

How to Start a Business

A Step By Step Guide to Starting a Small Business Successfully

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1. What You Need to Know Before you start

So you are thinking of going into business. This can have advantages and disadvantages. Running a business of your own will bring a sense of independence, and a sense of accomplishment. You will be the boss, and you can't be fired, though there may be days when you would welcome it. Because you can pay yourself a salary and the profit or return on your investment will also be yours, you anticipate a good income once your business is established. You will experience a pride in ownership - such as you experience if you own your own home or your own automobile. You can derive great satisfaction from offering a product or service which is valued in the market place.

By being boss you can adopt new ideas quickly. Since your enterprise undoubtedly will be a small business - at least in the beginning - you will have no large, unwieldy organization to retrain, no board to get permission from, each time you wish to try something new. If the idea doesn't work you can drop it just as quickly. This opportunity for flexibility is one of small businesses greatest assets.

These are some of the advantages and pleasures of operating your own business. Now take a look at the other side. If you have employees, you must meet a payroll week after week. You must always have money to pay creditors - the man who sells you goods or materials, the dealer who furnishes fixtures and equipment, the landlord if you rent, the mortgage holder if you are buying your place of business, the publisher running your advertisements, the tax collector, and many others. All of these must be paid before you can consider the "profits" yours.

You must accept sole responsibility for all final decisions. A wrong judgment on your part can result in losses not only to yourself but, possibly, to your employees, creditors, and customers as well. Moreover, you must withstand, alone, adverse situations caused by circumstances frequently beyond your control. To overcome these business setbacks and keep your business profitable means long hours of hard work. It could very well not be the work you want to do. As someone else's employee you developed a skill. Now, starting a business of your own, you may expect to use that skill 40 or more hours a week. Instead, you must perform the management tasks as well. You must keep the books, analyze accounting records, sit back and do long range planning, jump and handle the expediting and, when everyone has gone home and you finally have caught up with the paper work, you may even have to sweep the floor.

As your business grows and you become more successful, you may not do some of these activities. As an owner-manager, however, you must - at least at first - give up the technical aspects you know and enjoy doing, and focus on the management aspects. To get your business off to a successful start, you must be a manager not an operator.

You will never be entirely your own boss.

No matter what you choose - manufacturing, wholesaling, retailing or service business - you must always satisfy your customers. If you don't give the customers what they want, they'll go somewhere else and you'll be out of business. So every customer, or even

potential customer, is your boss. Your creditors will also dictate to you, and your competitors' actions may force you to make decisions you don't want to make. National and local government agencies will insist that you meet certain standards and follow certain regulations. The one thing you can decide yourself is how you will satisfy all of these bosses.

Are You the Type?

The first question you should answer after recognizing that there are two sides to the prospect of establishing your own business is "Am I the type?"

You will be your most important employee. It is more important that you rate yourself objectively than how you rate any prospective employee. Appraise your strengths and your weaknesses. As a prospective operator of your own business, acknowledge that you are weak in certain areas and cover the deficiency by either retraining yourself or hiring someone with the necessary skill.

Numerous studies have been made of small business managers over the years. Many look at traits and characteristics that appear common to most people who start their own businesses. Other studies focus on characteristics that seem to appear frequently in successful owner-managers.

First, consider those characteristics that seem to distinguish the person who opens a business from the person who works for someone else. These studies investigated successful and unsuccessful owners, some of whom went bankrupt several times. Some were successful only after the second or third try. The characteristics they share might almost be said to predispose a person into trying to start a business. Of course, not all of these characteristics appear in every small business owner-manager, but the following seem to be most predominate.

Strong Opinions and Attitudes

People who start their own business may be members of different political parties, feel differently about religion, economics and other issues. They are like everyone else. The difference is they usually feel and express themselves more strongly. This is consistent. If you are going to risk your money and time in your own business you must have a strong feeling that you will be successful. As you will see later, these strong feelings may also cause problems.

If you want to start your own business you probably have mixed feelings about authority. You know the manager must have authority to get things done, but you're not comfortable working under someone. This may also have been your attitude in a scholastic, family or other authority structure.

If you want to open you own business you are likely to have a strong "Need for Achievement". This "Need for Achievement" is a psychologist's term for motivation and is usually measured by tests. It can be an important factor in success.

The person who wouldn't think of starting a business, might call you a plunger, a gambler, a high risk taker. Yet you probably don't feel that about yourself. Studies have shown that very often the small business owner doesn't differ from anyone else in risk avoidance or aversion when measured on tests. At first thought this seems unreasonable since logic tells us that it is risky to open your own business. An Ohio State professor once explained this apparent contradiction very simply. "When a person starts and manages his own business he doesn't see risks; he sees only factors that he can control to his advantage."

If you possess these traits to some degree or other it doesn't mean you will be successful, only that you will very likely start your own business. Some of these characteristics in excess may actually hamper you if you are not careful.

The characteristics that appear most frequently among "successful" small business managers include drive, thinking ability, competence in human relations, communications skills and technical knowledge.

Drive, as defined in the study, is composed of responsibility, vigor, initiative, persistence and health. Thinking ability consists of original, creative, critical, and analytical thinking. Competency in human relations means emotional stability, sociability, good personal relations, consideration, cheerfulness, cooperation, and tactfulness. Important communications skills include verbal comprehension, and oral and written communications. Technical knowledge is the manager's comprehension of the physical process of producing goods or services, and the ability to use the information purposefully.

Motivation or drive has long been considered as having an important effect on performance. Psychologists now claim you can increase the motivation and the personal capacities that will improve your effectiveness and increase your chances for success. Much of the development of such achievement motivation depends on setting the right kind of goals for yourself.

What Business Should You Choose?

Many of you have already decided what business to choose. Others may still be seeking answers from counselors. Whether you have decided or not, you will find it helpful to continue your self-evaluation.

Begin by summarizing your background and experience. Include jobs, schooling, and hobbies. Then write down what you think you would like to do. Does what you would like to do match up with what you have done? It is helpful if your experience and training can be put to direct use in your new enterprise.

What are your prospective needs? What are your prospective customers' needs? You may make money doing something you don't like if people will pay for it. On the other hand, you will never make money if people don't need your product or service no matter how happy you are doing it. Experts have said more companies fail because they are in the wrong business than because they are "doing business wrong".

Read, listen to the experts, talk to business people, try to determine where growth will occur. Most new businesses can only get customers by taking them away from someone else, or by attracting new people entering the area. In other words, don't start a contracting business in a community where the population is decreasing even if you are a good contractor.

At this point, try to match your background and interests with what you see the needs to be. If they match, wonderful. Now all you have to do is discover how to offer the customers more for their money than do your competitors.

If the needs and your background don't match, don't despair. Get training by working in a company that provides a product or service that is needed. Find a job in a well managed, successful company of the kind you are contemplating. Then absorb as much management know-how as you can while learning the technical skills.

Education can help too. While there may be no educational requirements for starting your own business, the more schooling you have along the right lines the better equipped you should be.

(Some fields require licenses, certificates, even degrees in specific educational areas.) Certainly it is helpful if you have had courses in record keeping, sales and communication. These needn't be college or even high school courses. They can come from adult education programs and the like.

Is there a need for what you want to sell or do? Are you prepared to fill that need? Are you interested in the area? Can you learn what you need to? Will there be a continuing and growing need for your product or service?

Your Chances of Success

What are your chances of success if you go into business? New businesses are always being started. Almost as many are failing or being discontinued. A year of poor business conditions is likely to be followed by a greater than average number of failures or closings. A year of good business conditions tends to be followed by large increases in the total number of businesses. In general, the number of firms increases with increases in human population, total personal income and per capita income and since these factors have increased regularly, the total number of small businesses usually rises every year.

This growth is not free of growing pains, however. At the same time new businesses are being born other businesses are being discontinued. Some of these discontinuances are legally business failures; other owners give up to avoid or minimize losses and are not failures in the strict sense. Still others discontinue for reasons such as the death or retirement of the proprietor, the dissolution of a partnership, or the sale of the business to a new owner.

Younger businesses tend to discontinue first. Many do not make it through the first year. The discontinuation rate of those that survive this first year "burn-in" declines steadily

until at the end of several years the rate has dropped dramatically. So, your chances of success improve the longer you stay in business.

Poor management is the largest single cause of business failure. Year after year, the lack of managerial experience and aptitude has accounted for around 90 percent of all failures analyzed by Dun & Bradstreet, Inc.

Many factors may adversely affect individual firms over which owners have little control. In such cases, the astute manager can often soften the blow or, sometimes, change adversity into an asset. Examples of factors over which the owner has little control are overall poor business conditions, relocations of highways, sudden style changes, the replacement of existing products by new ones, and local labor situations. While these factors may cause some businesses to close, they may represent opportunities for others. A local market place may decline in importance at the same time new shopping centers are developing. Sudden changes in style or the replacement of existing products may bring trouble to certain businesses but open doors for new ones. Adverse employment situations in some areas may be offset by favorable situations in others. Ingenuity in taking advantage of changing consumer desires and technological improvements will always be rewarded.

In the final analysis, it is up to you. Will your management be competent? Will you be able to judge, and then satisfy, your customers' wants? Can you do this accurately and quickly enough to more than compensate for risks due to factors beyond your control? Such accomplishment requires expert management.

Will the rate of return on the money you invest in your business be greater than the rate you could receive if you invested your money elsewhere? While your decision to go into business for yourself may not depend entirely upon this, it is a factor which should interest you. Too frequently people invest money in their own businesses under the misapprehension that the financial return will be far greater than the return from other investments. Investigation of the average annual returns in the line of business in which you are interested may be worthy of your time.

Your decision to go into business may not depend entirely on financial rewards. The size of the potential return on your investment may be overshadowed by your desire for independence, the chance to do the type of work you would like to do, the opportunity to live in the part of the country or city you prefer, or the feeling that you can be more useful to the community than you would be if you continued working for someone else. Do not overlook such intangible considerations. But remember, you cannot keep your own business open unless you receive an adequate financial return on your investment.

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2. Determining the Feasibility of Your Business Idea

This chapter is a checklist for the owner/manager of a business enterprise or for one contemplating going into business for the first time. The questions concentrate on areas you must consider seriously to determine if your idea represents a real business opportunity and if you can really know what you are getting into. You can use it to evaluate a completely new venture proposal or an apparent opportunity in your existing business.

Perhaps the most crucial problem you will face after expressing an interest in starting a new business or capitalizing on an apparent opportunity in your existing business will be determining the feasibility of your idea. Getting into the right business at the right time is simple advice, but advice that is extremely difficult to implement. The high failure rate of new businesses and products indicates that very few ideas result in successful business ventures, even when introduced by well established firm. Too many entrepreneurs strike out on a business venture so convinced of its merits that they fail to thoroughly evaluate its potential.

This checklist should be useful to you in evaluating a business idea. It is designed to help you screen out ideas that are likely to fail before you invest extensive time, money, and effort in them.

Preliminary Analysis

A feasibility study involves gathering, analyzing and evaluating information with the purpose of answering the question: "Should I go into this business?" Answering this question involves first a preliminary assessment of both personal and project considerations.

General Personal Considerations

The first seven questions ask you to do a little introspection. Are your personality characteristics such that you can both adapt to and enjoy business ownership/management?

1. Do you like to make your own decisions?
2. Do you enjoy competition?
3. Do you have will power and self-discipline?
4. Do you plan ahead?
5. Do you get things done on time?
6. Can you take advise from others?
7. Are you adaptable to changing conditions?

The next series of questions stress the physical, emotional, and financial strains of a new business.

8. Do you understand that owning your own business may entail working 12 to 16 hours a day, probably six days a week, and maybe on holidays?
9. Do you have the physical stamina to handle a business?
10. Do you have the emotional strength to withstand the strain?
11. Are you prepared to lower your standard of living for several months or years?
12. Are you prepared to lose your savings?

Specific Personal Considerations

1. Do you know which skills and areas of expertise are critical to the success of your project?
2. Do you have these skills?
3. Does your idea effectively utilize your own skills and abilities?
4. Can you find personnel that have the expertise you lack?
5. Do you know why you are considering this project?
6. Will your project effectively meet your career aspirations

The next three questions emphasize the point that very few people can claim expertise in all phases of a feasibility study. You should realize your personal limitations and seek appropriate assistance where necessary (i.e. marketing, legal, financial).

7. Do you have the ability to perform the feasibility study?
8. Do you have the time to perform the feasibility study?
9. Do you have the money to pay for the feasibility study done?

