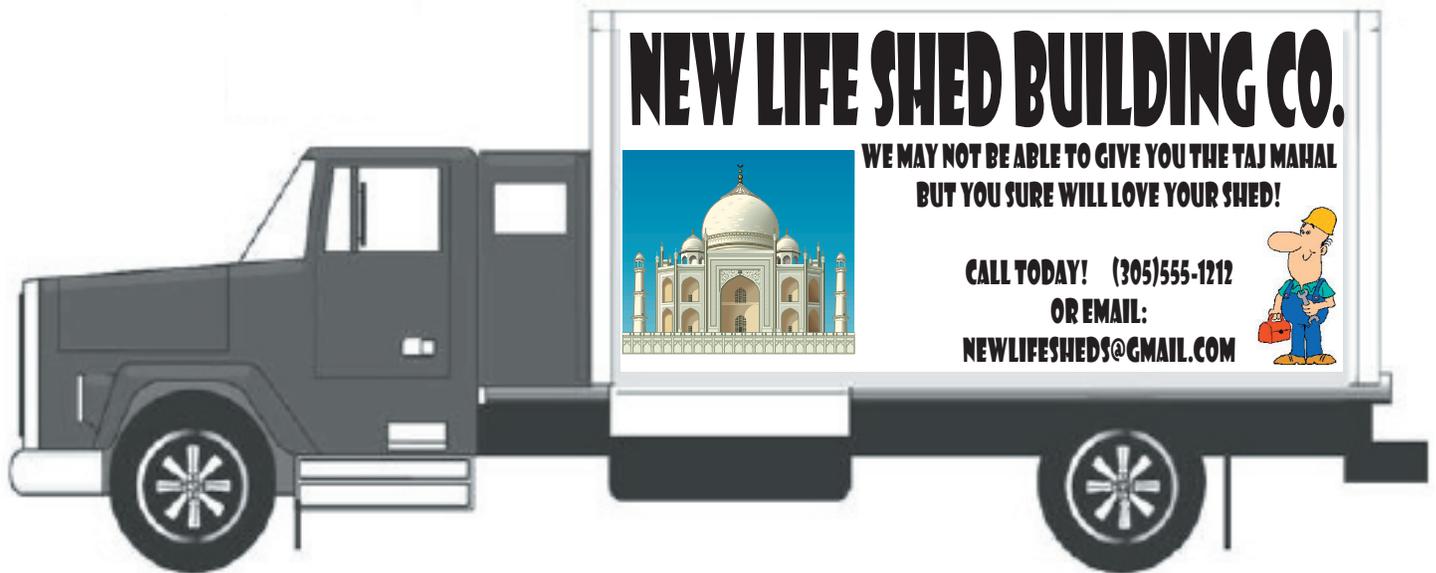


Developing A Business Concept

Student Manual

revised 2018



**A REEFS Course
brought to you by Horizon Communities in Prison**

Chapter 1 Introduction	3	Chapter 4 Show Me The Money	29
Expectations	4	Personal Budget	30
Grading Philosophy	4	Start-Up Costs	34
Grading Chart	4	Cost/Benefit Analysis	38
		Negotiation	40
Chapter 2 Getting Started	5	Funding	43
Entrepreneurial Background and Interests	5		
Business Experience	6	Chapter 5 The Customer	48
Hobbies	7	Writing Style	48
Personal Skills	9	Customer Service	49
SWOT	10	Target Market	50
Action Plan	12	Creating Customers	54
8 Dimensions of an Entrepreneur	13	Demand	55
Chapter 3 From Idea to Concept	18	Chapter 6 The Real Numbers	61
Content of Plan	18	Competition Analysis	61
Niche Market	21	Cost of Goods Sold	65
Business Math	24		
		Chapter 7 Brief Business Description	74
		Conclusion	81

Acknowledgements

Many people and organizations contributed to the production of this book. We thank the Florida Department of Corrections for allowing and supporting this effort. Thank you, also, to Horizons Communities in Prison for their tireless and enduring efforts over many years to provide the resources needed for a second chance in a program-focused environment. The REEFS team of inmates at Wakulla has provided direction, help, editing, and encouragement. Thank you all those who participated directly in this project.

Authors: Mark Brackmann, Kenneth Blosser, Booker Flowers, Mark Tousignant

Content Editors: Cary Padgett, Bryan J. Stenstrup, Jason West

Graphic Design Artist: Cary Padgett, Mark Tousignant

Tireless and Peerless Volunteers: W. Warren Mulherin, CPA, CFE(Retired), Nate Schaidt, Bette Strickland, Rev. John Medlock

WE HOPE YOU ENJOY THE REEFS DEVELOPING A BUSINESS CONCEPT PROGRAM!

Chapter 1

Introduction

Many people have a general idea of an industry or a field that interests them, maybe they have even thought about starting up their own business in that field, but they lack the focus and specific details that they need to transform that vague idea into an actual working business. If this describes you, the Developing a Business Concept (DBC) class is designed specifically to help you transform that vague business idea into a workable concept by using proven business strategies. Even if you haven't put that much thought into it but simply think that owning your own business would be a good idea, this class will help you to see what is involved.

As you know, when we leave prison we will be facing many obstacles. The two biggest concerns of most inmates are housing and employment, and employment can be a serious concern. The Employability class offered by REEFS deals with how to find work and get hired, but what if you want to take another direction? Who better to hire us than *us*? By becoming an employer ourselves, we don't have to worry about whether or not we will be hired, but starting a business does come with all of its own unique problems. We will begin to look at those in this class and discuss how they might be solved.

In the DBC class, you will write a brief business description (describing your business), look at how Cost of Goods Sold works, and you will write a Startup Budget. We will also begin the work of writing a working business plan by working on a Statement of Principles for your chosen business and determining both the target market for your business and what the competition looks like.

Any business owner needs a set of skills that will allow them to handle the complex and challenging task of running a company. Over the course of this class, we will take a hard look at your skills and abilities and measure them against what it takes to be successful. This class addresses required business skills like accounting, computers and marketing and also foundational skills like reading, communications, and basic technical business writing.

The business world has its own specialized vocabulary (what some people might call lingo or jargon). In this class, we will look at some important business words in detail. Pay attention to them. You cannot thrive in the business world unless you can speak the language. We will also discuss business finance, projections, and some basic math that all business owners need to master. We do not attempt to cover all these items in exhaustive detail, but we will focus on learning what strengths you bring and what areas that you should concentrate on improving.

We will also look beyond skills into personality traits that are common to many successful ***entrepreneurs***. Characteristics like leadership and persistence allow people to thrive in the hectic, fast-paced world of business. Not all people are cut out to be business owners, but all of us can learn what it takes to make us more competitive in the business world.

Entrepreneur

A person who starts a business. The name generally implies that the person is creative and willing to take risks to succeed.

It's important for you to know that this class works. Are there obstacles in front of us even if we want to start up our own business? Of course. But, inmates who have completed DBC and Small Business Concepts have left prison and gone on to create real, profitable businesses and made a name for themselves. Some of them have done so well that they have been able to hire other ex-convicts to work for them, giving them a second chance at a new life. If you choose to truly engage in this program, it can help to propel your life in a new and fascinating direction. Becoming a successful business owner could change how people view you, and how you view yourself and the world. So, let us begin.

Classroom Expectations of Students

- Please don't leave until the class is dismissed as a group
- If you need to use the restroom, please do so quietly and quickly and return
- Respect others by keeping extra conversation to a minimum
- If you really want to be here, act like it: Please pay attention, ask questions and stay awake

Student Expectations of Class

- A certificate
- A goal that offers hope
- Motivation to continue your education
- Your own specific business idea

What can you expect from DBC?

Developing a Business Concept (**DBC**) is an introduction into the world of small business ownership. This class starts at the very beginning of the planning stage. What type of business could you start? How can you tell a good business idea from one that might crash and burn? What skills do you need, what skill do you already have? These are the questions that DBC will help you explore. This class does require some hard work. It is designed to be an eight-session class with bunkwork averaging one hour per session.

Grading Philosophy

A word about grading in this class: In the business world, companies that provide poor quality products, mediocre service, or just a plain bad experience for their customers generally don't last very long. Companies that go above and beyond their competitors, that go out of their way to provide excellent service and great value, tend to rise to the top. Poorly performing companies struggle while superiority is rewarded with customer loyalty and premium earnings. This class follows the same concept. Your assignments will be graded very seriously, so we ask that you take them seriously. We could present you with something simple, and ultimately useless, and you could make a lazy half-hearted effort just to get a certificate and gain nothing. You will not succeed in business if you make an apathetic effort, and neither will you succeed in this class. We will hold you to a high standard of achievement here and will recognize and reward excellence.

Use the chart to the right to keep a record of your scores on each assignment. ***Keep all your bunk work.*** Just as with the Bookkeeping Workbook, the work you do here will help you if you go on to take the Small Business Concepts class.

Everyone who completes this course will receive a certificate of completion. Those who score 140 points or more earn the chance to enroll in the Small Business Concepts course and fully develop their business idea into a complete and viable business plan. Be warned that the SBC course is considerably more challenging than the DBC course. SBC is a college-level class so students must be ready to fully commit to twelve weeks of very hard work.

For illustration purposes, we will be using the Workbook that you filled out in the Bookkeeping class. New Life Shed Building Co. will be our example company, using it as the guideline to look at your own business idea. The owner of New Life made some mistakes, but he also did some things right. We will look at some of those mistakes and successes as we go along.

