M No. 5. 1962.

The following *Small Marketers Aids* and *Management Aids* are published by the Small Business Administration and are available free at the nearest SBA office.

"Checklist for Going Into Business"—SMA 71

"Steps in Meeting Your Tax Obligations"—SMA 142

"Getting the Facts for Income Tax Reporting"—SMA 144

"Sound Cash Management and Borrowing"—SMA 147

"Insurance Checklist for Small Business"—SMA 148

"Is Your Cash Supply Adequate?"—MA 174

"Delegating Work and Responsibility"—MA 191

"Keep Pointed Toward Profit"—MA 206

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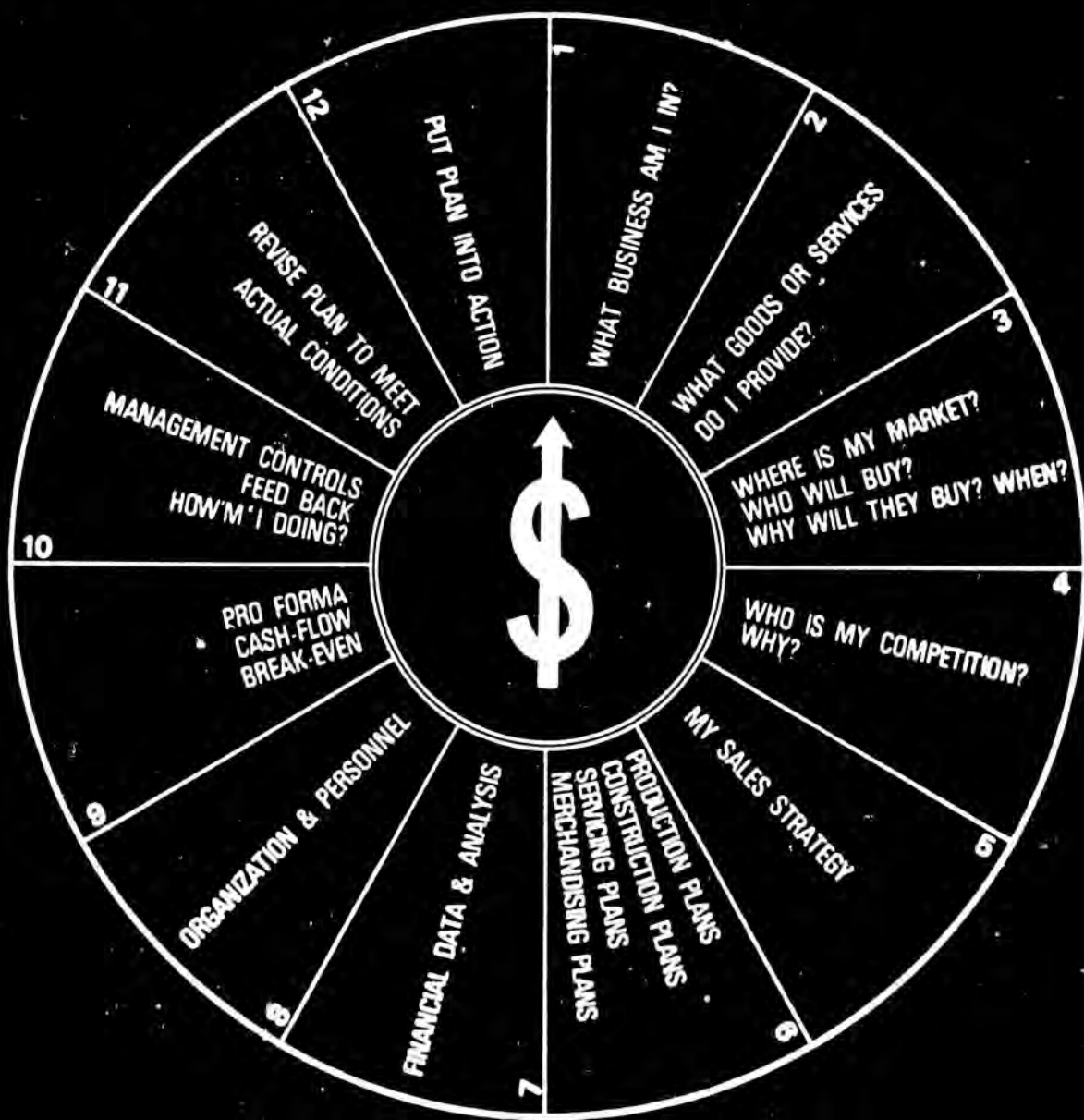


SMALL
MARKETERS AID

SMALL BUSINESS
ADMINISTRATION

No. **153**

BUSINESS PLAN FOR SMALL SERVICE FIRMS



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 service 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 services do I provide? 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 firm? 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? And many more.

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 commonsense ending point.