General Project Description

1. Briefly describe the business you want to enter.

2. List the products and/or services you want to sell

3. Describe who will use your products/services

4. Why would someone buy your product/service?

5. What kind of location do you need in terms of type of neighborhood, traffic count, nearby firms, etc.?

6. List your product/services suppliers.

7. List your major competitors - those who sell or provide like products/services.

8. List the labor and staff you require to provide your products/services.

Requirements For Success

To determine whether your idea meets the basic requirements for a successful new project, you must be able to answer at least one of the following questions with a "yes."

1. Does the product/service/business serve a presently unserved need?
2. Does the product/service/business serve an existing market in which demand exceeds supply?
3. Can the product/service/business successfully compete with an existing competition because of an "advantageous situation," such as better price, location, etc.?

Major Flaws

A "Yes" response to questions such as the following would indicate that the idea has little chance for success.

1. Are there any causes (i.e., restrictions, monopolies, shortages) that make any of the required factors of production unavailable (i.e., unreasonable cost, scarce skills, energy, material, equipment, processes, technology, or personnel)?
2. Are capital requirements for entry or continuing operations excessive?
3. Is adequate financing hard to obtain?
4. Are there potential detrimental environmental effects?
5. Are there factors that prevent effective marketing?

Desired Income

The following questions should remind you that you must seek both a return on your investment in your own business as well as a reasonable salary for the time you spend in operating that business.

1. How much income do you desire?
2. Are you prepared to earn less income in the first 1-3 years?
3. What minimum income do you require?
4. What financial investment will be required for your business?
5. How much could you earn by investing this money?
6. How much could you earn by working for someone else?
7. Add the amounts in 5 and 6. If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income just to be your own boss with the only prospects of more substantial profit/income in future years?
8. What is the average return on investment for a business of your type?

Preliminary Income Statement

Besides return on investment, you need to know the income and expenses for your business. You show profit or loss and derive operating ratios on the income statement. Dollars are the (actual, estimated, or industry average) amounts for income and expense categories. Operating ratios are expressed as percentages of net sales and show relationships of expenses and net sales.

For instance 50,000 in net sales equals 100% of sales income (revenue). Net profit after taxes equals 3.14% of net sales. The hypothetical "X" industry average after tax net profit might be 5% in a given year for firms with 50,000 in net sales. First you estimate or forecast income (revenue) and expense dollars and ratios for your business. Then compare your estimated or actual performance with your industry average. Analyze differences to see why you are doing better or worse than the competition or why your venture does or doesn't look like it will float.

These basic financial statistics are generally available for most businesses from trade and industry associations, government agencies, universities and private companies and banks

Forecast your own income statement. Do not be influenced by industry figures. Your estimates must be as accurate as possible or else you will have a false impression.

1. What is the normal markup in this line of business. i.e., the dollar difference between the cost of goods sold and sales, expressed as a percentage of sales?
2. What is the average cost of goods sold percentage of sales?

3. What is the average inventory turnover, i.e., the number of times the average inventory is sold each year?
4. What is the average gross profit as a percentage of sales?
5. What are the average expenses as a percentage of sales?
6. What is the average net profit as a percent of sales?
7. Take the preceding figures and work backwards using a standard income statement format and determine the level of sales necessary to support your desired income level.
8. From an objective, practical standpoint, is this level of sales, expenses and profit attainable?

Any Business
Condensed Hypothetical Income Statement
For year ending December 31

Item	Amount	Percent
Gross sales	773,888	
Less returns, allowances, and cash discounts	<u>14,872</u>	
Net sales	759,016	100.00
Cost of goods sold	<u>382,392</u>	<u>50.38</u>
Gross profit on sales	376,624	49.62
Selling expenses	41,916	5.52
Administrative expenses	28,010	3.69
General expenses	50,030	6.59
Financial expenses	<u>5,248</u>	<u>0.69</u>
Total expenses	125,204	16.50
Operating profit	251,420	33.12
Extraordinary expenses	<u>5,200</u>	<u>0.69</u>
Net profit before taxes	246,220	32.43
Taxes	<u>46,781</u>	<u>6.16</u>
Net profit after taxes	199,439	26.62

Market Analysis

The primary objective of a market analysis is to arrive at a realistic projection of sales. After answering the following questions you will be in a better position to answer question eight immediately above.

Population

1. Define the geographical areas from which you can realistically expect to draw customers.
2. What is the population of these areas?
3. What do you know about the population growth trend in these areas?
4. What is the average family size?
5. What is the age distribution?
6. What is the per capita income?
7. What are the consumers' attitudes toward business like yours?
8. What do you know about consumer shopping and spending patterns relative to your type of business?
9. Is the price of your product/service especially important to your target market?
10. Can you appeal to the entire market?
11. If you appeal to only a market segment, is it large enough to be profitable?

Competition

1. Who are your major competitors?
2. What are the major strengths of each?
3. What are the major weaknesses of each?
4. Are you familiar with the following factors concerning your competitors:
 - Price structure?
 - Product lines (quality, breadth, width)?
 - Location?
 - Promotional activities?
 - Sources of supply?
 - Image from a consumer's viewpoint?
5. Do you know of any new competitors?
6. Do you know of any competitor's plans for expansion?
7. Have any firms of your type gone out of business lately?

8. If so, why?
9. Do you know the sales and market share of each competitor?
10. Do you know whether the sales and market share of each competitor are increasing, decreasing, or stable?
11. Do you know the profit levels of each competitor?
12. Are your competitors' profits increasing, decreasing, or stable?
13. Can you compete with your competition?

Sales

1. Determine the total sales volume in your market area.
2. How accurate do you think your forecast of total sales is?
3. Did you base your forecast on concrete data?
4. Is the estimated sales figure "normal" for your market area?
5. Is the sales per square foot for your competitors above the normal average?
6. Are there conditions, or trends, that could change your forecast of total sales?
7. Do you expect to carry items in inventory from season to season, or do you plan to mark down products occasionally to eliminate inventories? If you do not carry over inventory, have you adequately considered the effect of mark-down in your pricing? (Your gross profits margin may be too low.)
8. How do you plan to advertise and promote your product/service/business?
9. Forecast the share of the total market that you can realistically expect - as a dollar amount and as a percentage of your market.
10. Are you sure that you can create enough competitive advantages to achieve the market share in your forecast of the previous question?
11. Is your forecast of dollar sales greater than the sales amount needed to guarantee your desired or minimum income?
12. Have you been optimistic or pessimistic in your forecast of sales?
13. Do you need to hire an expert to refine the sales forecast?
14. Are you willing to hire an expert to refine the sales forecast?

Supply

1. Can you make a list of every item of inventory and operating supplies needed?

2. Do you know the quantity, quality, technical specifications, and price ranges desired?
3. Do you know the name and location of each potential source of supply?
4. Do you know the price ranges available for each product from each supplier?
5. Do you know about the delivery schedules for each supplier?
6. Do you know the sales terms of each supplier?
7. Do you know the credit terms of each supplier?
8. Do you know the financial condition of each supplier?
9. Is there a risk of shortage for any critical materials or merchandise?
10. Are you aware of which supplies have an advantage relative to transportation costs?
11. Will the price available allow you to achieve an adequate markup?

Expenses

1. Do you know what your expenses will be for: rent, wages, insurance, utilities, advertising, interest, etc?
2. Do you need to know which expenses are Direct, Indirect, or Fixed?
3. Do you know how much your overhead will be?
4. Do you know how much your selling expenses will be?

Miscellaneous

1. Are you aware of the major risks associated with your product? Service Business?
2. Can you minimize any of these major risks?
3. Are there major risks beyond your control?
4. Can these risks bankrupt you? (fatal flaws)

Venture Feasibility

1. Are there any major questions remaining about your proposed venture?
2. Do the above questions arise because of a lack of data?
3. Do the above questions arise because of a lack of management skills?
4. Do the above questions arise because of a "fatal flaw" in your idea?
5. Can you obtain the additional data needed?

7. Are you aware that there is less than a 50-50 chance that you will be in business two years from now?

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3. Starting Your New Venture

Say that you are the type who can operate a business of your own. You have given attention to the overall chances for success, and have chosen the business you wish to establish. What practical problems will you face in starting the business? How much money will you need? Where can you obtain it? What form of business organization will you have? Where should you locate the business?

Cash Planning

The first question you want to answer is: How much money will I need? But this question can't be answered until several other questions are answered and several decisions are made.

To decide how much money is needed to start a business, enter all of your potential income and all of your planned expenses on a work sheet or form.

Even though you may feel that this kind of planning is more than you need to start a simple small business it is useful to get started with this approach to management which puts figures down in black and white. You will find the same approach valuable in an established business.

First, estimate your sales volume. This will depend on the total amount of business in the area, the number and ability of competitors now sharing that business, and your own capability to compete for the consumer's dollar. Obtain assistance in making your sales estimate from wholesalers, trade associations, your banker, and other business-people. Several business and statistical publications may be useful in making sales volume estimates.

In reaching your final estimate of sales do not be over-enthusiastic. A new business generally grows slowly at the start. If you overestimate sales you are likely to invest too much in equipment and initial inventory, and commit yourself to heavier operating expenses than your actual sales volume will justify. Since you are just starting up you might have no sales for the first few months. At any rate you can expect your first few months to be very low.

You must also determine what proportion of your sales will be cash and what proportion will be sold on credit. If you estimate that a certain portion of the sales will be on credit then you must figure when you are going to get the money for these sales. One month? Two months? More? Never?

Next, estimate how much cash will be paid out. Remember that in starting a business you may be purchasing equipment, paying fees and licenses, making deposits on lease, utilities and so on, several months before you open the door. Some of these expenses are easy to estimate. If you have decided to lease a building (more about that later) then you know what your deposits will be and how much you will have to pay out each month. You can probably get the cost of fees, licenses and utility deposits with a few telephone calls.

Other expense figures may take a little more work to get. One way is to obtain typical operating ratios for the kind of business in which you are interested. Among the sources for such ratios are Dun & Bradstreet, Inc., trade associations, publishers of trade magazines, specialized accounting firms, industrial companies, and colleges and universities. The typical ratios for your type of business multiplied by your estimated sales volume will serve as bench marks for estimating the various items of expense. However, do not rely exclusively on this method for estimating each expense item. Verify and modify these estimates through investigation and quotations in the particular market area where you plan to operate.

Don't forget to pay yourself too. You may need money to live on if you have to quit your job. If your spouse is working and can support the family for a while you may not have to withdraw money from the business. The longer you can go without taking money out, the quicker you will build up a strong cash position. Now that you have estimated your cash receipts and expenses, write down the amount of cash you will put into the business to start. This goes on line 1 in the example below. Next, add lines 1 and 2 for the first month to get line 3. Then add up all of the expenses to get line 5. Subtract line 5 from line 3 to get line 6. This cash at the end of month 1 then goes to line 1 for the beginning of the next month, and so on.

If you continue this for the entire year, very soon you will find you have negative numbers or a negative cash flow. About this time you will also realize that you should be working on this form with a pencil that has a good eraser.

Let's see what a simple forecast for a few months might look like:

1) Cash on Hand	4000	1700	500	(200)
2) Cash Receipts	0	1000	1500	3000
3) Total Cash Available	<u>4000</u>	<u>2700</u>	<u>2000</u>	<u>2800</u>
4) Cash Paid Out				
Purchases	2000	2000	2000	2000
Rent	200	200	200	200
Deposits	100			
5) Total Cash Paid Out	<u>2300</u>	<u>2200</u>	<u>2200</u>	<u>2200</u>
6) Cash Position	<u>1700</u>	<u>500</u>	<u>(200)</u>	<u>600</u>

In this overly-simplified illustration, you see that by the end of June you are minus \$200 in cash. Two solutions can be tried - reduce your purchases in June by \$200 or start with \$200 more. You may not be able to reduce expenses (they will probably go up as your business starts). So you will have to put in \$200 more to start with. If all you have is \$4000 then the additional \$200 you need is capital you must get from somewhere else.

Don't be misled by this simple illustration. Many small businesses start with the \$200, and try to get the \$4000 from someplace else. Since a major reason for failure in the early stages of a business is under-capitalization, be very careful in your planning at this stage. You can almost always plan on some unexpected expenses and some delays in expected income.

Getting the Money

Now that you have computed your initial capital requirements, where will you get the money? The first source is your personal savings. Then relatives, friends, or other individuals may be found who are willing to "venture" their savings in your business. Before obtaining too large a share of money from outside sources, remember you should have personal control of enough to assure yourself ownership.

Once you can show that you have carefully worked out your financial requirements and can demonstrate experience and integrity, a lending institution may be willing to finance part of your operating needs. This may be done on a short term basis of from 60 days to as much as one year. Any institution that has money to lend is primarily concerned with security. The security may be a business asset, but when you're just starting the best security is usually your home or some other personal asset.