Scale	Points	Earned
Define Your Niche	15	
Math Assessment	10	
Personal Budget	10	
Start-Up Costs & Funding	15	
Test #1	20	
Business Writing	10	
Target Market	15	
Demand	15	
Competition Analysis	10	
Cost of Goods Sold	40	
Brief Business Description	20	
Test # 2	20	
Total Points	200	
Must score 140 + points to enter SBC class		

Chapter 2

Getting Started

You will not build an entire **business plan** in the DBC class, but you will get a decent start on one. You will write a brief business description for your company and learn how to build some simple financial statements. The focus of this class is to clearly identify a suitable business idea and set the general direction of your future company. An entrepreneur is not someone who waits for his future to come to him. He builds his own. But, it is not an easy mountain to climb. Regardless of



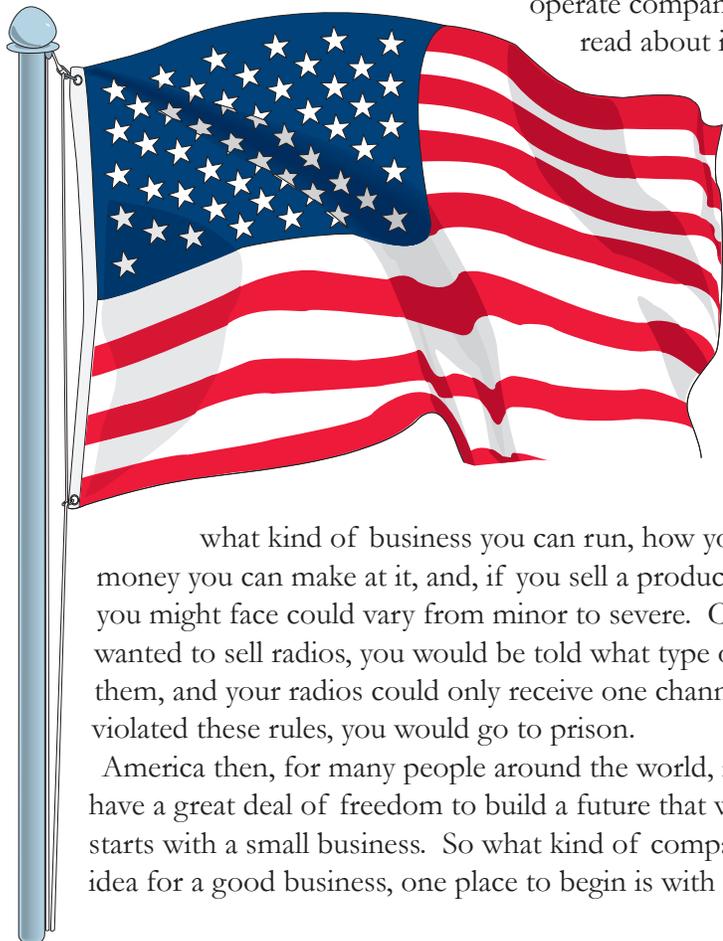
Business Plan

A written document outlining goals, objectives, and policies that a company will follow.

whether you have the skills you need or not, it is hard work to reach the top. Are you an entrepreneur? Are you someone who has what it takes to build your own future? Let's begin by taking a look at exactly what that means.

Entrepreneurial Background and Interests

Ours is a **Capitalist** country built on the idea of **Free Enterprise**. Free enterprise is, basically, the idea that private individuals can own and operate companies. When you read about immigrants



flocking to the United States, it is primarily because in America we enjoy the freedom to run any company we choose. This is not true in much of the world. In many other countries, even if you have the opportunity to own a company, you are often told by the government

Capitalist

A person who invests money and has an ownership interest in a business enterprise.

Free Enterprise System

The freedom of private business to operate competitively with minimal government regulation.

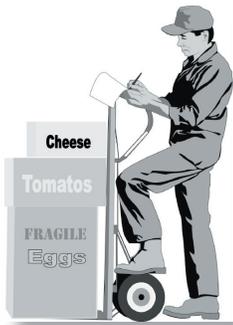
what kind of business you can run, how you can run it, how much money you can make at it, and, if you sell a product, what sort of product you can sell. The regulations you might face could vary from minor to severe. Consider this: if you were a citizen of North Korea and wanted to sell radios, you would be told what type of radio you could sell and what you could charge for them, and your radios could only receive one channel (the official North Korean Radio channel). If you violated these rules, you would go to prison.

America then, for many people around the world, really does represent the land of opportunity. Here, we have a great deal of freedom to build a future that we choose for ourselves. For many people, that future starts with a small business. So what kind of company would *you* like to start? When you start looking for an idea for a good business, one place to begin is with your personal experiences and interests.

Business Experience

A fast food restaurant sells food, obviously. But, where does that food come from? What does it take to prepare that food? What sort of structure does it require and what sort of maintenance is needed? With any business, many smaller vendors are involved. For our fast food restaurant, those vendors might include:

- Lawn service
- Parking lot clean up
- Carpet cleaner
- Window cleaner
- Pressure washer
- Equipment serviceman
- Refrigeration specialist
- Meat supplier
- Produce supplier
- Hood cleaner
- Uniform supplier
- Paper supplier
- Computer technician
- Alarm company



Each of the items on that list represents an opportunity, an opening for someone to start a business that is directly related to the restaurant industry. If you have worked in the restaurant business and have an interest or experience in any of the above categories, consider whether it might be a good fit for you. The above list are only vendors *associated* with restaurants, but it is not a complete list of start-up ideas in the food service industry, by any means. There are also all the possibilities for businesses that deal directly with food: Hot dog carts, Mobile food vending, Home Catering, Personal Chefs, Cooking classes, and on and on...

These lists offer many ideas for someone that has experience in the food service industry. What about for New Life Shed Building Co. With that company, we were in the construction industry (with some lawn care performed as well). Even if you don't go into the business of building sheds directly, there might be many related opportunities. You could consider becoming a supplier of hardware, tools, or paint. There are businesses that package hardware for shipping as well as maintenance and repair companies to deal specifically with power tools and small engines. Every industry is supported by a host of small vendors and service companies that often operate quietly behind the scenes earning sizable profits year after year. Think about your work experiences, and you will certainly find many areas to consider for a business. Be creative. Write down ideas as they pop into your head and come back to evaluate them later.

Hobbies

If something in your professional background fails to summon up an idea, take a look at your personal interests and hobbies. What is it that you like to do in your spare time? Can that be turned into a business opportunity? As an example, what if you like dogs? Could that offer business opportunities? Let's look at just a few:



- Dog walker
- Pet sitting
- Boarding kennel
- Dog grooming
- Obedience training
- Dog handling for dog shows
- Dog breeding
- Specialty treats
- Custom collars
- Pet photography
- Pet clothing
- Fresh all natural pet food delivered weekly

The pet industry is a multi-billion dollar industry ranging from pet food to veterinary care. Some of the items on that list might seem a little strange, but do some research on it. You might be surprised by just how much money people spend every year just to buy a halloween costume for a dog. Any of those possibilities could become a viable business. If you like building things, you could come up with a very different list...

- Custom Furniture
- Fences
- Sheds
- Porches
- Small houses
- Art



In the case of New Life Sheds, we chose sheds and porches from that list. The point is to use your imagination. Think about your background, education, hobbies, and interests, and put together a list of ideas that fits you and your situation. Tailoring a business idea to fit your own hobbies and interests can lead to great things. You will be spending many hours working at whatever business you choose. If you choose to do something that you love, you will love what you do, and going to work every day will be something to look forward to. Think about how great it would be to wake up every morning thinking, "I can't believe I get paid to have fun!"

We've talked about experiences and hobbies, but what about actual skills? It's one thing if I love to paint landscapes. It's another thing to actually try to sell them, right? Just because I have a hobby doesn't necessarily mean I can actually do that on a professional level. However, most all of us have skills that we can bring to a business. It's important to think about what skills you have and what those skills can mean to a business. Let's look at Willie and Mike.

Willie and Mike both live in Orlando, and each of them has \$50,000 that they want to invest in a welding company, but they need \$60,000 to start the business. The general business predictions are that Orlando will experience a construction boom and that welders will be in short supply and be able to command top wages. Each of them is looking for an investor to put up the extra \$10,000 that they need. Here's the scoop on their qualifications:



Willie the Welder's skills:

- MIG
- TIG
- Stick welding
- Cutting
- Braising
- Master Welder with twenty years experience

Willie is one of the finest welders in Orlando. In fact, he's so good that he can weld a gas tank while it is full of gas. Now I don't know if any of you have tried that, but it can make some people a little nervous. For Willie, it's all in a day's work.

Nobody would dispute Willie's credentials. However, Willie knows nothing about business. He has no management or administrative experience or skills at all. Willie doesn't even know how to turn a computer on, his idea of sales is to just talk louder if someone says no, and he has never hired or fired anyone in his life. Mike, on the other hand...

Mike the MBA's skills:

- Harvard Business School graduate
- Computer certification and training on multiple platforms
- Accounting Certification
- Minored in Marketing
- Worked for three years in Human Resources
- Financial management and cost control specialist



Mike is an outstanding MBA. He knows everything about the business world, finances, and marketing, but he can't tell the difference between a MIG weld and a flounder gig. He couldn't operate a power drill without injuring himself. He thinks braising is something you do to a chicken. If you were the investor and you could only invest in either Willie's or Mike's company, who would you invest with? Why?