FIRST PRINTING:
OCTOBER 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 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 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 about your operations and goals.

(4) A plan can help you 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.

WHY AM I IN BUSINESS?

Many enterprising Americans are drawn into starting their own business by the possibilities of making money and being their own boss. But the long hours, hard work, and responsibilities of being the boss quickly dispel any preconceived glamor.

Profit is the reward for satisfying consumer needs. But, it must be worked for. Sometimes a new business might need two years before it shows a profit. So where, then, are reasons for having your own business?

Every small business owner-manager will have his own individual reasons for being in business. For some, satisfaction comes from serving their community. They take pride in serving their neighbors and giving them quality work which they stand behind. For others, their business offers them a chance to contribute to their employees' financial security.

There are as many rewards and reasons for being in business as there are business owners. Why are you in business?

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.

The recent changeover of barbershops from cutting hair to styling hair is one example of thinking about what business you're really in.

Consider this example, also. Joe Riley* had a small radio and tv store. He thought of his business as a retail store though he also serviced and repaired anything he sold. As his suburb grew, appliance stores emerged and cut heavily into his sales. However, there was an increased call for quality repair work.

When Mr. Riley considered his situation, he decided that he was in the repair business. As a result of thinking about what business he was really in, he profitably built up his repair business and has a contract to take care of the servicing and repair business for one of the appliance stores.

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 inventory of parts and materials must you keep on hand? What services do you offer? What services do people ask for that you do not offer? What is it you are trying to do better, more of, or differently from your competitors?

*All names in *Aids* are disguised.

MARKETING

When you have decided what business you're in, you have made your first marketing decision. Now you are ready for other important considerations.

Successful marketing starts with the owner-manager. He has to know his service and the needs of his customers in the area he serves.

The narrative and work blocks that follow are designed to help you work out a marketing plan for your firm. 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 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.

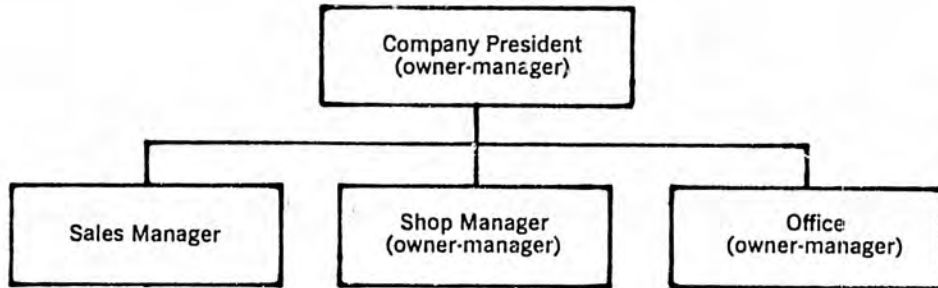
FIXTURES AND EQUIPMENT. No matter whether or not customers will come to your place of business, there will be certain equipment and furniture you will need in your place of business which will allow you to perform your service. List that equipment and its cost to you here.

| <i>Type of Equipment</i> | <i>Number Needed</i> | × | <i>Unit Cost</i> | = | <i>Cost</i> |
|--------------------------|----------------------|---|------------------|---|-------------|
| _____ | _____ | | \$ _____ | | \$ _____ |
| _____ | _____ | | \$ _____ | | \$ _____ |
| _____ | _____ | | \$ _____ | | \$ _____ |
| _____ | _____ | | \$ _____ | | \$ _____ |

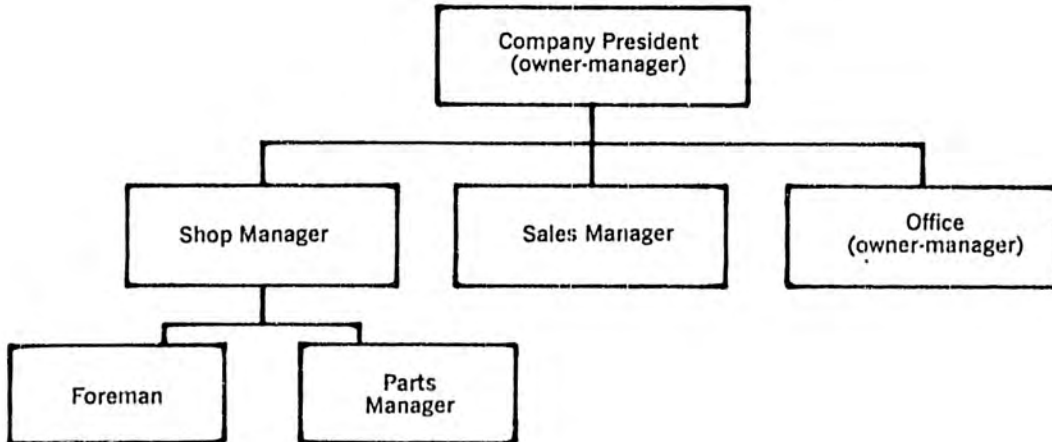
PARTS AND MATERIALS. You will probably need some kind of parts or materials to provide your service. List them and their cost to you in the following workblock.