The second thing the lender will want to see is some sort of business plan. If you complete a business plan - which includes a cash flow forecast - the lender will see that you have done some serious and realistic thinking about your business and be more likely to consider your request.

Become acquainted with your banker. In selecting a banker consider progressiveness, attitude toward your business, credit services offered, and the size and management policies of the bank. Is the bank progressive? The physical appearance of the bank may give you some indication. When the employees are reasonably young, interested in your problems and active in civic affairs the bank is likely to be progressive. The character of the bank's advertising may also be a clue to its progressiveness.

To be effective the banker should be interested in helping you to become a better manager, and build a continuing relationship that will mean profitable business for you and the bank over the years.

Will the bank offer you the kind of credit you need? For example, if seasonal accumulations of inventory become a problem will the bank make a loan against public or field warehouse receipts? If your capital is tied up in accounts receivable during your heavy selling season, will the bank take these receivables as security for a loan? Will the bank consider a term loan?

Finally, know the size and management policies of the bank. Will your maximum requirements fall well within the bank's "legal limit"? If you plan to do some export business, does it have a foreign exchange department? If you or your dealers sell on installment terms does the bank have facilities for handling installment paper? How deeply is the bank concerned with the growth and prosperity of your local community?

When you deal with your banker, sell yourself. Whether or not you need a bank loan, make it a practice to visit your banker at least once a year. Openly discuss your plans and difficulties. It is the bank's business not to betray a confidence. If you need financial assistance carefully prepare, in written form, complete information that will present a thorough understanding of your entire proposition. Many business-people or prospective business operators destroy their chances of obtaining financial help by failing to present

their proposition properly. Remember, before a banker will make a loan he/she must have satisfactory answers to questions such as these:

1. What sort of person are you?
2. What will you do with the money?
3. When and how do you plan to pay it back?
4. Does the amount requested allow for unexpected developments?
5. What is the outlook for you, for your line of business, and for business in general?

Trade creditor or equipment manufacturer, Companies from which you buy equipment or merchandise may also furnish capital to you in the form of extended credit. Manufacturers of store fixtures, cash registers, and industrial machinery frequently have financing plans under which you may buy on an installment basis and pay out of future income. You need not pay for the goods at once. If goods are for resale, no security other than repossession rights of the unsold goods is involved. However, too extended a use of credit may prove expensive. Usually cash discounts are quoted if a bill is paid within 10, 30, or 60 days. For example, a term of sale quoted as "2-10; net 30 days" means that a cash discount of 2 percent will be granted if the bill is paid within 10 days. If not paid in 10 days, the entire amount is due in 30 days. If you do not take advantage of the cash discount, you are paying 2 percent to use money for 20 days, or 36 percent per year. This is high interest. Avoid it.

One of the principal causes of failures among businesses is inadequate financing. If you do go into business, remember it is your responsibility to provide, or obtain from others, sufficient money to supply a firm foundation for your enterprise.

Sharing Ownership With Others

Now that you have decided what business to start and about how much capital will be required, you may find it necessary to join with one or more associates to launch the enterprise.

Partnership

If you lack certain technical or management skills which are of major importance to your chosen business a partner with these skills may prove a most satisfactory way to cover the deficiency. If you are very skilled in your special area but lack management training and skills, you might look for a partner with a background in management. If you may need more start-up money, sharing the ownership of the business is one way to obtain it. Great care should be taken in deciding upon a partner. Personality and character, as well as ability to render technical or financial assistance, affect the success of a partnership.

A partnership can be a mixed blessing. A partner who puts in time or money has a right to expect a share in running the business.

In a partnership the liability for the debts of the firm is unlimited, just as it is in a single proprietorship. This means the owners are personally responsible for the firm's debts, even in excess of the amount they have invested in the business. In a corporation the liability of the owner is limited to the amount they pay for their shares of stock. A partnership, like a single proprietorship, lacks continuity. This means the business terminates upon the death of the owner or a partner, or upon the withdrawal of a partner.

Corporation

The corporation is a legal entity whose continuity is unaffected by death or transfer of stock shares by any or all of its owners. Even with no partners, you may decide a corporation with minor stockholders is better than a single proprietorship primarily because of the corporation's limited liability.

Since partnership agreements and incorporation papers should be prepared by a lawyer, consultation with a lawyer will help you determine the best type of organization for you.

Selecting a Location

Once you have decided what type of business you want to start and the investment requirements, you are ready to select a location. The number of competitive businesses already in the area should influence your choice of location. Some areas are overloaded with service stations or certain types of restaurants. Check on the number of your kind of business in Census figures, the yellow pages, or by personally checking out the location.

Factors other than the potential market, availability of employees and number of competitive businesses must be considered in selecting a location. For instance, how adequate are utilities - sewer, water, power, gas? Parking facilities? Police and fire protection? What about housing and environmental factors such as schools, cultural and community activities for employees? What is the average cost of the location in taxes and rents? Check on zoning regulations. Evaluate the enterprise of the local business-people, the aggressiveness of civic organizations. In short, what is the town spirit? Such factors should give you a clue to the city or town's future.

Chambers of Commerce and nearby universities usually have made or are familiar with local surveys which can provide answers to these questions and the many other questions which will occur to you.

Next you must decide in what part of town to locate. If the town is very small and you are establishing a retail or service business, there will probably be little choice. Only one shopping area exists. Cities have outlying shopping centers in addition to the central shopping area, and stores spring up along principal thoroughfares and neighborhood streets.

Consider the shopping center. It is different from other locations. The shopping center building is pre-planned as a merchandising unit. The site has been deliberately selected

by a developer. On-site parking is a common feature. Customers may drive in, park and do their shopping in relative safety and speed. Some centers provide weather protection. Such conveniences make the shopping center an advantageous location.

There are also some limitations you should know about. As a tenant, you become part of a merchant team and must pay your pro rata share of the budget. You must keep store hours, light your windows, and place your signs according to established rules. Many communities have restrictions on signs and the center management may have further limitations. Moreover, if you are considering a shopping center for your first store you may have an additional problem. Developers and owners of shopping centers look for successful retailers.

The kind and variety of merchandise you carry helps determine the type of shopping area you choose. For example, clothing stores, jewelry stores and department stores are more likely to be

successful in shopping districts. On the other hand, grocery stores, drug stores, filling stations, and bakeries usually do better on principal thoroughfares and neighborhood streets outside the shopping districts. Some kinds of stores customarily pay a low rent per square foot, while others pay a high rent. In the "low" category are furniture, grocery and hardware stores. In the "high" are cigar, drug, women's furnishings, and department stores. There is no hard and fast rule, but it is helpful to observe in what type of area a store like yours most often appears to flourish.

After determining an area best suited to your type of business, obtain as many facts as you can about it. Check the competition. How many similar businesses are located nearby? What does their sales volume appear to be? If you are establishing a store or service trade, how far do people come to trade in the area? Are the traffic patterns favorable? If most of your customers will be local inhabitants, study the population trends of the area. Is population increasing, stationary or declining? Are the people native-born, mixed or chiefly foreign? Are new ethnic groups coming in? Are they predominantly laborers, clerks, executives or retired persons? Are they all ages or principally retired, middle aged, or young? Judge buying power by checking average home rental, average real estate taxes, number of telephones, number of automobiles and, if the figure is available, per capita income. Larger shopping centers have this type of information available, and will make it available to serious potential tenants.

Zoning ordinances, parking availability, transportation facilities and natural barriers - such as hills and bridges - are all important considerations in locating any kinds of business. Possible sources for this information are Chambers of Commerce, trade associations, real estate companies, local newspapers, banks, city officials, local merchants and personal observation. If the Bureau of the Census has developed census tract information for the particular area in which you are interested you will find this especially helpful. A census tract is a small, permanently established, geographical area within a large city and its environs. The Census Bureau provides population and housing characteristics for each tract. This information can be valuable in measuring your market or service potential.

Choosing the actual site within an area may well be taking what you can get. Not too many buildings or plants will be suitable and at the same time, available. If you do have a choice, be sure to weigh the possibilities carefully.

For a manufacturing plant, consider the condition and suitability of the building, transportation, parking facilities, and the type of lease. For a store or service establishment, check on the nearest competition, traffic flow, parking facilities, street location, physical aspects of the building, type of lease and cost, and the speed, cost and quality of transportation. Also investigate the history of the site. Find answers to such questions as: Has the building remained vacant for any length of time? Why? Have various types of stores occupied it for short periods? It may have proved unprofitable for them. Sites on which many enterprises have failed should be avoided. Vacant buildings don't bring traffic and are generally regarded as bad neighbors, so check on nearby unoccupied buildings.

Use a Score Sheet

To help choose your location use some type of "score sheet" in evaluating different sites. See the following suggested score sheet. Depending upon your kind of business and situation some factors will have more importance than others. You may wish to eliminate some factors listed in the sample and add others. But some sort of score sheet is essential to choosing your business location wisely.

Time and effort devoted to the selection of (a) the town or city, (b) the area within the town or city, and (c) the particular site for the location of your business can well mean the difference between success and failure.

Score Sheet on Sites

Grade each factor: "A" for excellent, "B" for good, "C" for fair, and "D" for poor.

1. Centrally located to reach my market
2. Physical suitability of building
3. Type and cost of lease
4. Provision for future expansion
5. Overall estimate of quality of site in 10 years
6. Adequacy of utilities (sewer, water, power, gas)
7. Parking facilities
8. Transportation availability and rates
9. Nearby competition situation
10. Traffic flow

11. Taxation burden
12. Quality of police and fire protection
13. Environmental factors (schools, cultural, community activities, enterprise of business people)
14. Quantity of available employees
15. Prevailing rates of employee pay
16. Housing availability for employees
17. Merchandise or raw materials readily available

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4. Buying a Going Business

Sometimes the best way to become the owner of a business is to buy a going concern. If you are considering this option, most of the factors already discussed should be considered plus these additional points.

Advantages

Certain advantages may be gained by purchasing a going business.

You may be able to buy the business at a bargain price, if, for personal reasons, an owner is sufficiently eager to sell.

Buying a business as it stands will save time and effort in equipping and stocking it.

You gain customers accustomed to trading with the establishment.

Key personnel with customer following may be willing to stay.

The "good will" created by the previous owner may be a valuable asset.

Disadvantages

You may pay too much for the business because of your inaccurate appraisal or the former owner's misrepresentation.

If the owner had a bad reputation you would inherit prejudices of former customers and, perhaps, of merchandise and equipment suppliers.

The location may be going sour.

Fixtures and equipment may be outmoded or in bad condition. Check carefully.

Too much of the merchandise or materials on hand may be old or poorly selected.

In deciding how much to pay for a going business, consider its profit potential. Tangible assets such as equipment and inventory may be important to you, but only to the extent that they contribute to future profits. If the seller is asking a large sum for the intangible asset of good will, estimate carefully how much - if anything - it will add to your future profits. Also, determine and assess precisely the cost of any liabilities you will be expected to assume. Get it in writing!

Profit Potential

You must be concerned with the future profitability of the business. Most businesses have a natural cycle. Retail stores usually have a cycle of one year. That is, each year follows the same pattern and several years indicate a trend. Certain types of heavy manufacturing companies may have up to a 7-year cycle. Try to estimate several (at least three) cycles. Thus, in some businesses you will be estimating three to five years while in another you may be estimating future sales and profits over a 25-year period. Obviously your estimate for the next two years will be more precise than your estimate

for 25 years in the future. This doesn't mean you should be careless in your long range planning. It does mean your long range estimates will be more general and subject to change.

To estimate future profits, begin by analyzing the present owner's balance sheets and profit and loss statements for at least 5 years back. Going back 10 years would be even better. Many businesses have inadequate or no records, but all should have copies of their income tax returns. Sometimes even these are lacking or, more likely, very suspicious. Some businesses have been known to prepare inaccurate tax returns. Insist on seeing accurate records. If you are serious about purchasing a particular business, consider making a deposit subject to receiving accurate business records.

You want to look at many factors and ratios from this financial data. What has been the rate of return on investment? Does it compare favorably with the rate you can obtain from other investment opportunities? How does it compare with averages for other businesses of the same kind? Have sales over the years been increasing or decreasing?

What share of the market is the business obtaining within its market area? To find out requires an analysis of the local market for the particular firm in which you are interested. What is the competition in the area, the population, the purchasing power? What are the trends? What is the outlook for increasing sales?

Are the profits satisfactory? If not, what are the chances of increasing them? Have profits been consistent over a period of years? If the last year's profit was unusually high in comparison with previous years, why was it? What is the profit trend? Have profits been increasing consistently? Have they leveled off? Started to decrease? What are the reasons for the profit trend, whatever it may be? Be sure such questions are answered to your satisfaction before you buy.