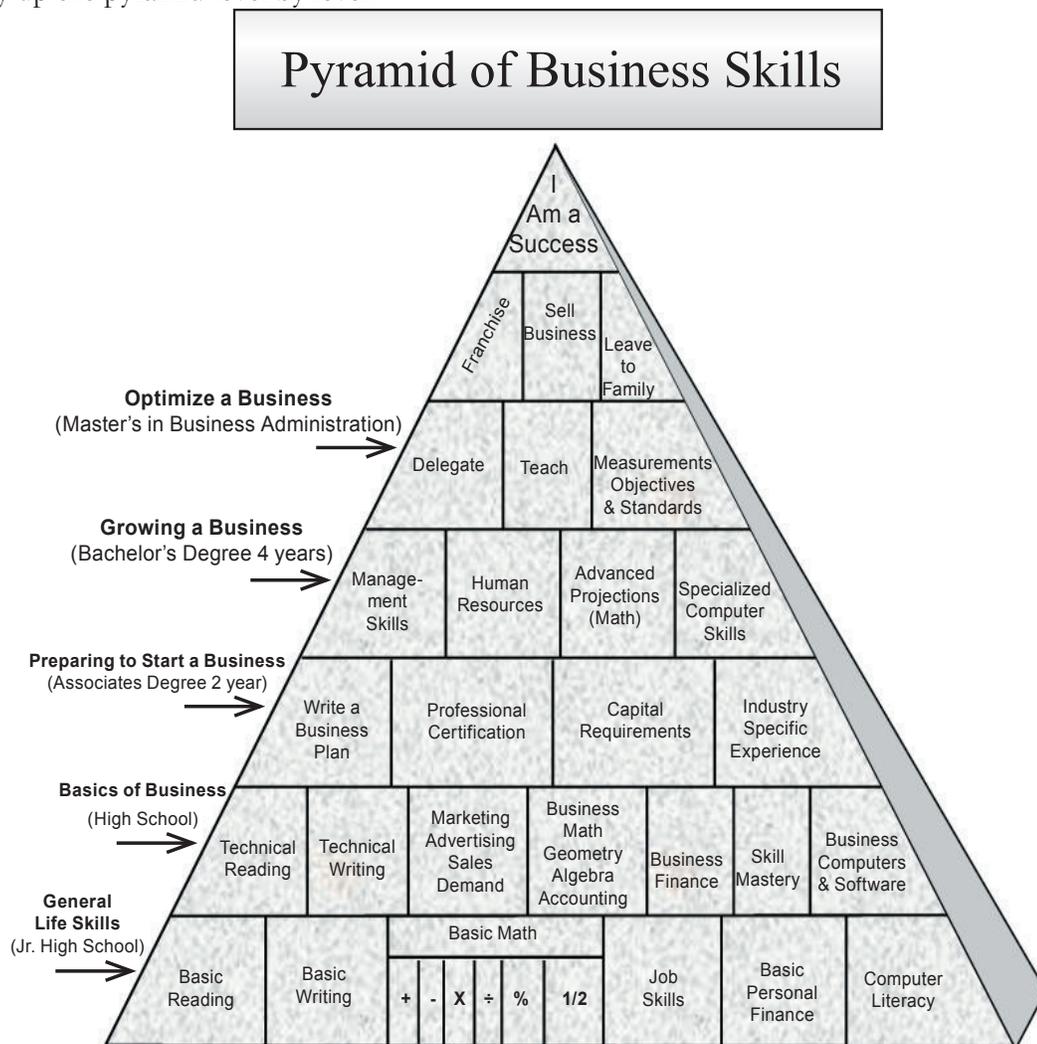


The truth is that both of these men are missing pieces of the puzzle to make a successful welding business. There are gaps in their skill sets that could be very important to the company they are trying to start. The best answer for an investor might be to introduce Willie to Mike. They would complement each other very well. You need to take a very careful and honest look at your own skills so that you can identify the areas that you might need assistance with.

Personal Skills

Below is the Pyramid of Business Skills. How do you think you build a pyramid? It's just like building a shed. You start at the bottom and work your way up. Start with the base. The base represents general life skills (reading, writing, basic math and job skills). Which of these areas have you mastered? The question is not 'which areas do you know how to do.' Which have you *mastered*? If you have mastered the area, shade it in with a pencil. Be honest here! You are not being graded on this section, this is simply for you to recognize skills that you might need to work on. If you are missing skills on the base of the pyramid, you may have trouble in many areas of your personal life. What can you do if you are missing some of these? There are classes right here that can help. GED classes can help if you need assistance with reading, writing or math. There are REEFS classes to help with Personal Finance and Computer Literacy. The only area that there may not be a class for is the Job Skills section. That is a difficult one to work on for many of us while we are incarcerated. Self-study can help. Utilize the library and companies that offer free study books. There are still some options.

The second level represents the basics of business and builds on the level below. Technical reading and writing are slightly different from just having the ability to pick up a book and read it. If you wish to move beyond a job as an unskilled laborer, the skills on this level are necessary. Shade in the areas that you have mastered again, and work your way up the pyramid level by level.



What blocks are shaded? What areas do you still need to work on? And, we all have areas that we need to work on. Very few people have the ability to shade that entire pyramid. It is important to take a hard and realistic look at your personal skills as well as areas that you have problems in. This is not about making you feel like you aren't adequate, but nearly all of us are like Willie or Mike. We are all missing some piece of the puzzle. Who can we find to fill in those gaps for us, either to teach us those skills or to perform them for us.

SWOT

Now you have completed the pyramid. Take a closer look at the skills, experience, and education that you need. One way to do this is by using SWOT.



Opportunities



Strength



Weakness

SWOT



Threats

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. When you look at these, be specific and be honest. The best way to avoid a car crash is by watching the road ahead. In the same way, the best way to deal with the problems that we will face is to look at them ahead of time and come up with ways to face them. Let's take some time and look at each of these areas in detail.

Strengths

What strengths do you bring to the company? This could include personality traits, educational background, professional experience, personal contacts, financial resources, or anything that you do really well. Maybe you're like Willie and have twenty years of experience in your field. Maybe you could sell ice to an eskimo. Have you ever seen that guy on the compound that's so slick he could sell a ramen soup to the canteen man? He's either a marketing or a sales genius, maybe both. The more strengths you bring to the company, the greater your chances for success. Take a minute to list the strengths that you feel would help you in running a business.

Weaknesses

What weaknesses do you bring to the company? Not many people want to admit to weaknesses, but avoiding looking at them is like closing your eyes while your speeding down the road. You aren't just increasing the chances that you will get into a crash; you are practically guaranteeing it. No one taking this course is not human. We all have weaknesses. They could include a personality trait, a lack of education, a lack of professional experience, missing personal contacts, a lack of financial resources, or anything that could hinder us from doing well. Maybe no matter how many times you study it, you just can't wrap your head around percentages. It may just be that you are not a people person. Maybe your idea of haggling over the price of something involves hitting the seller with your fist. You probably shouldn't go into sales. Be honest here. Your list of weaknesses are nothing more than areas that you need to spend time working on. Take some time to list weaknesses that might hurt your ability to run a business.

Opportunities

What opportunities are available to you? Do you have a unique idea? Is your business idea ahead of the current trends? Do you have an idea for a new technology that will make everything else obsolete? Did a recent event cause a demand for a product/service that didn't previously exist? Maybe you just have a lot of money to start with. Money is an obstacle for most of us. For you, that would represent an opportunity both to start your own business or even to invest in someone else's. All of these can represent an opportunity to succeed. Take a moment to list any potential opportunities that might help your business do well.

Threats

What could go wrong for you personally that may sabotage your company? Threats are different from weaknesses. A weakness is mostly just a skill that you might not be good at. Threats are things about you personally that could cause a serious problem. What about: addictions? Friends with criminal behaviors? Unstable romantic partners? Do you have a tendency to spend money foolishly? Threats are personal things that could, literally, bankrupt a business. For example, there was a man that was a great salesman and manager. He had a lot of experience in construction and started a small home repair business. Not only did he do well, he made so much money in three years that he expanded his business and hired seven employees. Unfortunately, he also had a drug habit and a sexual addiction. He did extremely well as long as he stayed away from his vices. But, one day he got into a very bad fight with his wife and several cancelled contracts at work. Needing to unwind, he went out and got some cocaine and some prostitutes. The next thing he knew, he'd blown all his money. He couldn't pay his employees. His wife was threatening divorce. He ended up losing his business but coming to prison. He fell victim to personal threats that spread to his business. Think about any potential threats that could do this to you.

Now that you've identified the areas of SWOT that apply to you, what do you do with them? Looking ahead is great, but you can't avoid that car crash if you just stare at it and drive right into oncoming traffic. When you see problems coming, what you need is a plan.

Action Plan: How will you gain the skills that you need to overcome your weaknesses and threats?

Education - What further education do you need and how will you get it? When will you get it? How will you pay for it? What can you do while still in prison to reach those goals? There are options. We already mentioned GED and REEFS classes. Think about some other things you might do. There are correspondence courses, personal mentors, self-study, and many options open to us even in prison that will allow us to further our education. If you are serious about starting a business, this is an absolute necessity.

Experience - What experience do you need? In the business you are considering, how much experience do you need to perform well? How can you get a job in this field to gain this experience?

Technical Training - In the business you are looking at, maybe you need some more extensive training. What training classes can you attend? Can you take them while in prison? Can you take classes that are related to your chosen field while here in prison? What about self-study? How will you gain access to that training? If you need to wait until you are out of prison, what sort of timetable are you looking at for getting that training and what costs might be involved?

Industry Certifications - Do you need certification to operate in your business? What certifications are recognized in your industry? Do you have them? Can you receive or renew them and how? And, what are the costs involved?

Other Business Skills (accounting, sales, management) - Willie the Welder had none of these. There are a multitude of business skills that you need to successfully run a business. You already began to learn some of them by taking the Bookkeeping class. What other skills might you need to learn? Think about what skills you need and how you can gain them.

Lastly, let's take a look at entrepreneurs. We've talked about what the word means, but what does it take to actually be one? What qualities make someone a good business owner? Are they born or made? Let's take a look at those qualities and see how well you might fit them...