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

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 workblock 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*.)

| | <u>Expressed in Percentage</u> | <u>Expressed in Dollars</u> | <u>Your Percentage</u> | <u>Your Dollars</u> |
|------------------|------------------------------------|---------------------------------|----------------------------|-------------------------|
| 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 | 1.25 | _____ | _____ | _____ | _____ |
| 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.

74

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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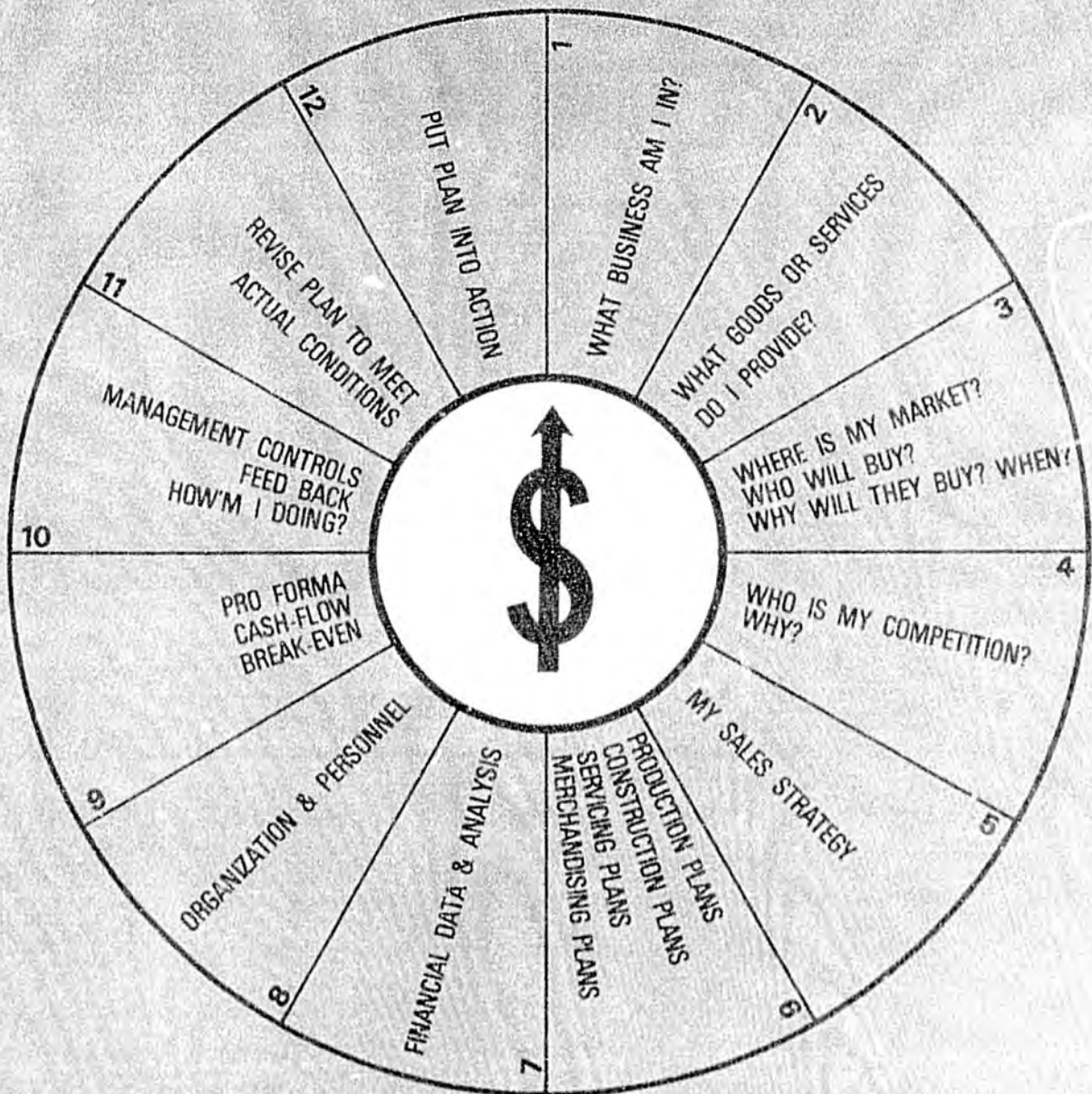
SBA

SMALL BUSINESS
ADMINISTRATION

SMALL
MARKETERS AID

No. **150**

BUSINESS PLAN FOR RETAILERS





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.