Study the expense ratios. How does the percentage for each expense classification compare with the average for the trade? The availability of average operating ratios for certain trades has already been mentioned. Comparison of the figures of the business offered for sale with standard ratios will bring out any discrepancies. In discussing these discrepancies with the seller you may become aware of operating problems which will help in making up your mind how much to pay for the business, or whether to buy it at all.

You need not necessarily be discouraged from buying the business if past profit records are not favorable. Very often the reason the business is for sale is because of recent poor earnings. Examination may reveal that these have been brought about by poor management; and you may be convinced that your management will improve the situation. By the same token, an excellent past earnings' record, in itself, should not persuade you to pay a large amount for the business without further investigation.

Ask the seller to prepare a projected statement of profit and loss for the next 12 months. Such an estimate will probably be very optimistic and should be compared with your own estimate. With a detailed estimate of the next 12 months' operation, you can

compute working-capital requirements for each month. Next, estimate the value of assets and liabilities as of the end of that period. Find the estimated return on investment by dividing the projected net profit by the price asked for the business. If you believe additional investment will be needed immediately to make the business run profitably, add this to the price in your computations. The highest price for the firm which brings you a return with which you are satisfied is the maximum price you should pay for the business. Thus, an estimate of future profitability will give you the basis of a logical offer for the business.

If you are not familiar with accounting and income tax records so that you may verify records of past operations and make a reasonable forecast of future operations, have an experienced accountant or management consultant work with you to help you understand the records and assist you in your evaluation.

Tangible Assets

The most commonly purchased tangible assets are merchandise inventory, equipment and fixtures, and supplies. If the business you plan to purchase sells on credit you probably will take over accounts receivable.

What is the condition of the inventory you are purchasing? Is the stock current, clean, well-balanced, in good condition? How much of it will have to be disposed of at a loss or given away? Make a careful appraisal of the stock. Each item should be separately priced and given a reasonable value. If at all possible, the inventory should be "aged"; that is, the length of time each group of items has been in stock over 18 months old, 1 year to 18 months, 6 months to 1 year, and less than 6 months should be calculated. Usually, the older the inventory, the less its value.

Examine equipment and fixtures carefully. Remember you are buying second-hand furnishings with only a percentage of their original value. Be sure equipment is in working order. Find out its age. Obtain evaluations of similar equipment, new or second hand, from dealers. Not only should you know how much equipment and fixtures have depreciated, but how obsolete they may be. Office equipment may be in working order, but so obsolete that to use it would be inefficient and costly. Also, it may be difficult to obtain repair parts for old equipment in case of a breakdown. Store fixtures quickly become out of date. New, modern fixtures attract customers. Machines used in factories may have been superseded by far more efficient equipment. To pay an exorbitant price for old machinery, no matter how good its condition, is most unwise.

Make certain how much of the asking price is for furniture, fixtures and equipment. The business may not warrant the investment which the owner made. And, finally, find out if there is a mortgage on any of the fixtures or equipment, or if they even have been completely paid for.

If you are taking over the assets such as accounts receivable, credit records, sales records, mailing lists, or leases, investigate them closely. Accounts receivable should be aged to determine how many of them may be so old collection will be difficult or

impossible. On the other hand, records and contracts involving favorable leases have real value. Make certain these are included in the sale.

Goodwill

Over and above the total appraisal of inventories, fixtures, equipment, and other assets, there will usually be an amount asked for goodwill. Do not confuse it with "net worth", which is the difference between the dollar values of the assets and liabilities of the business. Rather it is the ability of the business to realize a higher rate of return on the investment than ordinarily in the particular type of business because of the favorable public attitude created by the owner. When goodwill exists, it is a valuable asset. Be realistic in determining how much you should pay for goodwill.

No fixed formula can substitute for good judgment. Since you are paying for favorable public attitude, make an effort to check it. Question customers, bankers and others whom you feel have unbiased opinions. Who will have the goodwill after the business changes hands? Does it go with the business, or is it personally attached to and will it remain with the seller?

Consider also that there may be "ill will" attached to a business. customers may be unhappy with the business. You will have to overcome these ill feelings to become successful.

The term "goodwill" is in some ways an accountant's fiction designed to explain the difference between the real price and the net worth. Accountants usually favor writing off this "goodwill" in a short period of time. A test of the amount asked is to compare it with past profits of the business. How many months or years will it take before the "goodwill" can be paid for out of profits? During that period you will, in effect, be working for the seller rather than for yourself. Another way to judge the value of this intangible asset is to estimate how much more income you will receive by buying the going business than by starting a new one.

Or compare the price asked for goodwill with that asked for goodwill in similar businesses. In other words, if you are shopping around for a business, compare not only the total prices asked, but the amounts asked over and above the reasonable value of the net tangible assets.

Liabilities

Be sure the seller pays off accumulated debts before you pay the money agreed upon in the terms of the sale, so the business is 'clear'. Find out if there are mortgages, back taxes, liens upon the assets, or other creditors' claims. Obtain full information about any undelivered purchases for which you will be liable. Although it is generally not desirable to assume any liabilities, it may be necessary in some instances. If liabilities are assumed, be sure their value is subtracted from the agreed-upon value of the assets.

The Price

After you have determined what you believe to be net value you will still not have reached the final price to be paid for the business. Value relates to what the business is worth. Other factors which affect the final price must be considered. Only then can you begin to determine the final price through negotiation and bargaining.

What has the seller's reputation been among employees and suppliers? Poor relationships may require extra effort on your part to establish a smoothly running organization. Make sure suppliers will deal with you. If a franchise is involved, obtain satisfactory insurance from the supplier that it will not be withdrawn.

Why does the owner wish to sell? This should be one of your first questions. Is the reason given - a death in the family, poor health, or a needed change in climate - the really decisive factor? Or does the seller know the neighborhood is changing so his specific type of business will no longer be needed; or that a new civic development, or zoning law, will affect the business unfavorably? Search for his true reasons for selling by questioning not only him but others whom you know to be reliable.

Some business owners have sold out only to start a new business in competition with the buyer. Careful consideration should be given to placing limitations upon the seller's right to compete with you for a specific period of time and within a specified area.

As a safeguard against costly errors, obtain legal advice before any agreement is made. The agreement should be drawn up by a lawyer to ensure that it covers all essential points and is clearly understood by both parties. Among the items covered in a typical contract for the sale of a small business are:

A description of what is being sold.

The purchase price.

The method of payment.

A statement of how adjustments are to be handled at the time of closing (for example, adjustments for inventory sold, rent, payroll and insurance premiums).

Buyer's assumption of contracts and liabilities.

Seller's warranties (for example, warranty protection for the buyer against false statements of the seller, inaccurate financial data, undisclosed liabilities).

Seller's obligation and assumption of risk pending closing.

Covenant of seller not to compete.

Time, place and procedures of closing.

As soon as possible after signing the contract, take possession. Otherwise, the seller may deplete the inventory and, in some cases, create ill will for you.

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5. Choosing a Franchise

Many small business owners have been helped to a sound start by investing in a franchise. You may wish to consider doing the same. Franchising can minimize your risk. It will enable you to start your business under a name and trade-mark which already have public acceptance. You will receive training and management assistance from people experienced in your line of business. Sometimes, you can also obtain financial assistance that will permit you to start with less cash than you would otherwise need.

On the other side of the coin are the sacrifices required when entering a franchised operation. You will lose a certain amount of control of your business. You will no longer truly be your own boss. And, of course, you must either pay a fee or share profits with the franchisor.

What Franchising Is

Essentially, franchising is a plan of distribution under which an individually-owned business is operated as part of a large chain. Services or products are standardized. It is a system used by a company (the franchisor) which gives the individual dealer (you, the franchisee) the right to market the franchisor's product or service by using the franchisor's trade name, trade marks, reputation, and way of doing business. The franchise agreement (or contract) usually also gives the franchisee the exclusive right to sell or otherwise represent the franchisor in a specified area. In return, the franchisee agrees to pay either a sum of money - a franchise fee, a percentage of gross sales or both, and frequently to buy equipment or supplies from the franchisor - or some combination of these considerations.

A reputable franchise may be the best successful business insurance inexperienced entrepreneurs can acquire.

Advantages of Franchising

Among the advantages of franchising to you as a franchisee are that you can start a business with:

1. Limited experience. You can use the franchisor's experience which you might otherwise have to obtain the hard way - through trial and error.
2. A relatively small amount of capital and a strengthened financial and credit standing. Some franchisors give financial assistance so you can start with less than the usual amount of cash. For example the franchisor may accept a down payment with your note for the balance of the needed initial capital. Or, the franchisor may allow you to delay your payments for royalties, purchases, or other fees to help you over the initial rough spots. With a well known, successful franchisor behind you, your standing with local financial institutions and credit associations is strengthened.
3. A well developed consumer image and goodwill with proven products and services. Because the goods and services of the franchisor are well-known, your business has

"instant" pulling power. To develop equivalent pulling power on your own might take years of promotion and considerable investment.

4. Competently designed facilities, layout, displays and fixtures. The franchising company has effectively designed facilities, layout, displays and fixtures prepared by experts and proven by nationwide usage.

5. Chain buying power. You should receive savings through the franchisor's quantity purchasing of products, equipment, supplies, advertising materials and other business needs.

6. Business training and continued management assistance from experienced company personnel. You can expect advance training in the mechanics of your particular business. Some franchisors will guide you in day-to-day operations until you are proficient. Moreover, management consulting service is provided by many franchisors on a continuing basis. This usually includes help with record keeping and other essential activities.

7. National or regional promotion and publicity. National and/or regional promotions of the franchisor will help your business. You will receive help with local advertising. The franchisor's research and development program will assist you in keeping up with competition and changing times. Best of all, the immediate identification many franchise operations enjoy will bring pre-sold customers to your door.

All of these factors can help increase your income and lower your chances of failure.

Disadvantages of Franchising

Now, what are the disadvantages of franchising? Some of them are the:

1. Required standardized operations. You cannot make all of the rules. Contrary to the "be your own boss" lures in franchise advertisements, you will not be your own boss. You must subjugate your personal identity to that of the franchisor. If an important satisfaction to you is to have your business known by your name, a franchise operation is not for you. Most franchisors have the right to exert control and pressure you (1) to conform to standardized procedure; (2) to handle specific products or services which may not be particularly suitable or profitable in your marketing area; and (3) to follow other policies which may benefit others in the chain but not always you. You lose the freedom to make most decisions. In other words, you are not your own boss.

2. Sharing profits with the franchisor. The franchisor nearly always charges a royalty on a percentage of gross sales. The royalty fee must ultimately come out of your profits. Sometimes it must be paid whether you make a profit or not, and it must often be paid before the operation is established. On the other hand, the franchisor does not usually share your losses.

3. Lock of freedom to meet local competition. Under a franchise you may be restricted in establishing selling prices, in introducing additional products or service or dropping unprofitable ones, regardless of the local competition you must meet.

4. Danger of contracts being slanted to the advantage of the franchisor. Clauses in some contracts, imposed by the franchisor, may provide for unreasonably high sales quotas, mandatory working hours, cancellation or termination of the franchise for minor infringements, and/or restrictions on the franchisee in transferring his franchise or recovering his investment. The territory assigned the franchisee may be overlapping with that of another franchisor or may be otherwise inequitable. In settling disputes of any kind the bargaining power of the franchisor may be greater than that of the franchisee. In the past, fast food franchisees worked a median of 60 hours a week; some families as much as 120 hours. As the owner, you may still opt to do this. Alleged infringement of the franchisee's exclusive territory, long a major source of friction between franchisee and franchisor, need not be if your attorney oversees the contract. The power imbalance in favor of the franchisor is usually due not only to the franchisee's smaller financial resources but to a lack of information - information which the franchisor usually has.

5. Time spent preparing reports for the franchisor. Franchisors require specific reports and you may consider the time and effort in preparing them inordinately burdensome. On the other hand if these reports are helpful to the franchisor it is likely that they will also help you to manage your business more effectively.

6. Sharing the burden of the franchisor's mismanagement. While ordinarily the franchisor's chain develops good will among consumers, there may be instances in which ill will is developed by one of the units. As one link in the chain, you may suffer despite the excellence of your particular unit. Fortunately, in recent years this has been an infrequent occurrence.

7. Few management decisions. As a franchisee, you will probably not be permitted to make management decisions even to meet changing conditions in your territory. Canceling a product or introducing a new one is seldom allowed - certainly not without consultation with a representative of the franchisor and, possible, contract revision. The same applies to a desire to expand your operation beyond its specified geographic limits. As an entrepreneurial type, constant submission to the letter of the contract may become an irritant. On the other hand, the safeguard of the franchisor's name and mode of doing business - if it results in profits - may make the restrictions more palatable. Also, some of the larger franchisors now hold annual meetings with their franchisees and encourage open discussion and initiative.