Eight Dimensions of an Entrepreneur

Rate yourself in each of the following areas using the following score (don't worry about the # column just yet):

A = agree N = no opinion D = disagree

Section One - Drive		A,N or D	#
1	I always seek to do the best possible job.		
2	When part of a group , I prefer to let other members of the group do the work.		
3	I work harder than most people do.		
4	People seldom come to me and ask me to help.		
5	I never quit a job before it is finished.		
6	As an employee, I try to do only what I am told to do.		
Total			
Section Two - Leadership		A,N or D	#
1	When I am with a group of friends, I often end up making decisions for the group.		
2	I try to keep from sticking my neck out.		
3	If an important assignment becomes available I often volunteer.		
4	I try not to stand out in a crowd.		
5	I have often been asked by others to serve on boards or as an officer.		
6	I do not like telling people what to do.		
Total			
Section Three - Persistence		A,N or D	#
1	In sports or games, I never quit even if my team is losing.		
2	I do not waste time fighting losing battles.		
3	If I am told something can not be done, I find a way to do it.		
4	When things go bad, it is better to just walk away.		
5	I always find a way to get my job done, even if I have to stay late.		
6	I often start projects that I never finish.		
Total			
Section Four - Goal Oriented		A,N or D	#
1	I often make "to do" lists to organize my work.		
2	I tend to be more spontaneous than structured.		
3	When I need to accomplish an important task, I break the job up into smaller goals.		
4	I get more done if I can just work at my own pace.		
5	I measure my success and failure in concrete and specific terms.		
6	Standards and quotas tend to stifle my creativity and productivity.		
Total			

A = agree N = no opinion D = disagree

Section Five - Responsibility		A,N or D	#
1	I always pay my bills on time and in full.		
2	A commitment for a social engagement is seldom binding.		
3	I feel it is my duty to take care of my friends and family.		
4	I hesitate to make commitments because people are unreasonable when they can't be met.		
5	I tend to be very loyal to my company and boss.		
6	If I made a promise to my customer, I would not honor it if I lost money doing it.		
		Total	
Section Six - Positive Stress Response		A,N or D	#
1	In sports, I play better when the pressure is on.		
2	If I make a mistake, I tend to become angry with myself.		
3	When I am presented with major obstacles, I tend to be most creative.		
4	If I perform poorly at work and I am reprimanded, I feel like quitting.		
5	I thrive in high pressure and demanding environments.		
6	I prefer to work in a relaxed, stress-free situation.		
		Total	
Section Seven - Sociability		A,N or D	#
1	I prefer to work as part of a team.		
2	I do my best work when I am alone.		
3	When I meet a "difficult" person, I usually find a way to win them over.		
4	I get irritated when working with incompetent people.		
5	I enjoy meeting and dealing with different types of people.		
6	Many people are impossible to relate to.		
		Total	
Section Eight - Vision		A,N or D	#
1	I tend to view solutions in terms of an overall resolution rather than specific details.		
2	I tend to be more focused on practical details than lofty ideas.		
3	When I see an old run down house, it is easy for me to visualize a restored building.		
4	When I hear of policy changes, I concern myself with how it will affect me and my job.		
5	I view problems as opportunities with multiple solutions.		
6	When I hear about problems in other departments, I tend to mind my own business.		
		Total	

Each section on the quiz on the previous two pages measures a particular personality trait. Grade your scores by assigning a number to each answer based on the following chart. When you're done, total up the numbers for each section.

Odd Numbers – (shaded Gray)		Even Numbers – (shaded White)	
A	3	A	1
N	2	N	2
D	1	D	3

The following scale is a guideline to help illuminate your strengths and weaknesses in the various categories:

6 - 10 Low ~ 11 - 14 Medium ~ 15 - 18 High

If you scored high in all eight sections, you are probably a natural entrepreneur. If you scored low in all eight sections, it would probably be a bad idea to start your own business. Most of us fall somewhere in between those extremes. If you scored “low” in any of the sections, consider it a red flag. It does NOT mean that it is impossible for you to be a successful business owner. It just means that you might have to work at it a little harder.

Let's take a look at what each of the categories that the sections describe.

Drive

Drive shows up often in our daily lives. You might see it in the houseman who won't stop cleaning the bathroom or the person who's always first at the door to go to Inside Grounds. We see it in someone's **work ethic**, whether the person is working at a high level corporate job or at an inmate DOC assignment. You can watch any group of workers and it quickly becomes obvious that a small number of the workers are doing the majority of the work. If you care to test it, take a look at the housemen in your dorm. You will very likely find a few that do as little as possible, some that do just enough to get by, and the select few who truly do the lion's share of the work. It has been said that in any group twenty percent of the people do eighty percent of the work. Those top twenty percent are the ones who have drive. That top twenty percent are probably the ones best suited to own and operate their own companies. The reverse is also true, if you are an expert at doing as little work as possible, you would probably do poorly as an entrepreneur.

Work Ethic

A system of values in which central importance is ascribed to work, or purposeful activity, and to qualities of character believed to be promoted by work

Drive

The ambition or the desire to achieve and succeed.

Some of you might be thinking, “Okay, so I do very little work for my official DOC assignment, but that's totally different than if I was working for myself and getting paid. When I go to work on my own, I'd be willing to work very hard.” Be careful with that kind of thinking. Drive and its opposite (laziness) are personality traits tend to become habits. And, as anyone who has tried to stop smoking can tell you, a bad habit is very hard to break. If you want to be an entrepreneur, learn to develop your drive and apply it in all areas of life now rather than trying to play catch-up later.



Leadership

Leadership is an elusive quality that many people would like to claim they have, but few people truly do. Are you a leader? Look at statement five in this section. It gives insight into how others view you. If you see yourself as a leader but no one else does, you're not a leader. Leadership, more than any other trait is revealed in the opinions of others. Good leaders don't need to scream, threaten, and yell to get results. A good leader instills trust and inspires people to willingly listen.

Leadership

The capacity to direct, motivate, and guide others.



The next time you go to the chow hall, watch the corrections staff in there. The officers are given instructions to move the inmates through, at a pace that ensures that all inmates will be fed in a specific amount of time. Some of the staff is indifferent, and they do a poor job of moving people through. Others turn red in the face and blast loud whistles while spouting off a long stream of foul-mouthed threats and orders. The screamer may move people through the chow hall, but they also stir up stress and resentment and often inspire contempt and passive resistance. Now consider the rare staff person who demonstrates actual natural leadership. This staff member encourages people to clear a row in a calm voice and people get up and go. The natural leader does not need to scream to maintain authority in a way that moves people to comply willingly and quickly. What is your leadership style? How do you treat people?

Persistence

Persistence in the face of adversity may be the most defining characteristic of an entrepreneur. 'When the going gets tough, the tough get going' is the old saying. Unfortunately, most people take that literally and go right out the door. Most people just quit when things become a struggle. And, business ownership is nearly always a struggle. A business owner will deal with more problems and roadblocks in a week than most people deal with in a year. Employees will fail, the IRS will audit, customers won't pay, equipment will break, vendors will not deliver, and your wife will demand more money. The entrepreneur must endure through the storms and hard times. Look back at your life. Have you ever quit your job out of frustration? Have you ever stormed off the court because you were irritated at your teammates, the officials, or the other team? Contrast this with the person who never quits. Do you keep working and producing when everyone around you gives up in exhaustion? Do you stick with friends, teams, and companies through the tough times? If you are strong in the trait of perseverance you may be a great entrepreneur.

Persistence

The quality of continuing effort in the face of adversity or failure.

Goal Oriented

Entrepreneurs always strive toward goals. They have an ability to stay focused like a laser on specific objectives. Most people are easily distracted by the urgent problems of life. It is true that bills need to be paid, employees need to be coached, supplies need to be ordered, customers need to be called, and the list of urgent tasks goes on and on. The entrepreneur develops systems and strategies to prioritize all those tasks. He is able to determine the difference between important and urgent. Urgent tasks require immediate attention. When an employee doesn't show up to work, it is urgent to find a way to get the job done anyway. Important tasks are tasks that will make a major difference in the success or failure of the company. New business brings in more money. So, generating sales is important, but it is never *urgent*. Both sorts of tasks can seem never-ending. The entrepreneur accomplishes the important things that will make the business successful by staying focused on what their goals are.



Goal Oriented

Directed toward a particular point or purpose.



Responsibility

Some people are unique in that they seem to have a natural sense of responsibility. **Responsibility** is the inclination to willingly shoulder the appropriate burdens of life. The person who ranks high in responsibility will never utter the words “it’s not my job”. The person who has a high level of responsibility sees something that needs to be done and, without hesitating, does it. This type of person is willing and quick to help others and actually feels obligated to do the right thing.

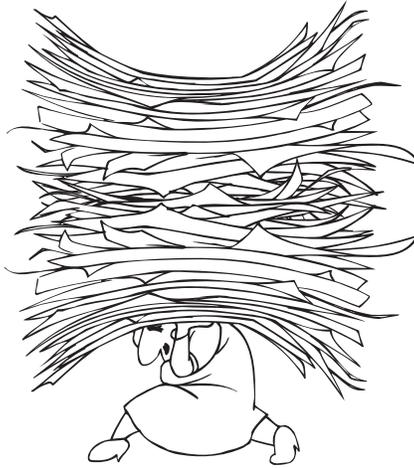
Responsibility

Quality of being accountable and dependable



Positive Stress Response

Stress is an inevitable part of business. Entrepreneurs thrive on it. They eat stress for breakfast, and it motivates them to perform at their very best. There are two seconds left on the game clock, and your team is down by two points. Your team needs three points to win. Are you the guy who calls for the shot? The pressure in sports can be daunting, but the pressure in the business world means so much more than winning or losing a single game. In business, sound decisions pay people’s salaries and earn large profits for investors. Poor decisions cause employees to lose their livelihood, and investors to lose their investments. Stress is part of the job and it is always part of the company culture. The work will seem like it just keeps piling on and piling on. Some people thrive on that and others avoid it like the plague. If stress agrees with you, you have a huge advantage in the business world.



Stress

A condition typically characterized by symptoms of mental and physical tension or strain

Sociability

“I like people that are reasonable, but some people drive me nuts.” Does that statement describe you? That’s the way most people look at others. An entrepreneur needs to move beyond that. The entrepreneur will need to accept a much greater challenge, and that challenge is to relate to people with different ideals, cultures, customs, and attitudes. An entrepreneur cannot afford to dislike people that disagree with him. If you enjoy meeting different people, and finding ways to relate to them and win them over, then you have a wonderful gift that will serve you well in the business world.