FIRST PRINTED
SEPTEMBER 1972

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. OPO 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. OPO 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. OPO 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> | \times <i>Unit Cost</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:

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

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.

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.

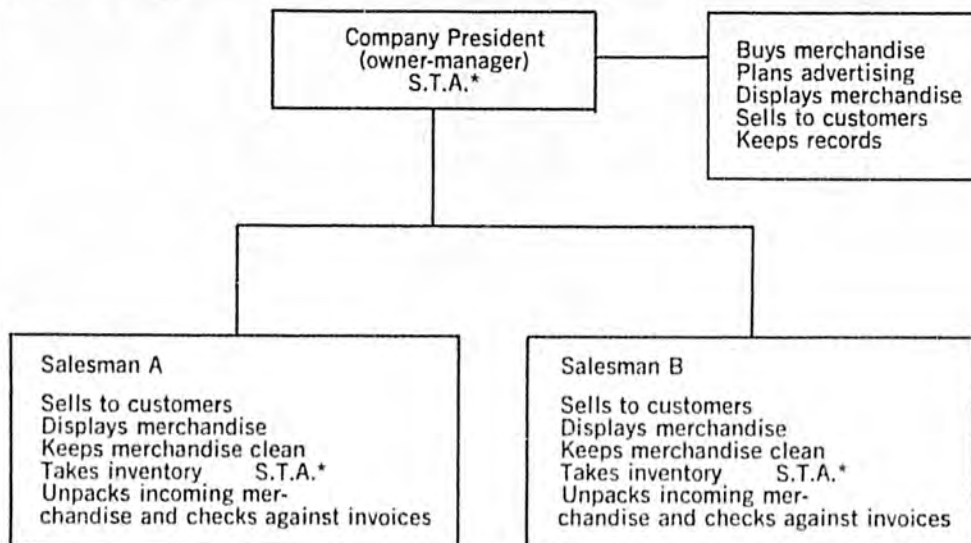
| <i>Name of Equipment</i> | <i>Number Needed</i> | \times | <i>Unit Cost</i> | $=$ | <i>Cost</i> |
|--------------------------|----------------------|----------|------------------|-----|-------------|
| | | | \$ _____ | | \$ _____ |
| _____ | _____ | | _____ | | _____ |
| _____ | _____ | | _____ | | _____ |
| _____ | _____ | | _____ | | _____ |
| _____ | _____ | | _____ | | _____ |
| _____ | _____ | | _____ | | _____ |
| _____ | _____ | | _____ | | _____ |

GETTING THE WORK DONE

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

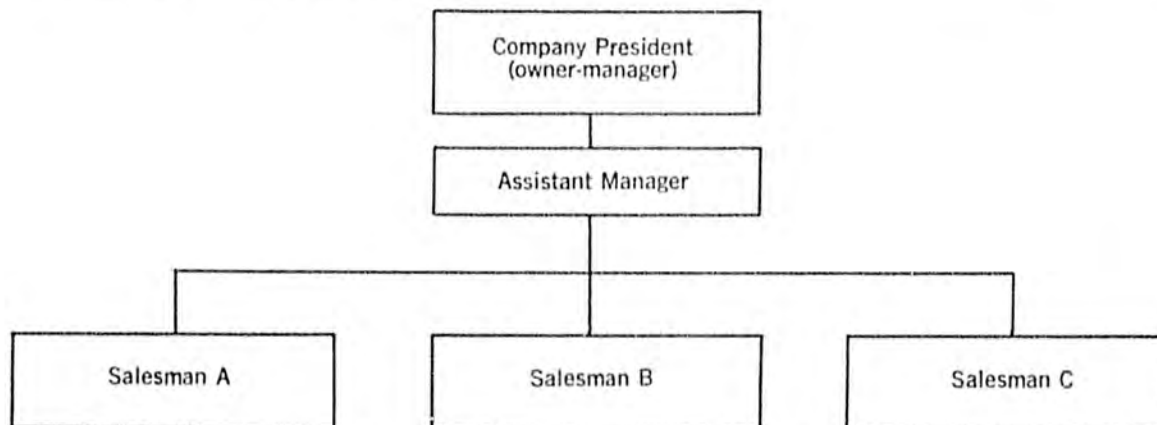
Organization is essential because you as the owner-manager cannot do all the work. You have to *delegate work, responsibility, and authority*. A helpful tool in getting this done is the organization chart. It shows at a glance who is responsible for the major activities of a business. Examples are given 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 <i>Percent of sales</i> | % 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.