Checklist for Evaluating a Franchise

The Franchise

Did your lawyer approve the franchise contract you are considering after he studied it paragraph by paragraph?

Does the franchise call upon you to take any steps which are, according to your lawyer, unwise or illegal in your county or city? What are they?

Does the franchise give you an exclusive territory for the length of the franchise, or can the franchisor sell a second or third franchise in your territory?

Is the franchisor connected in any way with any other franchise company handling similar merchandise or services?

If the answer to the last question is "yes", what is your protection against this second franchisor organization?

Under what circumstances can you terminate the franchise contract and at what cost to you, if you decide for any reason at all that you wish to cancel it?

If you sell your franchise, will you be compensated for your good will, or will you lose the good will you have built into the business?

The Franchisor

How many years has the firm offering you a franchise been in operation?

Has it a reputation for honesty and fair dealing among the local firms holding its franchise?

Has the franchisor shown you certified figures indicating exact net profits of one or more going firms which you personally checked with the franchisee(s)?

Will the firm assist you with:

A management training program?

A public relations program?

Credit?

An employee training program?

Capital?

Merchandising ideas?

Will the firm help you find a good location to carry out its stated plan of financial assistance and expansion?

Is the franchising firm adequately financed to carry out its stated plan of financial assistance and expansion?

Is the franchisor a one-man company or a corporation with experienced management in such depth that there will always be an experienced person at its head?

Exactly what can the franchisor do for you which you cannot do for yourself?

Has the franchisor investigated you carefully and successfully enough to be assured that you can operate one of their franchises at a profit both to them and to yourself?

Has the franchisor complied with the law regulating the sale of franchises?

How much equity capital must you have to purchase the franchise and operate it until your income equals your expenses? Where will you get it?

Are you prepared to give up some independence of action to secure the advantages offered by the franchise?

Do you really believe you have the innate ability, training and experience to work smoothly and profitably with the franchisor? Your employees? Your customers?

Are you ready to spend much or all of the remainder of your business life with this franchise company, offering its product or service to your public?

Your Market

Have you made any study to determine whether the product or service which you propose to sell under franchise has a market in your territory at the prices you will have to charge?

Will the consumer population in the territory given you increase? Remain static? Decrease over the next 5 years?

Five years from now, will the product or services you are considering be in greater demand? About the same? Or in less demand?

What competition for the product or service you contemplate selling already exists in your territory? Non-franchise firms? Franchise firms?

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6. Ten Essential Aspects of Managing a Business

This book offers guidance in starting a business. But you are not ready to start your own business until you have given some thought to managing it. A business is an ongoing activity that doesn't run itself. As the manager you will have to set goals, determine how to reach those goals and make all the necessary decisions. You will have to purchase or make your product, price it, advertise it and sell it. You will have to keep records, and determine costs. You will have to control inventory, make the right buying decisions and keep costs down. You will have to hire, train and motivate employees now or as you grow.

Setting Goals

Good management is the key to success and good management starts with setting goals. Set goals for yourself for the accomplishment of the many tasks necessary in starting and managing your business successfully. Be specific. Write down the goals in measurable terms of performance. Break major goals down into sub-goals, showing what you expect to achieve in the next two to three months, the next six months, the next year, and the next five years. Beside each goal and sub-goal place a specific date showing when it is to be achieved.

Plan the action you must take to attain the goals. While the effort required to reach each sub-goal should be great enough to challenge you, it should not be so great or unreasonable as to discourage you. Do not plan to reach too many goals all at one time. Establish priorities.

Plan in advance how to measure results so you can know exactly how well you are doing. This is what is meant by "measurable" goals. If you can't keep score as you go along you are likely to lose motivation. Re-work your plan of action to allow for obstacles which may stand in your way. Try to foresee obstacles and plan ways to avert or minimize them.

Buying

Skillful buying is an important essential of profitable operation. This is true whether you are a wholesaler or retailer of merchandise, a manufacturer or a service business operator. Some retailers say it is the most important single factor. Merchandise which is carefully purchased is easy to sell.

Determining what to buy means finding out the type, kind, quality, brand, size, color, style -whatever applies to your particular inventory - which will sell the best. This requires close attention to salespeople, trade journals, catalogs, and especially the likes and dislikes of your regular customers. Analyze your sales records. Even the manufacturer should view the problem through the eyes of customers before deciding what materials, parts, and supplies to purchase.

Know your regular customers, and make a good evaluation of the people you hope will become your customers. In what socioeconomic category are they? Are they

homeowners or renters? Are they looking for price, style or quality? What is the predominant age category?

The age of your customers can be a prime consideration in establishing a purchasing pattern. Young people buy more frequently than most older people. They need more, have fewer responsibilities, and spend more on themselves. They are more conscious of style trends whether in wearing apparel, cars or electronic equipment. If you decide to cater to the young trade because they seem dominate in your area, your buying pattern will be completely different than if the more conservative middle-aged customers appear to be in the majority.

Study trade journals, newspaper advertisements, catalogs, window displays of businesses similar to yours. Ask advice of salespeople offering you merchandise, but buy sparingly from several suppliers rather than one, testing the water, so to speak, until you know what your best lines will be.

Locating suitable merchandise sources is not easy. You may buy directly from manufacturers or producers, from wholesalers, distributors or jobbers. Select the suppliers who sell what you need and can deliver it when you need it. (Distributors and jobbers are used by most business people for quick fill-ins between factory shipments.)

You may spread purchases among many suppliers to gain more favorable prices and promotional material. Or you may concentrate your purchases among a small number of suppliers to simplify your credit problems. This will also help you become known as the seller of a certain brand or line of merchandise, and to maintain a fixed standard in your products, if you are buying materials for manufacturing purposes.

When to buy is important if your business will have seasonal variations in sales volume. More stock will be needed prior to the seasonal upturn in sales volume. As sales decline, less merchandise is needed. This means purchases of goods for resale and materials for processing should vary accordingly.

At the outset, how much to buy is speculative. The best policy is to be frugal until you have had enough experience to judge your needs. On the other hand, you cannot sell merchandise if you do not have it.

To help solve buying problems, you should begin to keep stock control records at once. This will help you keep the stock in balance - neither too large nor too small - with a proper proportion and adequate assortment of products, sizes, colors, styles and qualities.

Fundamentally, there are two types of stock control - control in dollars and control in physical units. Dollar controls show the amount of money invested in each merchandise category. Unit controls indicate the number of individual items when and from whom purchased by category. A good stock control system can help you determine what, from whom, when, and how much to buy.

Pricing

Much of your success in business will depend on how you price your services. If your prices are too low, you will not cover expenses; too high and you will lose sales volume. In both cases, you will not make a profit.

Before opening your business you must decide upon the general price level you expect to maintain. Will you cater to people buying in the high, medium, or low price range? Your choice of location, appearance of your establishment, quality of goods handled, and services to be offered will all depend on the customers you hope to attract, and so will your prices.

After establishing this general price level, you are ready to price individual items. In general, the price of an item must cover the cost of the item, all other costs, plus a profit. Thus, you will have to markup the item by a certain amount to cover costs and earn a profit. In a business that sells few items, total costs can easily be allocated to each item and a markup quickly determined. With a variety of items, allocating costs and determining markup may require an accountant. In retail operations, goods are often marked up by 50 to 100 percent or more just to earn a 5% to 10% profit!

Let us work through a markup example. Suppose your company sells one product, Product A. The supplier sells Product A to you for \$5.00 each. You and your accountant determine the costs entailed in selling Product A are \$4.00 per item, and you want a \$1 per item profit. What is your markup? Well, the selling price is: \$5 plus \$4 plus \$1 or \$10; the markup therefore is \$5. As a percentage, it is 100% (\$5 markup = \$5 cost of the item). So you have to markup Product A by 100% to make a 10% profit!

Many small firms are interested in knowing what industry markup norms are for various products. Wholesalers, distributors, trade associations and business research companies publish a huge variety of such ratios and business statistics. They are useful as guidelines. Another ratio (in addition to the markup percentage) important to small firms is the Gross Margin Percentage (GMP).

The GMP is similar to your markup percentage but whereas markup refers to the percent above the cost to you of each item that you must set the selling price in order to cover all other costs and earn profits, the GMP shows the relationship between sales revenues minus the cost of the item, which is your gross margin, and your sales revenues. What the GMP is telling you is that your markup bears a certain relationship to your sales revenues. The markup percentage and the GMP are essentially the same formula, with the markup referring to individual item pricing and GMP referring to the item prices times the number of items sold (volume).

Perhaps an example will clarify the point. Your firm sells Product Z. It costs you \$.70 each and you decide to sell it for \$1 each to cover costs and profit. Your markup is 43%. Now let us say you sold 10,000 Product Z's last month thus producing \$10,000 in revenues. Your cost to purchase Product Z was \$7000; your gross margin was \$3,000 (revenues minus cost of goods sold). This is also your gross markup for the month's volume. Your GMP would be 30%. Both of these percentages use the same basic numbers, differing only in division. Both are used to establish a pricing system. And both are published and can be used as guidelines for small firms starting out. Often

managers determine what Gross Margin Percentage they will need to earn a profit and simply go to a published Markup Table to find the percentage markup that correlates with that margin requirement.

While this discussion of pricing may appear, in some respects, to be directed only to the pricing of retail merchandise it can be applied to other types of businesses as well. For services the markup must cover selling and administrative costs in addition to the direct cost of performing a particular service. If you are manufacturing a product, the costs of direct labor, materials and supplies, parts purchased from other concerns, special tools and equipment, plant overhead, selling and administrative expenses must be carefully estimated. To compute a cost per unit requires an estimate of the number of units you plan to produce. Before your factory becomes too large it would be wise to consult an accountant about a cost accounting system.

Not all items are marked up by the average markup. Luxury articles will take more, staples less. For instance, increased sales volume from a lower-than-average markup on a certain item - a "loss leader" - may bring a higher gross profit unless the price is lowered too much. Then the resulting increase in sales will not raise the total gross profit enough to compensate for the low price.

Sometimes you may wish to sell a certain item or service at a lower markup in order to increase store traffic with the hope of increasing sales of regularly priced merchandise or generating a large number of new service contracts. Competitors' prices will also govern your prices. You cannot sell a product if your competitor is greatly underselling you. These and other reasons may cause you to vary your markup among items and services. There is no magic formula that will work on every product or every service all of the time. But you should keep in mind the overall average markup which you need to make a profit.

Selling

Whether you operate a factory, wholesale outlet, retail store, service shop, or are a contractor, you will have to sell. No matter how good your product is, no matter what consumers think of it, you must sell to survive.

Direct selling methods are through personal sales efforts, advertising and, for many businesses, display - including the packaging and styling of the product itself - in windows, in the establishment, or both. Establishing a good reputation with the general public through courtesy and special services is an indirect method of selling. While the latter should never be neglected, this brief discussion will be confined to direct selling methods.

To establish your business on a firm footing requires a great deal of aggressive personal selling. You may have established competition to overcome. Or, if your idea is new with little or no competition, you have the extra problem of convincing people of the value of the new idea. Personal selling work is almost always necessary to accomplish this. If you are not a good salesperson, seek an employee or associate who is.

A second way to build sales is by advertising. This may be done through newspapers, shopping papers, the yellow pages section of the telephone directory, and other published periodicals; radio and television; handbills, and direct mail. The media you select, as well as the message and style of presentation, will depend upon the particular customers you wish to reach. Plan and prepare advertising carefully, or it will be ineffective. Most media will be able to describe the characteristics of their audience (readers, listeners, etc.). Since your initial planning described the characteristics of your potential customers, you want to match these characteristics with the media audience. If you are selling expensive jewelry, don't advertise in high school newspapers. If you repair bicycles, you probably should.

Advertising can be very expensive. It is wise to place a limit upon an amount to spend, then stay within that limit. To help you in determining how much to spend, study the operating ratios of similar businesses. Media advertising salespeople will help you plan and even prepare advertisements for you. Be sure to tell them your budget limitations.

A third method of stimulating sales is effective displays both in your place of business and outside it. If you have had no previous experience in display work, you will want to study the subject or turn the task over to someone else. Observe displays of other businesses and read books, trade magazines, and the literature supplied by equipment manufacturers. It may be wise to hire a display expert for your opening display and special events, or you may obtain the services of one on a part-time basis. Much depends on your type of business and what it requires.