Sociability

Having a pleasant and friendly disposition



Vision

Picture the gypsy woman in the back of a truck at the carnival, decked out in a brightly colored skirt, hoop earrings, and sporting a wrist full of chunky bangles. You might expect her to claim that she can read the future for a small price. Most people quickly dismiss her as a fraud. Some might pay her a small fee for the entertainment value of the ridiculous predictions of wealth, health, and love. Hardly anyone takes her seriously. What about the entrepreneur? What type of “vision” is expected of

Vision

Thoughtful regard or provision for the future; prudent forethought or imagination



him? The **vision** of an entrepreneur is not some mystical spell conjured up with a crystal ball. It is that rare ability to take in vast amounts of information and mentally shape it into an idea that is capable of transforming a company or a product into something that distinct and new. Visionaries are able to see not only problems but new ways of solving them. They solve puzzles not only with logic and information, but with new insight or new ways of looking at the situation. If others around you see nothing but despair and difficulty, but you see opportunities, you just might be an entrepreneur.

Chapter 3

From Idea to Concept

In the last chapter, we looked at what elements might make you a good entrepreneur. We also talked about what your interests, skills, hobbies and experience were to mine those sources for business possibilities. By now, you should have some idea of a few businesses you might find interesting. How do I take that vague idea and turn it into a working business concept? First, let's lay out some ground rules.

Content of Plan

In the free world, you will be confronted with many choices. The impact of each individual choice on your life may be modest or it may be profound. Your choice of what type of business to start will certainly be one of the profound choices. As an ex-felon some business ventures, while technically legal, may cause problems down the road. Other ventures may actually help keep you out of trouble. On the outside, the choices are yours alone, and you are the only one who will face the consequences of those choices. With that said, participation in this class requires you to begin building a business plan for a legitimate, legal business.

With that said, we wish to acknowledge that many of the volunteers who assist with this program come from the faith community. Many of the donations that keep us in operation are also generated within the faith community. Because of this, the following types of business plans will not be accepted:

1. Strip Clubs
2. Bikini Bars (or any idea that requires scantily clad women or men)
3. Adult Novelties
4. Escort Services
5. Nude or Topless anything
6. Model Agencies
7. Head Shops (paraphernalia)
8. Anything associated with illegal drug use



Additionally, some businesses are off limits just because we are convicted felons. These include:

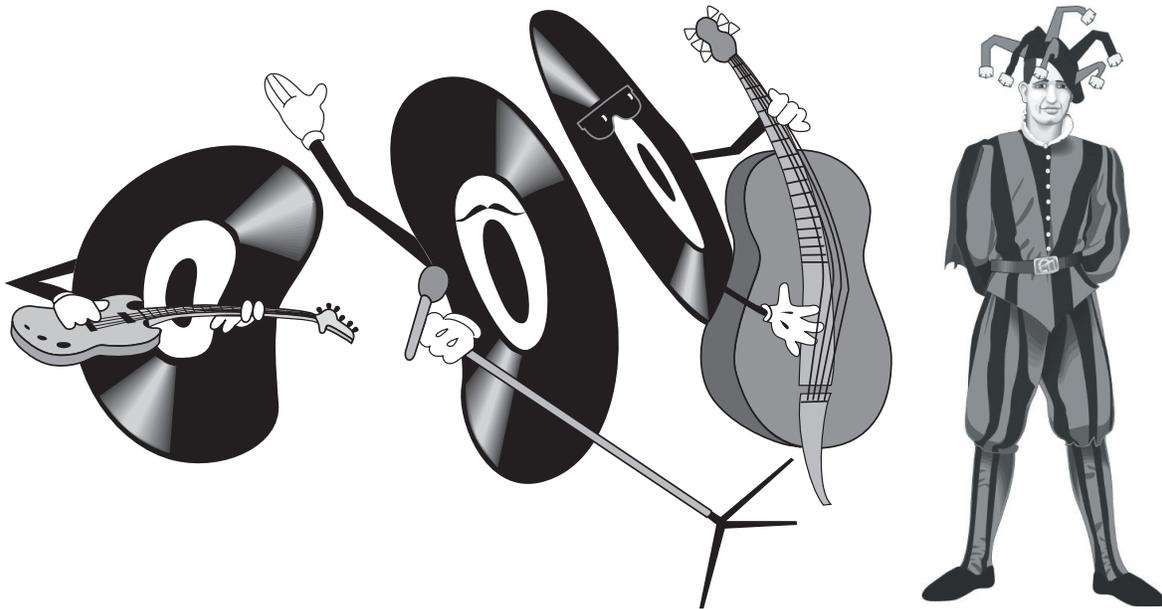
1. Gun Stores
2. Child Care
3. Liquor Sales
4. Private Investigation
5. And many others (if you have a concern about your idea, please discuss it with your facilitator)

You may be thinking, "There must be a way to get around legal restrictions." Maybe you could put the company in your wife's name? Remember, if it's in your wife's name, then it is not *your* business. Also, skirting business law can void your ownership, profit, and ability to access hard-earned equity if you are ever caught doing it. It has happened in the past. There was an ex-felon who operated a very successful sports bar. He was able to get around the legal restrictions by putting the business in his wife's name. They got along well. They worked well together. Everything was going great, and the business was turning a good profit. Nine years later, they weren't getting along so well anymore. The couple went through a pretty messy divorce and, because the business was listed in the wife's name, it was legally his wife's business. This man wasn't able to access ANY of the money from the company. He lost the company, his money, and his wife.

As we said, on the outside your choices are yours alone, but, for this class, choose a company that your mother would brag about to her church friends. Pick a line of work that would make your children proud and send them the right message. If you are unsure if your idea is OK, clean it up or choose another idea for this class. You will get the most out of this class if you choose a business that you actually want to develop into an opportunity for your future. However, you can substitute another business for it if you absolutely need to. (Note: this class is designed specifically for profit-seeking businesses and is not really suitable for non-profit organizations)

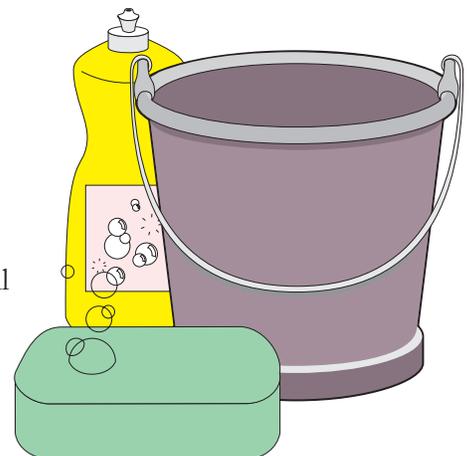
Finally, there are some types of companies that are considered “glamour” companies. These glamorous companies attract many students because they sound really fun and cool, but the reality is they can very often prove difficult to make profitable. They include:

1. Music Industry
 - a. recording
 - b. record labels
 - c. producing
 - d. performing
2. Entertainment Industry
 - a. concert promoting
 - b. sports agents
 - c. talent scout
3. Finance Industry
 - a. hedge funds
 - b. brokerage companies
 - c. money lending
4. Restaurants
(which can be very expensive and complicated)



These glamour companies are not forbidden, but know that they often require specialized education, experience and large amounts of money to start. Brick and mortar restaurants, for example, require special licensing from the FDA and EPA and can cost upwards of a million dollars or more to open. It is difficult to build a good plan and earn a passing score for this class in these industries unless you have real world experience and/or the necessary money to operate such a business.

Beware of businesses like mobile car detailing. Twenty years ago, anyone could get a bottle of Dawn dish detergent, a five gallon bucket, and a brush and call himself a mobile car detailer and earn a few bucks. Times have changed. The EPA will not allow any chemicals (even your biodegradable, Greenpeace approved ones) used for commercial car washing to wash down the drive way and into the storm sewers. You can wash your own car all day long, but the moment you start charging money to wash someone else's you fall under EPA regulation. Unless you have a plan for collecting the waste water, you will be in trouble. You might get away with it for a while, but why run the risk of fines and legal problems?



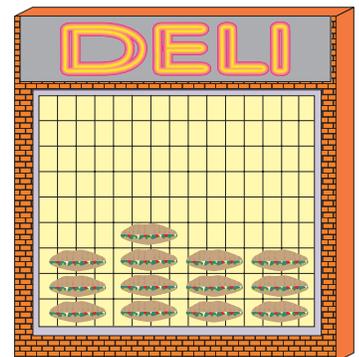
Another area that could undermine your ability to produce a good business plan is, believe it or not, past experience. If you have owned a business in the past (or if you still own a business that is operated by friends or family on the outside) you may think it's a great idea to describe your past or existing business and call that a business plan. However, one reason for creating a business plan in this class is to chart a new direction. The business plan you write in this class should be something new. If you have been painting houses for 20 years as a sole proprietor, you can't just say you're going to continue doing what you did for the first 20 years and call that a business plan. If you have past experience in a particular field, that's great, but you are going to have to fully incorporate the new ideas, strategies, and planning techniques presented in class. You may even consider choosing an different field for the purpose of learning the concepts presented in this class.

The business plan for this class should also be original. This does not mean that your business must be something that no one anywhere has ever done before, but it should be your business doing its own thing. There are many companies that essentially hire independent sales representatives and tell the representatives that they are "business owners." Examples of these types of organizations include: Avon, Amway/Quickstar, and many Internet multi-level marketing organizations. These types of organizations essentially sell the framework of their organization and simply plug individuals into the system. You are not truly operating your own business; you are simply acting as an agent of theirs. Franchises are similar in that they have fully developed business plans available for purchase. You may very well choose to get involved in an opportunity like this at some point in your life; however, it is not suitable for this class because it does not involve actually building your own business plan.

One is an important number in this class. The business plan you create should describe the start-up operation from the very beginning. Maybe your plans include a t-shirt design company that will include stores in every major city in Florida and in seven other states, but the plan for this class should focus on and describe the very FIRST store you will be opening. Everyone starts somewhere, and that almost always involves a single store. Wal-Mart did not begin with 1,000 stores across the country. Amazon did not begin with 100 warehouses, and Netflix did not start out with major production studios and servers in multiple data centers. Wal-Mart started out with one store. Amazon had one warehouse, and Netflix had a single distribution center. Businesses start out small and then grow. They may grow fast, but the fastest growing plant starts from a single seed. So it should be with your business plan. Describe your operations on day one.