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 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 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) = Total fixed costs divided by $1 - \frac{\text{Total variable costs}}{\text{corresponding sales volume}}$

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> |
|---------------|------------------------|
| | |
| | |
| | |
| | |
| | |

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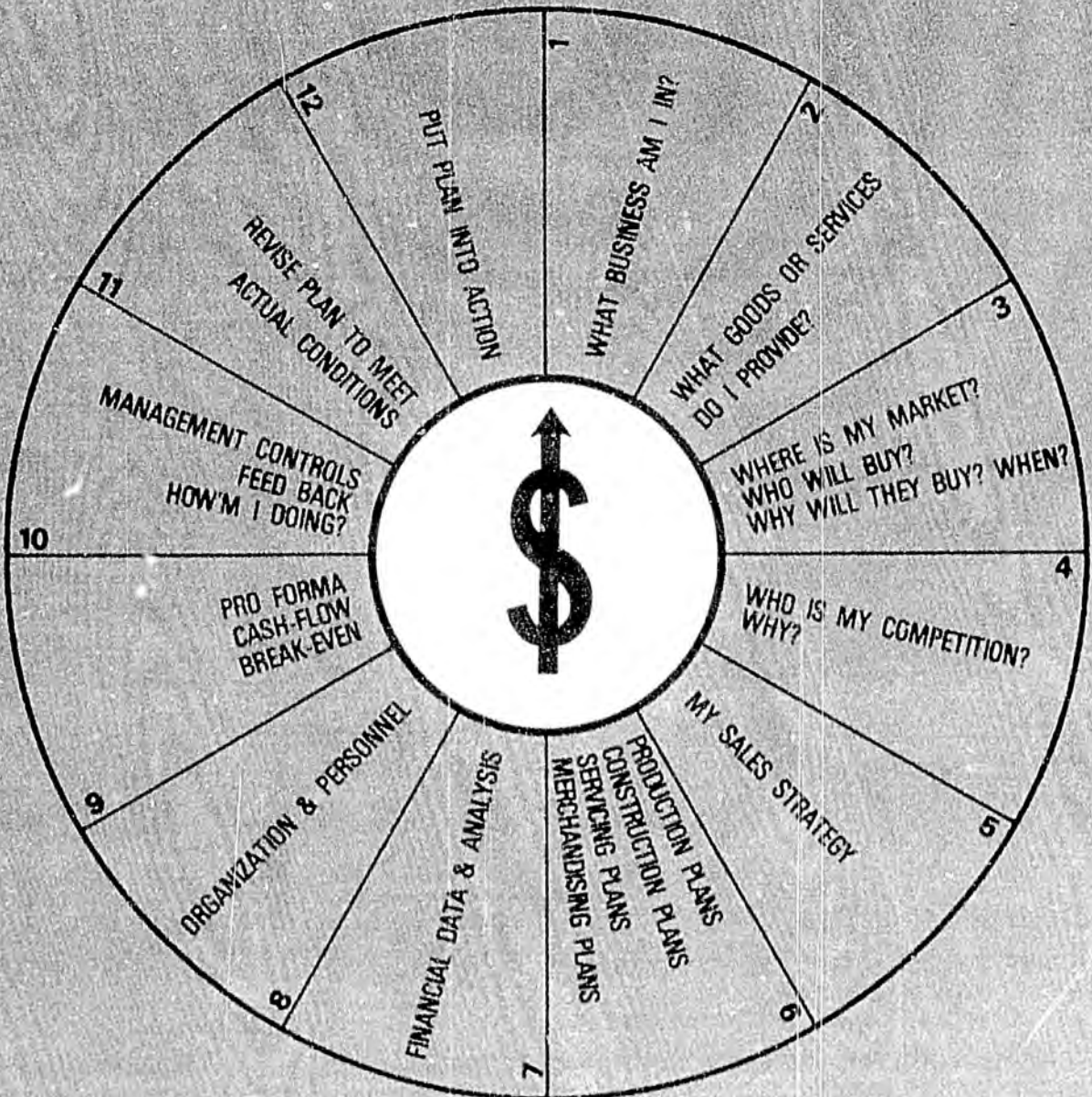
SBA

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
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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?

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.) |
|--------------------|--------|----------|--|
| <hr/> | <hr/> | \$ <hr/> | <hr/> |
| <hr/> | <hr/> | \$ <hr/> | <hr/> |
| <hr/> | <hr/> | \$ <hr/> | <hr/> |
| <hr/> | <hr/> | \$ <hr/> | <hr/> |
| <hr/> | <hr/> | \$ <hr/> | <hr/> |

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*.