The proper amount and types of selling effort to use vary from business to business and from owner to owner. Some businesses prosper with low-key sales efforts. Others, like the used-car lots, thrive on aggressive, hoop-la promotions. In any event, the importance of effective selling cannot be over-emphasized.

On the other hand, don't lose sight of your major objective - to make a profit. Anyone can produce a large sales volume selling dollar bills for ninety cents. But that won't last long. So keep control of your costs, and price your product carefully.

Record Keeping

The keeping of adequate records cannot be stressed too much. Study after study shows that many failures can be attributed to inadequate records or the owner's failure to use what information was available to him. Without records, the businessperson cannot see in advance which way the business is going. Up-to-date records may forecast impending disaster, forewarning you to take steps to avoid it. While extra work is required to keep an adequate set of records, you will be more than repaid for the effort and expense.

If you are not prepared to keep adequate records - or have someone keep them for you - you should not try to operate a small business. At a minimum, records are needed to substantiate:

1. Your returns under tax laws, including income tax and social security laws;

2. Your request for credit from equipment manufacturers or a loan from a bank;
3. Your claims about the business, should you wish to sell it.

But most important, you need them to run your business successfully and to increase your profits. With an adequate, yet simple, bookkeeping system you can answer such questions as:

How much business am I doing?

What are my expenses? Which appear to be too high? What is my gross profit margin? My net profit?

How much am I collecting on my charge business?

What is the condition of my working capital?

How much cash do I have on hand? How much in the bank? How much do I owe my suppliers?

What is my net worth? That is, what is the value of my ownership of the business?

What are the trends in my receipts, expenses, profits, and net worth? Is my financial position improving or growing worse? How do my assets compare with what I owe?

What is the percentage of return on my investment?

How many cents out of each dollar of sales are net profit?

Answer these and other questions by preparing and studying balance sheets and profit-and-loss statements. To do this, it is important that you record information about transactions as they occur. Keep this data in a detailed and orderly fashion and you will be able to answer the above questions. You will also have the answers to such other vital questions about your business as: What products or services do my customers like best? Next best? Not at all? Do I carry the merchandise most often requested? Am I qualified to render the services they demand most? How many of my charge customers are slow payers? Shall I switch to cash only, or use a credit card charge plan?

The kind of records and how many you need depends on your particular operation. A boy selling newspapers part time each day does not need inventory records. He buys and sells his entire stock each day. But shoe store or dress shop operators will soon find they cannot keep necessary inventory information in their heads.

Below is a list of records, grouped according to their use. No business will need them all. You may need only a few. As a matter of fact, you should not maintain a record without answering these three questions: (1) How will this record be used? (2) How important is the information likely to be? (3) Is the information available elsewhere in an equally accessible form?

The following list may call your attention to records you can use to great advantage:

Inventory and Purchasing Records provide facts to help with buying and selling

Inventory Control Record

Item Perpetual Inventory Record

Model Stock Plan

Out-of-Stock Sheet

Open-To-Buy Record

Purchase Order File

Open To Purchase Order File

Supplier File

Returned Goods File

Price Change Book

Accounts Payable Ledger

Sales Records to help determine sales trends

Individual Sales Transactions

Summary of Daily Sales

Sales Plan

Sales Promotion Plan

Cash Records to show what is happening to cash.

Daily Cash Reconciliation

Cash Receipts Journal

Cash Disbursements Journal

Bank Reconciliation

Credit Records show who owes you money and whether they are paying on time.

Charge Account Application

Accounts Receivable Ledger

Accounts Receivable Aging List

Employee Records show legally required information and information helpful in the efficient management of personnel.

Employee Earnings and Amounts Withheld

Employees' Expense Allowances

Employment Applications

Record of Changes in Rate of Pay

Record of Reasons for Termination of Employment Employee Benefits Record

Job Descriptions

Crucial Incidents Record

Fixtures and Property Records list facts needed for taking depreciation allowances and for insurance coverage and claims.

Equipment Record

Insurance Register

Bookkeeping Records, in addition to some of the above, are needed if you use a double-entry bookkeeping system.

General Journal

General Ledger

For efficient business operation, use information from records to keep inventory stock in line with sales, to watch trends, and for tax purposes. Use records to plan. A well thought-out business plan as a guide will strengthen your chances for success.

A record showing the data for your business plan is the budget. Work up a budget to help you determine just how much increase in profit is reasonably within your reach. The budget will answer such questions as: What sales will be needed to achieve my desired profit? What fixed expenses will be necessary to support these sales? What variable expenses will be incurred? A budget enables you to set a goal and determine what to do in order to reach it.

Compare your budget periodically with actual operations figures. With effective records you can do this. Then, where discrepancies show up you can take corrective action before it is too late. The right decisions for the right corrective action will depend upon your knowledge of management techniques in buying, pricing, selling, selecting and training personnel, and handling other management problems.

You probably are thinking you can hire a bookkeeper or an accountant to handle the record keeping for you. Yes, you can. But remember two very important facts:

1. Provide the accountant with accurate input. If you buy something and don't record the amount in your business checkbook, the accountant can't enter it. If you sell something

for cash and don't record it, the accountant won't know about it. The records the accountant prepares will be no better than the information you provide.

2. Use the records to make decisions. If you went to a physician and he told you you were ill and needed certain medicine to get well, you would follow his advice. If you pay an accountant and he tells you your sales are down this year, don't hide your head in the sand and pretend the problem will go away. It won't.

Personnel Selection

If your business will be large enough to require outside help, an important responsibility will be the selection and training of one or more employees. You may start out with family members or business partners to help you. But if the business grows - as you hope it will - the time will come when you must select and train personnel.

Careful choice of personnel is essential. To select the right employees determine beforehand what you want each one to do.

Then look for applicants to fill these particular needs. In a small business you will need flexible employees who can shift from task to task as required. Include this in the description of the jobs you wish to fill. At the same time, look ahead and plan your hiring to assure an organization of individuals capable of performing every essential function. In a retail store, a salesperson may also do stockkeeping or bookkeeping at the outset, but as the business grows you will need sales people, stockkeepers and bookkeepers.

Once the job descriptions are written, line up applicants from whom to make a selection. Do not be swayed by customers who may suggest relatives. If the applicant does not succeed, you may lose a customer as well as an employee.

Some sources of possible new employees are:

1. Recommendations by friends, business acquaintances.
2. Employment agencies.
3. Placement bureaus of high schools, business schools, and colleges.
4. Trade and industrial associations.
5. Help-wanted ads in local newspapers.

Your next task is to screen want ad responses and/or application forms sent by employment agencies. Some applicants will be eliminated sight unseen. For each of the others, the application form or letter will serve as a basis for the interview which should be conducted in private. Put the applicant at ease by describing your business in general and the job in particular. Once you have done this, encourage the applicant to talk. Selecting the right person is extremely important. Ask your questions carefully to find out everything about the applicant that is pertinent to the job.

References are a must, and should be checked before making a final decision. Check through a personal visit or a phone call directly to the applicant's immediate former supervisor, if possible. Verify that the information given you is correct. Consider, with judgment, any negative comments you hear and what is not said.

Checking references can bring to light significant information which may save you money and future inconvenience.

Personnel Training

A well-selected employee is only a potential asset to your business. Whether or not he or she becomes a real asset depends upon your training. Remember:

To allow sufficient time for training.

Not to expect too much from the trainee in too short a time.

To let the employee learn by performing under actual working conditions, with close supervision.

To follow up on your training.

Check the employee's performance after he or she has been at work for a time. Re-explain key points and short cuts; bring the employee up to date on new developments and encourage questions. Training is a continuous process which becomes constructive supervision.

Personnel Supervision

Supervision is the third essential of personnel control. Good supervision will reduce the cost of operating your business by cutting down on the number of employee errors. If errors are corrected early, employees will get more satisfaction from their jobs and perform better.

Motivating Employees

Small businesses sometimes face special problems in motivating employees. In a large company, a good employee can see an opportunity to advance into management. In a small company, you are the management. One thing you may wish to consider is to give good employees a small share of the profits, either through partownership or a profit-sharing plan. Someone who has a "share of the action" is going to be more concerned about helping to make a success of the business.

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7. Special Requirements and Needs

You are not ready to start your business until you have considered the special requirements of your proposed new enterprise. For instance, what laws and regulations will affect you? To what taxes will your business be subject? How many kinds and how much insurance should you carry? Must your proposed business meet any special licensing or zoning requirements?

Laws and Regulations

The more common types of laws and regulations are reviewed briefly here but this section is not intended to substitute for legal advice. The services of a competent attorney when you require legal assistance is a business expense which will pay for itself.

Licensing

Licensing controls directly affect many small businesses. The degree of regulation will vary, depending upon the type and location of the enterprise. If your operations are intrastate you will be concerned primarily with State and local rather than Federal licensing. Businesses frequently subject to State or local control are retail food establishments, drinking places, barber shops, beauty shops, plumbing firms and taxi companies. These are primarily service businesses, subject to regulations for the protection of public health and morals.

Retail stores, devoted exclusively to handling merchandise, may not be required to have a license but are subject to regulations dealing with fire, safety, and zoning restrictions.

Most licenses require payments of fees and are usually issued on an annual basis. Ordinarily, as a prerequisite to the issuance of a license, a written application is required. State, municipal and county authorities should be contacted for complete information regarding licensing.

Regulations for Consumer Protection

In addition to the licenses referred to above, laws and regulations are also designed for consumer protection. Some may directly affect your business practices.

For example, the Consumer Credit Protection Act became the law of the land on July 1, 1969. This is commonly known as the "Truth-in-Lending Act". If you extend credit to your customers, you must make a meaningful disclosure of credit terms in prescribed standard terminology so consumers may compare more readily the various credit terms available to them.

"Truth in Fabrics" legislation also has been enacted for consumer protection. This legislation requires informative labeling and advertising of textile fiber products. If you sell or advertise textile products either as a retailer or wholesaler, you share the manufacturers' responsibility for seeing that they are properly labeled and advertised for fiber content. If you advertise wearing apparel or household fabric products in

newspapers having interstate circulation or offer for sale cloth items previously shipped in interstate commerce, the Federal legislation applies to you whether you actually market goods across state lines or not. This means the vast majority of retailers handling textiles have definite responsibilities under labeling law.

Other laws are designed to protect the consumer directly, such as the Food, Drug and Cosmetic Act and the Flammable Fabric Act. The consumer benefits too from laws which provide freedom of competition as discussed below.

Laws Protecting the Environment

In recent years, concern about protecting the environment has produced regulations to decrease pollution to air, water, and other parts of the environment. Determine what pollution laws and regulations, if any, apply to your prospective business. Good starting points for this check are the trade association for business or your local Chamber of Commerce.

Laws Encouraging Competition

Some business practices are prohibited or restricted by legislation to encourage competition. Federal laws govern interstate commerce, while State legislation regulates intrastate transactions. The broad body of Federal legislation encouraging free private enterprise includes the Sherman, Clayton, and Federal Trade Commission Acts. Comparable State laws have also been passed. The purpose of these laws is to encourage competition by prohibiting or restricting certain types of business activities such as: contracts, combinations, and conspiracies in restraint of trade; price discrimination between purchasers of commodities of like grade and quality; false advertising, disparagement of competitors and misrepresentation.

From time to time these statutes are amended, and new interpretations are made by the courts. Your lawyer, Chamber of Commerce or business association can tell you how such laws or proposed laws may affect you.

Labor Relations

Federal and State employer-employee relations legislation deals with settlement of labor disputes; wages, hours and working conditions; fair-employment practices; and economic security.

The National Labor Relations Act, the Taft-Hartley Act and the Labor Management Reporting and Disclosure Act are three major Federal acts dealing with settlement of labor disputes. They guarantee the right of employees engaged in interstate commerce to organize and bargain collectively with their employers, or to refrain from such activities. States also have enacted laws to uphold collective bargaining and to define unfair labor practices.

Fair Labor Standards

Wages, hours and working conditions are regulated by the Fair Labor Standards Act. The act provides for minimum wages, maximum hours, overtime pay, equal pay, recordkeeping and child labor limitations. In addition to this Act the Walsh-Healey Public Contracts Act, the Davis-Bacon Act, and other related acts establish wages, hours, and working conditions applicable to Government contractors. Whether your employees will be covered depends on your individual situation. Obtain specific information from your nearest office of the Wage, Hour and Public Contracts Division, Department of Labor.

OSHA

Be aware also, of the Occupational Safety and Health Act (OSHA) of 1970. This law makes each employer responsible for furnishing employees places of employment free from recognized hazards causing, or likely to cause, death or serious physical harm. The employer must comply with safety and health standards promulgated under the Act. It is every employee's duty to comply with these safety and health standards and all rules, regulations, and orders issued pursuant to the Act which are applicable to their own actions and conduct. Specific information can be obtained from your nearest office of the Occupational Safety and Health Administration.