Choose ONE business with ONE type of product or service. This may seem obvious, but it is a common trap that potential business owners fall into: combining several types of products or services into a business. In the real world, this could be a great way to distinguish your company from the competition. A bookstore/coffee shop, for example, is really TWO businesses: a book store and a coffee shop. This class, however, is teaching the basics of building a workable plan for a small business, and it will be much easier to learn the concepts and prepare the assignments for a company with a more limited scope. Let's take a look at an example of a multi-line business and the problems it might cause.

Biff Tannin decided to start a neighborhood meat market and deli. These are really two different businesses that are only loosely related. A meat market butchers, packages, and sells raw meat. A deli, on the other hand, prepares sandwiches and food that is ready to eat. Preparing and selling sandwiches, salads, and drinks requires a very different set of skills than handling raw meat. It also requires different permits, inspections, and licensing. The requirements for the buildings also have very different specifications. Operationally, running a meat market is one thing, and running a deli is another.



The financial projections are even more complicated. The costs associated with cutting and selling meat are very different than the costs associated with serving a prepared meal. The profit margins are not the same. In the real world, a company that intends to have multiple products or services like this should, in fact, produce a separate business plan for each business line. In the case of our meat market and deli, it would be wise to pick one for the class (a meat market OR a deli) and develop a complete plan for that. When the class is finished, you will have all the skills needed to expand your plan to include other business lines on your own time.

One last common concern is, “How do I keep people from stealing my business idea?” Inexperienced entrepreneurs often become so enamored with their own ideas that they fear others are out to steal them. For example, one future business owner planned a lawn service called “**THE GREEN WORM.**” He thought the idea was so incredible that someone would try to steal the name.

To be fair, a really great name *can* have some effect on the success of the company, but it’s usually not that immense. Most companies are not born from great and unique business ideas; they succeed because of the passion, commitment, and expertise of the owner. Think about it, a domino is just a piece of wood or plastic with dots on it, and Nike was a goddess in ancient Greece. They have nothing to do with pizza or shoes. It was the commitment and vision of the owners of Dominos and Nike that made those companies what they are so that, now, we can’t hear the words Dominos or Nike without thinking of pizza or shoes.



If you feel that your idea is so good that others may want to steal it, don’t use it for this class. This class is geared toward teaching you fundamental principles. You can learn and apply these principles for a simple lawn service, or for building hydraulic tube benders. If you know how to build a car that runs on water or how to build a time machine out of a Delorean, do not disclose your proprietary information. Build a solid business plan based on a more common idea. When the class is over, you can build another business plan that includes the hard facts about your invisibility cloak.

Niche Market

With those basics out of the way, let’s talk about niches. Congratulations, you have decided that you want to go into the printing business! You have a certificate in graphic arts and years of experience working in a print shop. Are you ready to go? Rent the space, buy a printing press, put up a sign and... Shazaam! You’re in business!

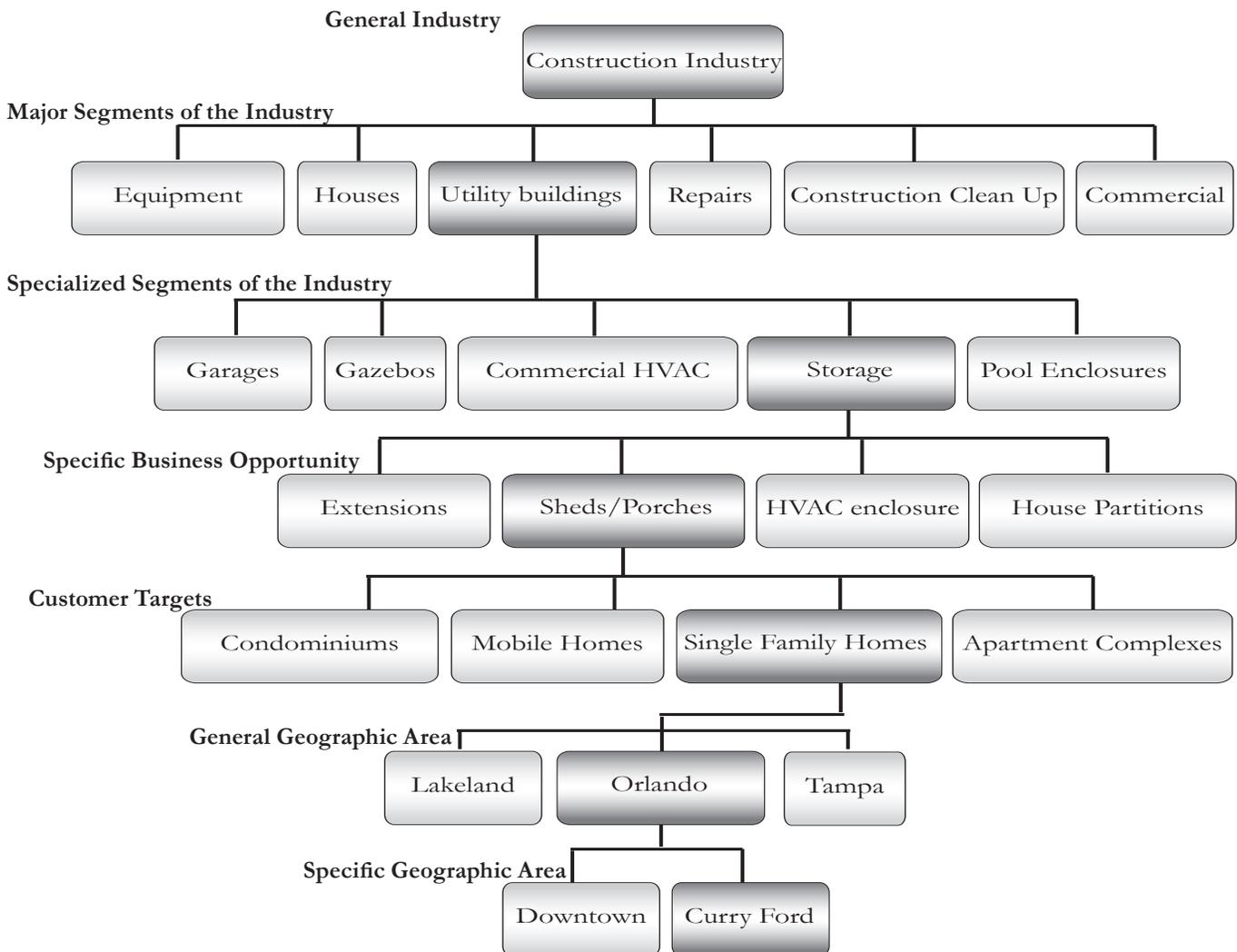
Slow down a second. What type of printing are you going to do? Some printers make great business cards, others print books, some print newspapers, while some printers specialize in high quality, embossed wedding invitations. Nowadays, there are even 3D printing shops. In fact, there are many different types of printing presses and various ways to set up the presses for specialty products. Too often, a new business owner is inclined to make the mistake of trying to be all things to all people. In the world of start-up companies, a fundamental rule of marketing is: ***smaller is better.*** In business, the concept of specializing in one particular area of business is called ***niche marketing.***

<p>Niche A unique group of buyers within a business’ target market.</p>
--

Wal-Mart is the biggest retail store company in the world. If you wanted to open a retail store right next door to Wal-Mart, could you compete? Could you offer a larger selection? Could you purchase DVD and Bluray players for less money than Wal-Mart? For every player you purchase, Wal-Mart can buy several million. Who do you think will get the lowest price? The same is true for plates, bananas, diapers, corn flakes, milk, cameras, and virtually every other thing displayed on the endless shelves at Wal-Mart. How could you ever compete? The truth is, you can’t compete in a head-to-head competition with a retail giant like this. Wal-Mart can afford to try to be everything to everyone. As a starting business, you can’t.

So, do you give up? Picture a small store right next to Wal-Mart named Professional Art Supplies (PAS). This store carries fine canvas for painters, an assortment of 150 various specialty paint brushes, oil paints, water paints, pastels, chalks, calligraphy pens, and fine parchment paper. The store is owned and operated by Fannie Fantana, a local artist. Wal-Mart certainly has paint brushes for sale. If you want to paint a nice portrait, are they more likely to go to PAS or Wal-Mart? Wal-Mart might sell a set of four art brushes for five dollars, and PAS might sell one brush for \$19.50. Certainly Wal-Mart will sell some art brushes for kids, but any serious artist will head straight for PAS to purchase quality specialty products. PAS has successfully identified a specialty *niche* that clearly distinguishes them from the mega-retailer right next door.

Think about what you want to sell or the service you want to provide, remembering that: a) you can't be all things to all people, and b) "smaller is better." Your niche is not the same as the field in which you work. For example, construction is not a niche. It's an industry. A niche is extremely specific. How can you narrow a field down to a niche? Take a look at the following chart for someone wanting to start a construction company:



What advantages would the specialized niche company have over the general Utility building company? Your niche will change everything about your company. It will define what equipment you need. It will determine how you advertise, who you advertise to, and what your sales strategy will be. The niche will help you decide how to train your employees. It may suggest a name for the company, a logo, and possibly even the colors for your trucks and paper work. Allow your niche to become the rudder that steers your company.

Bunkwork Assignment: Define Your Niche

15 Points

Objectives:

➤ Using the niche diagram on the previous page as a template, use one of the following industries and see how many times you can break it down into a niche.

Retail * Wholesale * Food * Internet * Automotive * Construction * Manufacturing * Home Services

Contents:

1. List the general industry
2. Subdivide the industry into major segments and select one
3. Break down the major segment you chose into specialized segments and select one
4. Identify several specific business opportunities within the specialized segment and select one
5. Identify specific customer targets and pick one that you will serve
6. Identify several potential general geographic areas that might be a good location to open your business and choose one
7. Break down the general geographic area into smaller geographic fragments and pick one that would be best suited for your company

For most entrepreneurs, they think about their interests and experience, what skills they can bring to a company, and then they notice a niche. That sparks an idea in their heads, the seeds of a company. This is an exciting time for most business startups. They've noticed a need (or spotted a place where they can create a need), and they sit down and jot down some quick numbers, sketch out the beginnings of a business on the napkin at the diner where the idea strikes them.