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 LIABILITES

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

FIXED LIABILITIES

Long Term Loan \$ _____
 Mortgage _____

NET WORTH \$ _____

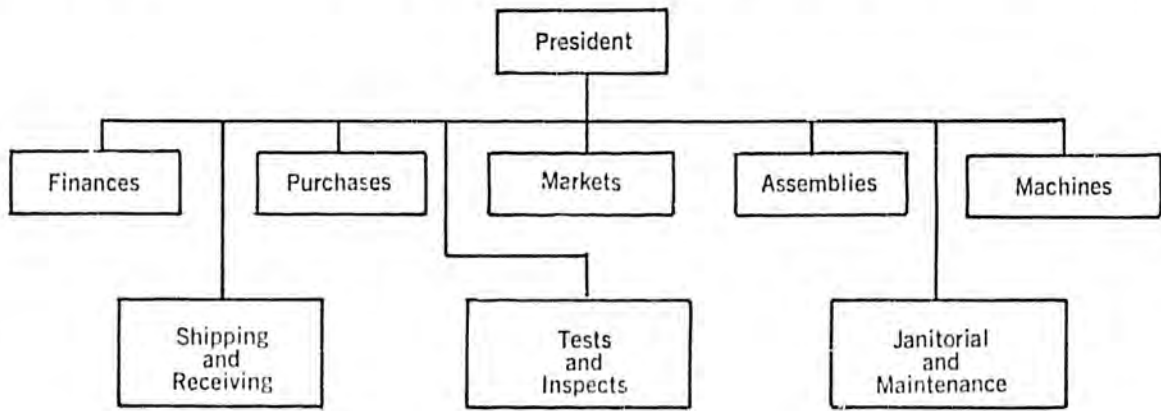
TOTAL \$ _____

GETTING THE WORK DONE

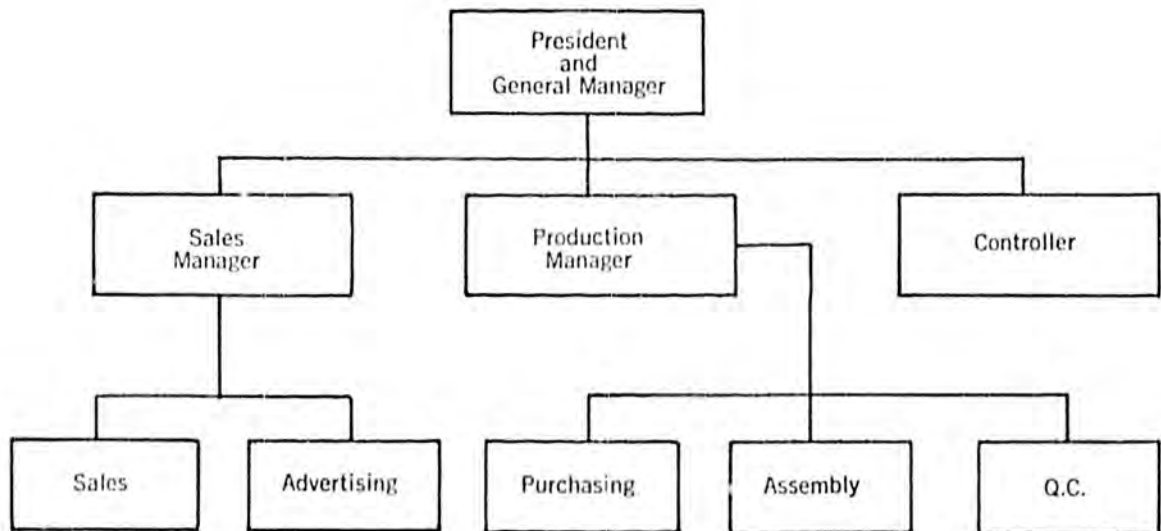
Your manufacturing business is only part way home when you have planned your marketing and production. Organization is needed if your plant is to produce what you expect it to produce.

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.

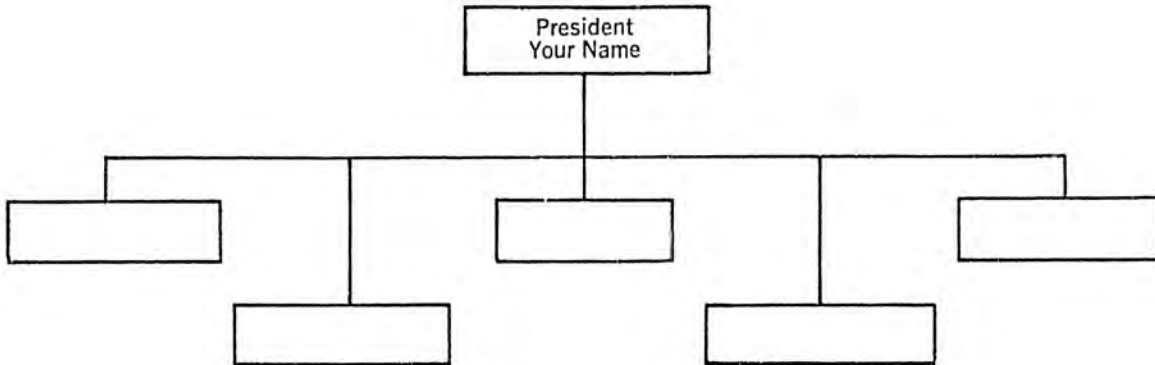
In the beginning, the president of the small manufacturing company probably does everything.