Fair Employment Practices

Fair employment practices are established by the Federal Civil Rights Act of 1964 which makes it unlawful to discriminate on the basis of race, religion, age, or sex as a condition of employment. Many states have enacted fair employment practice laws. As a small business owner soliciting and selecting employees, you must abide by the standards established by such laws.

Economic Security

Legislation dealing with economic security is designed to:

(1) Minimize an employee's losses from industrial accidents occupational diseases and involuntary unemployment; (2) provide hospital and medical care for the employee; and (3) furnish some income to the employee after his retirement.

Protection from income loss due to industrial accidents and occupational diseases is assured by workers' compensation laws. Because provisions of these laws vary from state to state, consult your local sources. Involuntary unemployment benefits are required by both State and Federal legislation. The Federal Social Security Act requires a separate payroll calculation to finance hospital and medical care for people 65 years of age and older, and provides for income to be paid to an employee who reaches the legal retirement age.

Taxes

Be sure you are aware of the tax implications in starting a business. Your business will be subject to Federal, State, and local taxes. You may be liable for such Federal taxes as social security (referred to above and shared by you as employer with your employees), excise taxes and, if your business is incorporated, the corporate income

tax. From your employees' wages you must deduct their share of the old-age survivor's, hospital and medical insurance taxes as well as their unemployment compensation contributions. From such employees' paychecks, you must withhold the current share of their individual Federal and, where required, State and local income taxes. If you are an employee of your own corporation, the withholding provisions of the social security and individual income taxes apply to you, too.

If you are a sole proprietor or partner, your personal income tax payments must be prepared and submitted on a quarterly basis.

Under the Self-Employed Individual Tax Retirement Act you may take an income tax deduction if you set up retirement plans for yourself and employees. Go to the local office of the Director of Internal Revenue for information about your Federal tax obligations. An excellent booklet [revised from year to year] on this subject is Tax Guide for Small Business, prepared by the Internal Revenue Service.

You will have other State and local taxes. The more common types levied by states are income, property, sales, occupation or business license, and unemployment compensation taxes. Information concerning State and local taxes and fees which apply to your particular business can be obtained from your state and municipality. After you have information on the various kinds of taxes for which you will be responsible you will find it helpful to set up a time table for meeting these obligations.

Insurance

Another function to perform before you can open your business is the securing of adequate insurance protection. Otherwise, a part or all of your investment may be lost. Insure against risks over which you have no control, such as fire, windstorm; liability judgment, or the death of a key employee. On the other hand, do not insure against a loss which would be trivial if it did occur, nor pay for protection when the premium is a substantial proportion of the value of the insured property. Some major types of insurance to consider are fire, general liability, automobile liability, automobile physical damage, workers' compensation, crime, business interruption, glass, group life; group health and disability.

The subject of proper insurance coverage is involved. Consult more than one insurance agent, broker, or company representative for advice. How much coverage do others in businesses comparable to yours carry? Ask business friends and others who have had experience with different agents. Can the agent supply all the kinds of coverage you need at reasonable prices? Is he or she known as a competent professional? Will the agent devote enough time to your individual problems to justify the commission? At no extra cost, will the agent survey your entire situation and recommend alternative methods of insurance, pointing out the advantages and disadvantages of each? Does the company he or she recommends have a good reputation for service in the event of loss?

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8. Time to Make the Decision

Time, now, to make a decision. You've analyzed yourself, your life style, your opinion, and your attitudes. You've read and studied and discussed the pros and cons of starting a business of your own with attorneys and accountants, business owners and bankers. You've picked a lot of brains, and given your own a workout. Now it is time for you to make the one all-encompassing decision which, if it is in the affirmative and you decide to start a small business of your own, will require one decision after another to implement.

You've done your cash planning and explored your cash requirements in consultation with your lawyer, banker, accountant or any combination of the three. Can you swing it financially? Make a decision.

You've pondered the advisability of sharing ownership with others as compared with the independence of going it alone. Which will it be? Another decision required.

You've walked and driven through urban business areas, stood and watched the traffic in neighborhood shopping centers, tried to estimate the value of becoming part of one of the gigantic covered malls sprawled out in the suburbs. Which offers the most suitable location for you?

Some of you have faced the alternative of buying an existing business. After carefully weighing the advantages of such a transaction against the disadvantages, what decision will you make on this question?

Others among you who are reading these pages have given the possibility of investing in a franchised business serious consideration. Do the safeguards the quick-start advantages offered by operating within the shelter of a national franchise make up for the lack of freedom under which you may be forced to operate? What will your decision be?

These five important preliminary decisions made, you are ready to begin considering the many decisions which the specific type and size of small business you have chosen will require. Answer the following questions.

What are my immediate goals?

My long range goals?

If purchasing stock for resale, I should begin with the following decisions:

What quality merchandise shall I carry? Luxury, Average, Thrifty, Varied?

Who will my suppliers be?

What will my average pricing markup be?

Who will do the selling? Owner, Employees, Both?

How will I attract customers? Newspaper ads, Radio, TV, Handbills, Word of mouth, Window displays, Special promotions?

What kind of records will I need?

Who will keep the records? Owner, Bookkeeper Full time, Bookkeeper Part-time?

How will personnel be selected? Employment Agency, Help Wanted, Family, Word of Mouth?

How will personnel be trained?

How will personnel be motivated?

Special attention also must be paid to law requirements and regulations. Some of these will involve decisions on your part. Most of them give you little choice. They simply need to be followed. These questions may serve as a helpful check:

Does my business require licensing? How often? By whom?

Am I familiar with requirements regarding consumer protection in pricing, time payments and so forth? Have I taken steps to meet these requirements?

If I am setting up a manufacturing plant, am I aware of the restrictions regarding disposition of waste materials in compliance with environmental codes? Have I taken steps to assure compliance with them?

Have I checked to assure that my business practices will be in consonance with national and local regulations concerning fair competition practices?

If my place of business will require employees other than myself, have I taken steps to comply with Fair Labor Standards, OSHA requirements, Fair Employment Practices and other labor relations criteria? What about group health insurance? Other insurance?

Have I checked with the Internal Revenue Service for employee tax withholding procedures and forms?

If you are aware of the responsibility, the hard work and the long hours it will take before your goal as an entrepreneur can be realized, and you are not deterred...

If you have given long and careful consideration to all the requirements, regulations, financial obligations and hazards implicit in setting up a small business, and you regard them as challenges you can meet.

If you would gladly give up your safe job working for someone else for the independence, the excitement, the sheer joy of being your own boss, than small business ownership may indeed be for you.

Good luck in your endeavor!

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9. Going into business FAQ

To start and run a small business you must know and be many things. As one small business owner attending a conference put it: "When I came here, my business lost the services of its chief executive, sales manager, controller, advertising department, personnel director, head bookkeeper, and janitor."

This chapter, based on questions asked by people in small business or contemplating starting, suggests the many facets of running a small concern that each owner/manager must become familiar with. While the answers to the questions are hardly exhaustive of any of the subjects, they provide the background for questions you may need to ask before going into business, as well as suggesting sources of answers to those questions.

Introduction

Almost everyone considering it has dozens of questions about starting a small business. The only foolish questions, of course, are the questions that aren't asked. Yet, many times we don't have enough information to ask the right questions.

The questions in this guide are drawn from participants in training courses for new entrepreneurs. Most of the questioners didn't own, operate, or manage small businesses. Their questions are typical of what's on the minds of potential business owners. You may have pondered similar questions, as you thought about becoming your own boss.

The questions fell generally into areas such as the steps in setting up a business, marketing, and financing a new concern. In this guide the questions have been grouped by subject.

Answers to the questions came from experts in the various areas. These experts include a lawyer, an accountant, a bank loan officer, several small business owners, and market researchers.

These answers, it is hoped, will help you as you approach deciding on becoming a small business owner.

The questions may suggest questions that you should find answers to before you invest your money, time, and effort in a small business.

Starting Out

1. If you have money but no particular business in mind, how can you get enough information on the best business to go into?

The best way of choosing your business venture is to look at your experience and educational background. A thorough review will provide leads on the business field you should enter - do what you know best. Even more important, you must like the business field you are going to enter to bring the enthusiasm and self-confidence you need to make the business go.

2. What are the basic survival skills you need to run a business?

The basic survival skills include a working knowledge of basic recordkeeping; financial management; personnel management; market analysis; break-even analysis; product or service knowledge; tax knowledge; legal structures; and communication skills.

3. What special obstacles do women entering business face, and how can these obstacles be overcome?

Women are at last making inroads into business, not only as executives but as owners. There are many obstacles, chief among them the doubts that lenders, suppliers, and in some fields, customers have about women's ability to run businesses. These can be overcome with self confidence and a strong belief in your ideas. You should not be discouraged by being rebuffed by people who simply don't understand. As more and more women enter business and succeed, the process will become easier and easier.

4. What are the most important factors that cause small business failure?

There are, of course, many reasons for the failure of new small businesses. One way of looking at the causes is to remember that a new business is starting at zero momentum; newly entering a market, having to establish supplier relations, finding proper financing, and training employees. To coordinate all these facets and start them simultaneously is a tremendous job. If you don't have experience and management capability, success won't be very likely. You'll also find that undercapitalized businesses, those without enough cash to carry them through the first six months or so before the business starts making money, don't have good survival prospects. In such cases, even businesses with good management can founder.

5. If you're trying to buy a going service business, how can you figure a reasonable price for the business that takes into account goodwill and business contacts in addition to the value of equipment and inventory?

There are many methods, but basically what you're trying to do is set a value on the assets and earnings record of the firm. The simplest way is to determine the "payback period," usually two or three years. That is, the net profit for two years would equal the goodwill value. A more complicated and accurate method called the "net present value" method, is based on the cost of capital and a risk factor. For that method an accountant's help would be valuable.

6. What kind of a market study should you do before deciding to buy a radio station?

Determining the price of any business is difficult. For a radio station specifically, you can get the figures on the total revenue of all stations in the area (that is, advertising revenue). You should also get the percentage of the total market that the station you're considering has. You must also determine the potential market for the area in advertising dollars. Finding out the total number of businesses by line and size in the area covered by the station and their advertising expenditures would give you some insight. Really, you'd study the market like this for buying any business.

7. How long does it take a new business to establish a good public image?

A good public image takes a long time to establish (and only minutes to lose). There is no set formula, but a good image depends on:

The service, products, and customer treatment you provide;

The market you're in;

How you stack up against your competitors;

The quality of your public relations and advertising programs.

If you're new to a market - and if you do what you say you're going to - you may establish an excellent reputation in 18 to 24 months.

8. How do you find a good lawyer?

As with most personal services, you must have rapport with your attorney. The best way to determine this is to talk to lawyers by phone or visit them before you make a selection. Get recommendations from friends, or your banker. You're looking for someone you can trust and who will take an interest in you and your business.

9. Do you need a lawyer to start a business?

No, but it's wise to get the best advice possible when you're starting out. An attorney is one source of the expertise you'll need to draw on.

Form of Business

10. What form of business do you recommend for a new business?

Each legal form, sole proprietorship, partnership, or corporation, has its advantages and disadvantages. The one you should pick depends on your circumstances, including:

Your financial condition,

The line of business you're entering,

The number of employees,

The risk involved,

Your tax situation.

Don't assume, if you plan a one-person business, that sole proprietorship is the way to go. See your lawyer.

The Market

11. How can you find out what the prevailing costs are for a service business in your market area?

One way is simply to call competitors and ask their prices. Their prices will give you a lead. You could ask competitors' customers for the same information if you didn't want to go directly to the competition.

12. How do you go about determining the market for a mail order business?

The principles of determining market share and market potential are the same no matter how large the geographical area. You must first determine a customer profile, the size of the market, and the number of competitors. You could also use a readership survey given to you by a magazine in which you intend to advertise.

Pricing

13. How do you figure markup and markdown?

Markup (markon) is the original amount that the merchandise is marked up. Markup as a percentage (also called gross margin rate) is figured as a percentage of sales. For example, say the cost of merchandise is \$10 and you want a 20 percent markup; what is the selling price (SP)? By definition we know that markup as a percentage is given as a percentage of sales. Thus, our

cost must be 80 percent of the selling price (100 percent selling price - 20 percent desired markup).

So, our selling price is \$12.50, cost \$10.00, and markup \$2.50 or 20 percent of the selling price.

Markdown (discount) is a reduction of selling price below the original sale price. Assume the item is marked down to \$11.25. The markdown is \$1.25 or a 10 percent markdown (\$1.25 markdown divided by \$12.50 original selling price).