New Life Shed Building Co.

Mark Alans recently got out of prison and can't wait to start his own company. He has a lot of experience in small construction and carpentry, and he has a great idea! He wants to build sheds and porches for houses in the Orlando area. Here is what Mark knows:

The supplies to build a shed cost \$420.00

He can use his own pickup truck and tools

Other shed builders charge a markup of around 70%

Mark read about a guy who made a ton of money building sheds in Indiana at only a 60% markup

Mark could sell his sheds at a 58% markup and still make a profit

The market in the Orlando area is booming for home improvement items like sheds and porches.

Mark calculates that he could sell as many as 10 sheds/porches per month.

Porky's Southern BBQ



Expenses

Shed parts \$420
Gas \$20

Total Costs \$440

I can sell 10 sheds at a
58% markup per month

1 shed = \$663.60

Monthly Profit = \$2,236!!

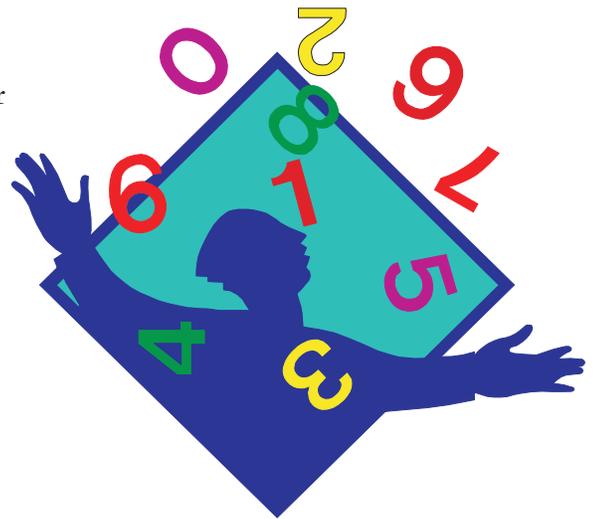
Is Mark's business idea worth it? Can Mark make money with this business? How much profit will the business make? Will the business earn the same profit next month? Why, or, why not? Look at the expenses. Has he accounted for all of them? What other start-up costs might he expect? Once he's started, are there any continuing costs that he will face?

Mark's napkin shows some numbers that affect the business; however, they do a poor job of answering a lot of really important questions. Let's take a look at how to turn a vague idea and some rough numbers into a standard format that business people all across the country could read. Good financial statements provide proof that an idea can work or... that it is likely to fail.

Financial projections tell a tale of what is anticipated to happen in the future. That tale may be promising or bleak, but even if the information isn't really what we want to hear, it can be a valuable tool and keep investors from putting money into a very bad idea before it turns into a financial disaster.

Before we jump headfirst into the financial projections for your company, let's spend a little time brushing up on one of those basic skills from the bottom of that pyramid we looked at in Chapter one: **Math**.

By sixth grade many of us learned many of these skills, but for many of us sixth grade was a long time ago. Business Math goes a little beyond plus and minus and deals with solving problems. This is not going to be a complete business math course but just a review of the basics. If you feel confident and can accurately work the problems we'll look at here, then you are ready. If you find the problems on the following pages difficult, it may be a good idea to enroll in the GED class or check out a course of self-study with material from the library.

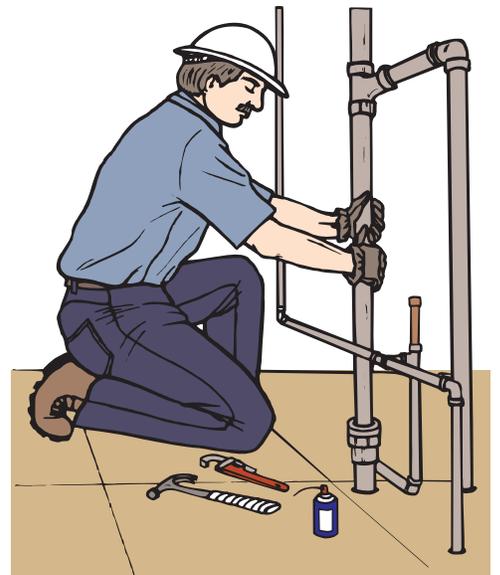


In the next chapter, we will look at a few mathematical problems that we might face in business...

Measurements

Question 1: Rick is a plumber. Copper pipe comes in eight-foot sections. Mr. Blosser hires Rick to put in some plumbing on an extension to his house. The job requires twenty-five pieces of nine-inch copper pipe. How many sections of eight-foot pipe should Richard purchase for the job?

Do the Math here:

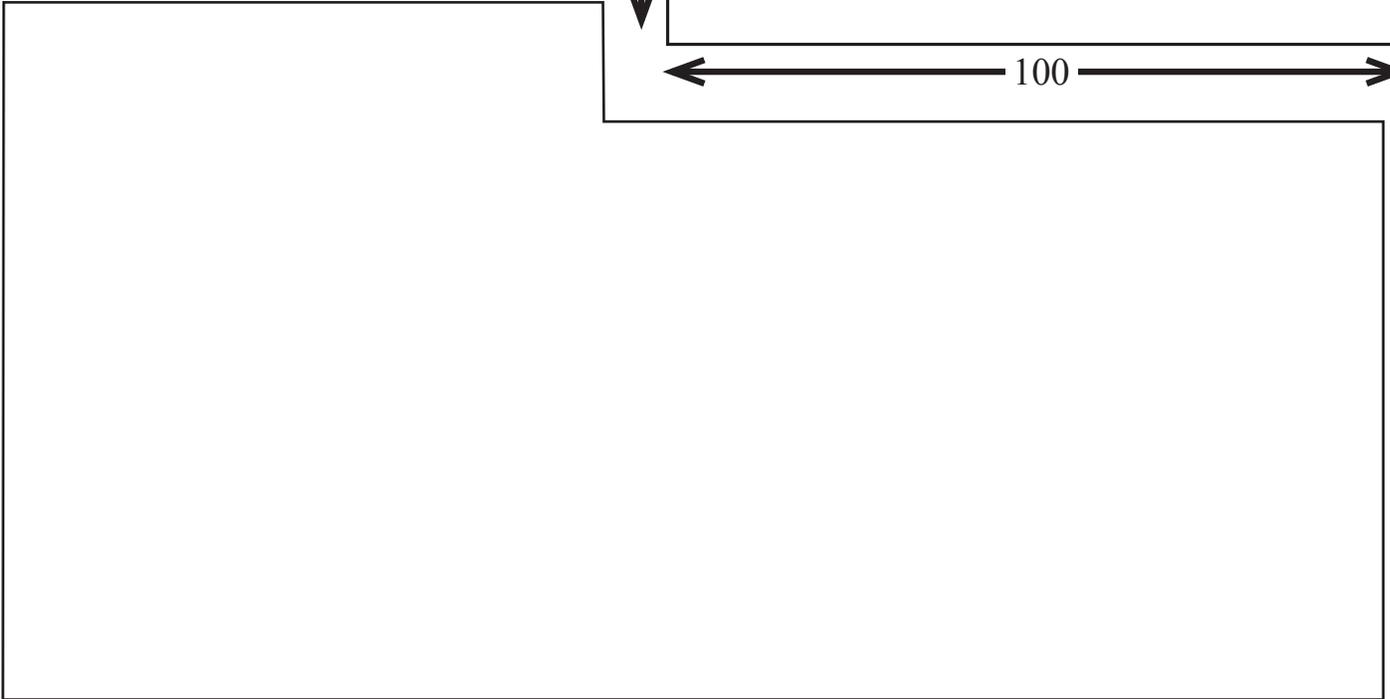


Your Answer for Question #1:

Area

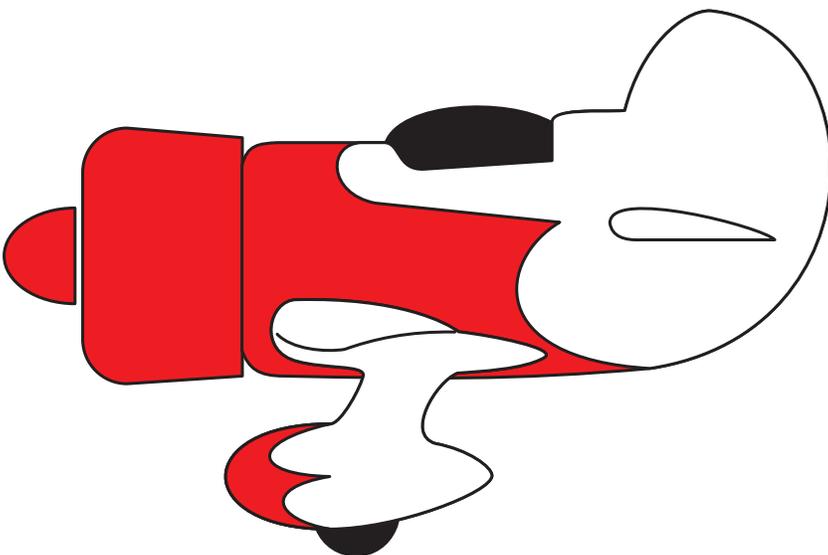
Question 2: Mr Blosser's property is laid out like the drawing on the right (note that all measurements are in feet). Mr. Blosser asks The Green Work Lawn Service to give an estimate for mowing the lawn. The Green Worm's standard rate is one cent per square foot. What price should you quote the customer for this job?