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 Producing Electric Power from Geothermal Resources in California"

Earl R. Combs, Inc.

Letter 4/25/77

Belden Daniels

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"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

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"Israel's Other War"

"Fair Versus Free"

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"Where Carter is Going Wrong"

John Galbraith

Letter 8/12/77

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"Investment Management for Alaska's Second Decade"

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A. D. Little

Proposal

"Qualifications and Related Experience"

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"Challenge of the Permanent and Renewable Resource Funds"

"The Statsforetag Story"

Paper re Sturinam

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Manufacturers Hanover Trust

Booklets (2)

Financial Digest

Business Report

Presentation to Permanent Fund

Massachusetts Science and Technology Foundation

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Potential Consultants

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Outline of Consultancy

Report for SIAC Meeting

Report on Organization, Management and Control of
Development Banks

Rowan Group, Inc.

Public Participation in the Surplus Wealth Question

Agenda for the Next Year

Comments on DPDP Rowan Survey

Citizen Feedback

Consultants
Page 4

Schumacher

Miscellaneous Correspondence

Sonneman

Resume'

"Economic Possibilities for the Permanent Fund:
Alaska"

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Barry Stein

"Social Multiplier Effects in Community Economic
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"How Successful are CDC's?"

"Local Economic Development"

"Decentralizing American Economy"

Resume'

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"Community Context of Economic Conversion"

Lester Thurow

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Consultants
Page 5

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Permanent Fund"

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Text--brochure

White Weld

SIAC Survey

Paper 12/8 & 9/76

Booklets (4)

Wilshire Association

Prospectus

Wohlforth & Flint

Miscellaneous Correspondence

Bank Resumes

Various Countries

Publications
Page 1

Alaska's Growth to 1990 (ISER)

The Alaska Permanent Fund and Other Significant World
Funds

CETA

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The Alaskan Economy

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An Economic Program for the Coming Decade

Proposal: Examination of the Consequences of Alternative
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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

Publications

Page 2

Low Cost Housing Corporation

Northern Frontier, Northern Homeland

Other Countries--Similar Situations

Public Control of Public Money

Publication Materials

Miscellaneous

Population and Labor Force

Current Population Estimates by Census Division

Alaska Labor Force Estimates by Industry and Area

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Way Up There

RENEWABLE RESOURCES DEVELOPMENT FUND

RRDF
Page 1

RRDF

Outline

Definitions

Proposed Planning System

Proposal & Discussion in Summary

Proposal

Interim Report

Agriculture

Fisheries

Alaska's Fishery Resources

Herring Fishery

LAA Analysis

Renewable Resources

Renewable Resources Analysis

Salmon Enhancement

Viewpoint from Southeast

Proposal for Study

Water Resources

GENERAL

General
Page 1

AEIDC (Arctic Environmental Information and Data Center)
Storage, Transfer and Usage of Alaskan Environmental
Information
Paper--Alaska Resource Information System

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
Report

Alaska Power Authority
Amendments to Act

Alaska Public Forum

General
Page 2

Alaska Resource Research & Development

Research Paper

Ad Hoc Committee on

Alaska Series

Alaska State Council on the Arts

Alaska Wind & Water Power Company

Alberta Heritage

News Release

Speech Notes

Statement

Appropriate Technology

Development of Cottage Industries and Appropriate
Technologies for Alaska

Papers--California Office

Assistant Needed--Ad

Assistant Responses

Barker Memos & Projections

Berrier Memos

Budget--HPF

Budget--LAA

Budget--State

General
Page 3

CEDC

Investment Policies

Refunding Proposal

Annual Report

Committee Files

Miscellaneous Bills

Community Development Corps

Observations on Permanent Fund

Confirmation Powers

Bradner v. Hammond

Constitutional Amendment 1976

DPDP

Permanent Fund Work Program

News Release

Involvement in Permanent Fund Legislation

Alaska Forum Issue Development

Thought Paper on Permanent Fund

Annual Report

Economic Analysis

Energy

Response to National Energy Plan

Brochures, Pamphlets, Miscellaneous

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

Harvard Course

Nontraditional Techniques for Local Economic Development

House Work Plan

Interstate Commerce Commission

TAPS Tariffs

Inuit Conference

Job Creation

Tim Kennedy

Challenge for Change

General
Page 5

Kuwait

Department of Law Correspondence

Legislative Council

Loan Programs

Questions

Listings

Lobbyists

Meetings--Information

Miscellaneous

Natural Gas

The Unnatural Gas Shortage

What Natural Gas Shortage?