14. How would you go about establishing price guidelines for a business renting items to customers?

Pricing is based normally on a combination of cost and market competition. Trade associations are a prime source of such information.

Finances

15. What is the average expected net profit for small business?

Average net profits vary with the type of business - retail, wholesale, service, manufacturing, construction. They also vary for the type of business structure - proprietorship or corporation. Dun & Bradstreet publish ratios which give you these figures, as well as lots of very useful cost information.

16. Would you explain the meaning of "rate of return on investment"? How is it different from net profit? Is it different from return on assets employed?

Net profit (before taxes) is basically total sales for a specific period less cost of goods and operating expenses during that period. (For a retail business, cost of goods would

be your cost of merchandise sold.) Net profit is a function of both rate of return on investment (ROI) and return on total assets. ROI is net profit divided by capital invested by the owners of the company.

ROI is used to measure the effectiveness of management in attaining the owners' desired return on their investment. Generally, the larger the ROI, the more attractive a company is to potential investors.

Return on total assets is the net profit divided by total assets. This measures the net profitability of the use of all resources of the business. It is another tool for measuring management effectiveness in the use of all resources borrowed and equity.

17. Does a bank require absolute top credit references from loan applicants?

The better the credit references the greater the possibility of loan approval.

18. If I estimate my start-up cost at \$50,000 and can't put up anywhere near the \$25,000 that I've been told is what I should have for my share, am I wasting my time even filling out a loan application?

In all probability you would be, although there are some exceptions. For example, it might be possible to get a loan under your circumstances if you were buying a business that's already operating well enough to provide sufficient profits to cover its obligations and the loan. Furthermore, if the applicant is the present manager who has made this business go, the chances of getting such a loan are much better.

Help!

19. Getting money is difficult; keeping it may be even more difficult. Where can I get assistance in managing my business?

Your accountant and bank can provide financial counseling which can be very helpful in starting and managing your business. They can also give you in valuable information on the local area and your market that can be critical in making decisions in your business.

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10. Checklist for Starting a Business

Owning a business is the dream of many people ... starting that business converts your dream into reality. But there is a gap between your dream and reality that can only be filled with careful planning. As a business owner, you will need a plan to avoid pitfalls, to achieve your goals and to build a profitable business.

The "Checklist for Going into Business" is a guide to help you prepare a comprehensive business plan and determine if your idea is feasible, to identify questions and problems you will face in converting your idea into reality and to prepare for starting your business.

Operating a successful small business will depend on:

a practical plan with a solid foundation;

dedication and willingness to sacrifice to reach your goal;

technical skills; and

basic knowledge of management, finance, record keeping and market analysis.

As a new owner, you will need to master these skills and techniques if your business is to be successful.

Identify Your Reasons

As a first and often overlooked step, ask yourself why you want to own your own business. Check the reasons that apply to you.

1. Freedom from the 9-5 daily work routine. ____
2. Being your own boss. ____
3. Doing what you want when you want to do it. ____
4. Improving your standard of living. ____
5. Boredom with your present job. ____
6. Having a product or service for which you feel there is a demand. ____

Some reasons are better than others, none are wrong; however, be aware that there are tradeoffs. For example, you can escape the 9 to 5 daily routine, but you may replace it with a 6 a.m. to 8 p.m. routine.

A Self-Analysis

Going into business requires certain personal characteristics. This portion of the checklist deals with you, the individual. These questions require serious thought. Try to be objective. Remember, it is your future that is at stake!

Personal Characteristics

Answer each question with Yes or No

1. Are you a leader?
2. Do you like to make your own decisions?
3. Do others turn to you for help in making decisions?
4. Do you enjoy competition?
5. Do you have will power and self discipline?
6. Do you plan ahead?
7. Do you like people?
8. Do you get along well with others?

Personal Conditions

This next group of questions though brief is vitally important to the success of your plan. It covers the physical emotional and financial strains you will encounter in starting a new business.

Are you aware that running your own business may require working 12-16 hours a day six days a week and maybe even Sundays and holidays?

Do you have the physical stamina to handle the workload and schedule?

Do you have the emotional strength to withstand the strain?

Are you prepared if needed to temporarily lower your standard of living until your business is firmly established?

Is your family prepared to go along with the strains they too must bear?

Are you prepared to lose your savings?

Personal Skills And Experience

Certain skills and experience are critical to the success of a business. Since it is unlikely that you possess all the skills and experience needed you'll need to hire personnel to supply those you lack. There are some basic and special skills you will need for your particular business.

By answering the following questions you can identify the skills you possess and those you lack (your strengths and weaknesses).

Do you know what basic skills you will need in order to have a successful business?

Do you possess those skills?

When hiring personnel will you be able to determine if the applicants' skills meet the requirements for the positions you are filling?

Have you ever worked in a managerial or supervisory capacity?

Have you ever worked in a business similar to the one you want to start?

Have you had any business training in school?

If you discover you don't have the basic skills needed for your business will you be willing to delay your plans until you've acquired the necessary skills?

Finding a Niche

Small businesses range in size from a manufacturer with many employees and millions of dollars in equipment to the lone window washer with a bucket and a sponge. Obviously the knowledge and skills required for these two extremes are far apart but for success they have one thing in common: each has found a business niche and is filling it.

The most critical problems you will face in your early planning will be to find your niche and determine the feasibility of your idea. "Get into the right business at the right time" is very good advice but following that advice may be difficult. Many entrepreneurs plunge into a business venture so blinded by the dream that they fail to thoroughly evaluate its potential.

Before you invest time effort and money the following exercise will help you separate sound ideas from those bearing a high potential for failure.

Is Your Idea Feasible?

Identify and briefly describe the business you plan to start.

Identify the product or service you plan to sell.

Does your product or service satisfy an unfilled need?

Will your product or service serve an existing market in which demand exceeds supply?

Will your product or service be competitive based on its quality selection price or location?

Answering yes to any of these questions means you are on the right track; a negative answer means the road ahead could be rough.

Market Analysis

For a small business to be successful the owner must know the market. To learn the market you must analyze it a process that takes time and effort. You don't have to be a trained statistician to analyze the marketplace nor does the analysis have to be costly.

Analyzing the market is a way to gather facts about potential customers and to determine the demand for your product or service. The more information you gather the greater your chances of capturing a segment of the market. Know the market before investing your time and money in any business venture.

These questions will help you collect the information necessary to analyze your market and determine if your product or service will sell.

1. Do you know who your customers will be?
2. Do you understand their needs and desires?
3. Do you know where they live?
4. Will you be offering the kind of products or services that they will buy?
5. Will your prices be competitive in quality and value?
6. Will your promotional program be effective?
7. Do you understand how your business compares with your competitors?
8. Will your business be conveniently located for the people you plan to serve?
9. Will there be adequate parking facilities for the people you plan to serve?

This brief exercise will give you a good idea of the kind of market planning you need to do. An answer of no indicates a weakness in your plan so do your research until you can answer each question with a "yes".

Planning Your Start-up

So far this checklist has helped you identify questions and problems you will face converting your idea into reality and determining if your idea is feasible. Through self-analysis you have learned of your personal qualifications and deficiencies and through market analysis you have learned if there is a demand for your product or service.

The following questions are grouped according to function. They are designed to help you prepare for "Opening Day".

Name and Legal Structure

1. Have you chosen a name for your business?
2. Have you chosen to operate as sole proprietorship partnership or corporation?

Your Business and the Law

A person in business is not expected to be a lawyer but each business owner should have a basic knowledge of laws affecting the business. Here are some of the legal matters you should be acquainted with:

1. Do you know which licenses and permits you may need to operate your business?
2. Do you know the business laws you will have to obey?
3. Do you have a lawyer who can advise you and help you with legal papers?
4. Are you aware of
Occupational Safety and Health requirements?
Regulations covering hazardous material?
Local ordinances covering signs snow removal etc.?
Tax Code provisions pertaining to small business?
Workmen's Compensation laws?

Protecting Your Business

It is becoming increasingly important that attention be given to security and insurance protection for your business. There are several areas that should be covered. Have you examined the following categories of risk protection?

Fire

Theft

Robbery

Vandalism

Accident liability

Discuss the types of coverage you will need and make a careful comparison of the rates and coverage with several insurance agents before making a final decision.

Business Premises and Location

1. Have you found a suitable building in a location convenient for your customers?
2. Can the building be modified for your needs at a reasonable cost?
3. Have you considered renting or leasing with an option to buy?
4. Will you have a lawyer check the zoning regulations and lease?

Merchandise

Have you decided what items you will sell or produce or what service(s) you will provide?

Have you made a merchandise plan based upon estimated sales to determine the amount of inventory you will need to control purchases?

Have you found reliable suppliers who will assist you in the start-up?

Have you compared the prices quality and credit terms of suppliers?

Business Records

Are you prepared to maintain complete records of sales income and expenses accounts payable and receivables?

Have you determined how to handle payroll records tax reports and payments?

Do you know what financial reports should be prepared and how to prepare them?

Finances

A large number of small businesses fail each year. There are a number of reasons for these failures but one of the main reasons is insufficient funds. Too many entrepreneurs try to start and operate a business without sufficient capital (money). To avoid this dilemma you can review your situation by analyzing these three questions:

1. How much money do you have?
2. How much money will you need to start your business?
3. How much money will you need to stay in business?

The chart below will help you answer the second question: How much money will you need to start your business? The chart is for a retail business; items will vary for service construction and manufacturing firms.

The answer to the third question (How much money will you need to stay in business?) must be divided into two parts: immediate costs and future costs.

Start-up Cost Estimates

Decorating, remodeling

Fixtures, equipment

Installing fixtures, equipment

Services, supplies

Beginning inventory cost

Legal, professional fees

Licenses, permits

Telephone utility deposits

Insurance

Signs

Advertising for opening

Unanticipated expenses

Total start-up costs

Total start-up costs _____

From the moment the door to your new business opens a certain amount of income will undoubtedly come in. However this income should not be projected in your operating expenses. You will need enough money available to cover costs for at least the first three months of operation. The chart below will help you project your operating expenses on a monthly basis.

Expenses for one month

Your living costs

Employee wages

Rent

Advertising

Supplies

Utilities

Insurance

Taxes

Maintenance

Delivery/transportation

Miscellaneous

Total expenses _____

Now multiply the total of the chart above by three. This is the amount of cash you will need to cover operating expenses for three months. Deposit this amount in a savings account before opening your business. Use it only for those purposes listed in the above chart because this money will ensure that you will be able to continue in business during the crucial early stages.

By adding the total start-up costs to the total expenses for three months (three times the total cost on The chart above) you can learn what the estimated costs will be to start

and operate your business for three months. By subtracting the totals of the charts from the cash available you can determine the amount of additional financing you may need if any. Now you will need to estimate your operating expenses for the first year after start-up.

The first step in determining your annual expenses is to estimate your sales volume month by month. Be sure to consider seasonal trends that may affect your business. Information on seasonal sales patterns and typical operating ratios can be secured from your trade associations.

(NOTE: The relationships among amounts of capital that you invest levels of sales each of the cost categories the number of times that you will sell your inventory (turnover) and many other items form "financial ratios." These ratios provide you with extremely valuable checkpoints before it's too late to make adjustments. In the reference section of your local library are publications such as "The Almanac of Business and Industrial Financial Ratios" to compare your performance with that of other similar businesses.

Next determine the cost of sales. The cost of sales is expressed in dollars. Fill out each month's column in dollars total them in the annual total column and then divide each item into the total net sales to produce the annual percentages. Examples of operating ratios include cost of sales to sales and rent to sales.

After Start-up

The primary source of revenue in your business will be from sales but your sales will vary from month to month because of seasonal patterns and other factors. It is important to determine if your monthly sales will produce enough income to pay each month's bills.

An estimated cash flow projection will show if the monthly cash balance is going to be subject to such factors as:

Failure to recognize seasonal trends;

Excessive cash taken from the business for living expenses;

Too rapid expansion; and

Slow collection of accounts if credit is extended to customers.

Use the following chart to build a worksheet to help you with this problem. In this example all sales are made for cash.

Conclusion

Beyond a doubt preparing an adequate business plan is the most important step in starting a new business. A comprehensive business plan will be your guide to managing a successful business. The business plan is paramount to your success. It must contain all the pertinent information about your business; it must be well written factual and

organized in a logical sequence. Moreover it should not contain any statements that cannot be supported.

If you have carefully answered all the questions on this checklist and completed all the worksheets you have seriously thought about your goal. But . . . there may be some things you may feel you need to know more about.

Owning and running a business is a continuous learning process. Research your idea and do as much as you can yourself but don't hesitate to seek help from people who can tell you what you need to know.

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