Department of Natural Resources

Preliminary Proposals for Sale of Royalty Oil

Newspaper, Radio, TV

Doug Pope Memos

Public Hearing Forms

Public Information & Participation

Public Involvement--Specific Strategies
and Some Reasons for Them

Questionnaire

Questionnaires

Reports, Proposals

Legislative Council

Alaska Humanities Forum

Senate First Interim Report

Interim Resources Report

Responses

Written Testimony

Department of Revenue

Monthly Investment Reports

Jim Rhode

Royalty Oil

Senate Permanent Fund Committee

Reports (1st & 2nd)

Questionnaires

Outline

Small Business Administration

Brochures

University of Alaska

Permanent Fund & Growth of Alaskan Economy

Review of Business and Economic Conditions

John Williams Memos

LEGISLATION

Legislation
Page 1

Draft Proposals

Legislative History

HB 39 History

Three-Bill Analysis

HB 2

HB 4

HB 29

HB 31

HB 52

HB 210

HJ 239 (back-up - J. Rhode)

HB 298

HB 300

HB 329

HB 515

HB 516

HB 517

HB 518

HB 525

SB 357

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 an 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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MANAGEMENT PUBLICATIONS

The services of professional management consultants are readily available to big business firms, but are rarely within the means of small business owners.

To help them keep abreast of modern management techniques and maintain efficient management policies, SBA issues about 300 publications on problems of interest to cross-sections of management, and presents facts and figures in brief, readable, non-technical form. Professionals in many business areas contribute their work as a public service to the needs of small firms.

Management assistance publications which are distributed free through SBA offices include the following leaflet series:

- *Management Aids for Small Manufacturers*—a series dealing with functional problems of small plants; it also concentrates on subjects of interest to administrative executives.
- *Small Marketers Aids*—guides for retail, wholesale and service firms.
- *Small Business Bibliographies*—reference sources for individual types of businesses which apply most directly to counseling.

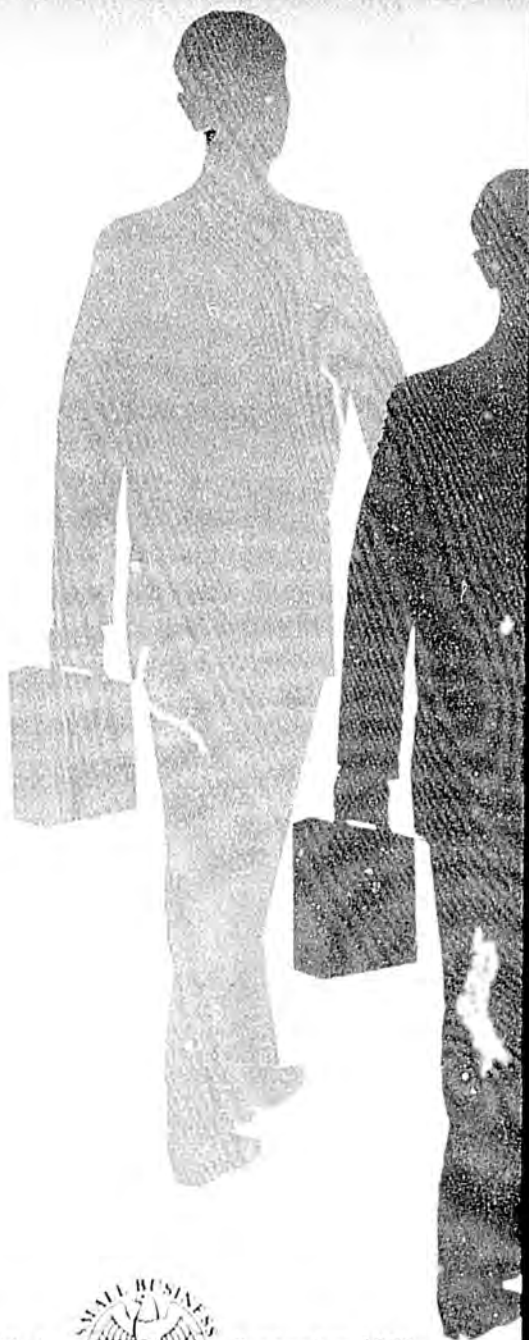
The following series of booklets are for sale at nominal prices from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402:

- *Small Business Management Series*—devoted to more comprehensive discussions of special management problems of small concerns. More than 35 volumes have been published.
- *Starting and Managing Series*—describing problems of starting and managing specific types of small enterprises. Only the first volume, *Starting and Managing a Small Business of Your Own*, does not deal with a specific type of business. Representative titles are *Starting and Managing a Small Shoestore* and *Starting and Managing a Small Drive-In Restaurant*.

Non-series booklets are also available. They discuss management subjects which do not fit into the series categories, such as: *Managing for Profits*, and *Buying and Selling a Small Business*.

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