Do the Math here:



Your Answer for Question #2:

Unit Cost



Question 3: Donald Chang builds and sells custom remote control airplanes. The elements required to build one plane are:

1. a 4" x 8" x 48 inch block of balsa wood for the body
2. one model VH200 engine
3. an electronic controller with six servos
4. one hellfire turbo prop
5. one hardware package
6. three ounces of epoxy paint
7. fourteen hours of skilled labor

Each item must be purchased separately, and the costs break down as shown in the chart below. Please use the chart to work out your answer for the Total Cost per unit (this is what it costs to build one plane):

Description	Standard Sell Unit	Price Per Unit	Number of Units Needed for Project	Cost Associated with One Plane
4" by 8" by 8' block of balsa wood	one piece	\$35.00		
model VH200 engine	1 unit	\$236.00		
electronic controller with six servos	one piece	\$41.00		
hellfire turbo prop	12 pack	\$600.00		
hardware package	24 per case	\$145.00		
epoxy paint	15 oz. jar	\$9.50		
skilled labor *	1 hour	\$25.50		
Total Cost per unit				

* this cost includes payroll taxes

Your Answer for Question #3:

Payroll

Question 4: Employee Dirk Angerman worked the following hours:



Day	Start Time	End Time
Sun.	off	off
Mon.	9:00 AM	05:30 PM
Tue.	9:00 AM	06:00 PM
Wed.	8:30 AM	12:30 PM
Thu.	9:00 AM	07:00 PM
Fri.	9:00 AM	05:00 PM
Sat.	8:00 AM	03:00 PM

How many hours did the employee work each day?
What were his total hours for the week?

Do the Math here:

Your Answer for Question #4:

Payroll - part 2

Question 5: Assuming that Dirk's hourly wage is \$17 per hour, and he gets time and a half if he works over forty hours, how much will his total wages be? If payroll taxes are thirty percent of the wages, how much are the taxes? What is the total payroll cost for this employee? Use the following chart to do the math:

Day	Start Time	End Time	Hrs. Worked
Sun	off	off	
Mon	9:00 AM	05:30 PM	
Tue	9:00 AM	06:00 PM	
Wed	8:30 AM	12:30 PM	
Thu	9:00 AM	07:00 PM	
Fri	9:00 AM	05:00 PM	
Sat	8:00 AM	03:00 PM	
Total Hrs.			
Reg Hrs.		\$17.00	
Overtime Hrs.			
Total Earned Wages			
Payroll Taxes	30%		
Total Cost to Employer			

Your Answer for Question 5:

Negative Numbers

Question 6: Darryl was a gambler. He placed bets for five days in a row.

His wins and losses look like this:



Day 1	Won	\$5
Day 2	Lost	\$14
Day 3	Won	\$18
Day 4	Won	\$10
Day 5	Lost	\$35

Calculate his total cumulative winnings based upon his wins or losses per day. In other words, how much is he up or down each day.

Do the Math here:

Your Answer for Question #6:

Scheduling

Question 7: Mike Waffleman needs some work done on his 2005 Jeep Rubicon. Unfortunately, the problem just started and Mike is planning a big trail ride this weekend. He shows up at Big Bruce's Off Road Repair Shop on Tuesday morning at 10 am and says that he needs the Jeep back by 3 pm on Friday afternoon. Bruce does a quick diagnostic and finds out that the transfer case needs to be rebuilt. Can he finish the job by the deadline and get the Jeep back to Mike by 3 pm on Friday? Should he take the job? Here are the facts:

1. It will be late Tuesday (around 4 pm) when the first bay is available to pull the transfer case.
2. Big Bruce's Off-Road Repair Shop is open from 9 am - 5pm, Monday through Friday.
3. It will take four hours of labor to pull the broken



part.

4. The transfer case must be sent out to the Gear Shop for rebuilding.
5. It generally takes two hours to get parts to the Gear Shop and log the deliveries in.
6. The Gear Shop averages two days turnaround.
7. The re-install will take four hours.
8. This is a high-profit job, and Bruce desperately wants the business.

Do the Math here:

Your Answer for Question #7:

Remember that these are just the basics of Business Math. If you did well with these examples, you are ready to go. Can it get more complicated than this? Of course. But, with these basics understood, you can make a start. So, let's re-visit Mark Alans's Shed Building idea. He did some math on a napkin, if you remember. But, did he account for everything? In the next Chapter, we will start looking at how to answer that question.

Chapter 4

Show Me The Money

Preparing Financial Statements

We've been using New Life Shed Building Co. as our example, but how much money do you need to start *your* company? Back in the 1970's there was a book called '101 Businesses You can Start for less than 100 Dollars.' You don't see books like that anymore. In fact, most business writers warn very strongly that the number one reason that a business fails is **undercapitalization**. That means that the owner didn't have enough money.

Undercapitalization
The inadequate funding of a business.

People often underestimate just how much they will spend when they take on a major project. Whether that project is building a house, buying a car, or starting a business, there is a tendency to spend more than you planned on. For example, you go to purchase a car and your lovely wife insists that you take the GPS option, and you decide that you can't live without a Super-Deluxe Alpine Sound System. Those options only cost an additional \$29 per month. But, don't forget the tax, destination, and dealer fees. Suddenly, that car you found for only \$22,999 ends up costing more than \$28,000.

We've all been there. Things invariably cost more than we planned. This can be especially dangerous for a new business owner. If the business costs more than planned and earns less than expected, you could get into serious trouble very fast. A failed business can devastate you. Not only could it wipe out your life savings, but it can destroy your credit score and cause you difficulties for years to come.

In this chapter we will look at the basic concepts of business finance. Too often an optimistic future entrepreneur will get into the widget business because there's "Big Money" to be made (A widget is a hypothetical product often used as an example in business classes). So what is "Big Money" anyway? What's just "Good Money"? What are "Beaucoup Bucks"? Too often, these slang terms have vague meanings, and vague is not acceptable in the business world.

Widget
Any small, unspecified gadget or device, especially one that is hypothetical.



Financial statements are a standardized way of compiling information. "Standardized" means that the format is the same in every business. Whether you plan to start a dry cleaning business, a pressure washing company, or a computer manufacturer, all the financial statements will be structured in a similar way. Investors, bankers, accountants, and vendors could each look at your standardized financial statements to answer specific questions about your company and make a decision about whether or not they want to give you money. More importantly, it will give you, the owner, the information that you need to run, manage, and plan your company.

Any **investor** that plans to invest in a new company should ask some basic financial questions. Who are your potential investors? They are not just bankers, rich businessmen, and industrialists, but they could also be your mother, your friend, and many times the largest stakeholder is you. That's right; you are typically the biggest investor in your own company. If you're smart, you will seek the answers to these critical financial questions before you invest the first dime. So what are these questions?

Investor
An individual, company, or organization that commits money or assets in exchange for ownership or rights to future profits.

- How much money will the owner need to take from the company to live?
- How much will it cost to start the company?
- How much of his own money will the owner invest?
- How much is the company looking to borrow?
- How long will the company take to pay back the money?

Good, clean, accurate financial statements will give you the answers you are seeking. This class will take an introductory look into two of the fundamental types of financial statements. They are the Start-Up Costs/Funding and Cost of Goods Sold. We will cover Cost of Goods Sold in a later chapter. Here, let's take a look at just what it would cost to start the company. But, first... Let's consider that first question.

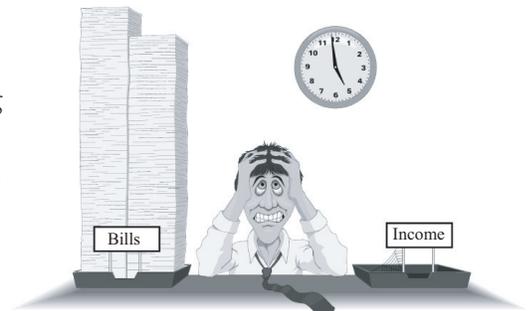
Personal Budget

Chris McAlister had a great idea for a new company. He was very excited about the long-term prospects of this idea. He knew riches and fame would soon come his way. His projections showed millions of dollars in profits within the first four years. Chris carefully calculated each of the important start-up costs that would come up. The grand total was \$39,000. Chris saved money and pinched pennies for two years before he finally opened his business. The grand opening was a huge success. Retail stores all over the place were sending in orders for the new product. That's when his problems first started.



Mrs. McAlister was a short-tempered, feisty redhead and at the end of the first month, she put her hands on her hips, cocked her head sideways, and demanded that Chris cough up the \$2,500 monthly salary he'd promised to provide for the family. The problem is that all of his money was tied up in producing the product that had been ordered. The next month was even worse, the company had shipped much of the product but the terms were "net thirty days" and no one had paid yet. Chris was now two months late on his personal bills, no money was coming into the business, and the feisty redhead

was furious and threatening divorce. By the third month, Chris's magenta Chevy Malibu was repossessed and he had no way to get to work. Chris McAlister had a great idea for a business, but it failed in month four because he failed to account for his personal living expenses.



Do you think this scenario ever happens in the real world? The sad truth is that it happens all the time. Many people fail to consider their personal budget when they plan for a new company. A wise entrepreneur will take careful account of what he needs to support himself and his family before he even starts a company. It's a fact that most companies lose money in the first months or even years of operation (Amazon, Apple, and Microsoft all lost money for years before turning a profit). Expecting those losses and planning ahead for the means to support the family are critical.

Before you begin the financial planning for your company, take some time to prepare your own personal budget. There are several strategies for determining how much money you will need to draw from the company. The simplest method is to look at how much your previous job was paying and understand that you should expect to earn at least that much money from the new company. A more sophisticated method is to work out a personal monthly budget that shows exactly how much money is earned, exactly how much money is spent, and exactly where it goes. A simple version would look something like this:



The McAlisters' Monthly Budget

McAlister	Before Company is Launched	After Company is Launched
Monthly Income		
Husband's Wages - Job 1	\$1,807	\$0
Husband's Wages - Job 2	\$645	\$645
Wife's Job	\$1,985	\$1,985
Rental Income	\$0	\$0
Interest Income	\$0	\$0
Other Income	\$0	\$0
Gifts	\$0	\$0
Total Income	\$4,437	\$2,630
Monthly Expenses		
House Payment	\$855	\$855
Homeowner's Insurance	\$75	\$75
Repairs	\$55	\$55
Electric	\$105	\$105
Water	\$52	\$52
Phone	\$41	\$41
Cable & Internet	\$75	\$75
Cell Phone	\$80	\$80
Groceries	\$500	\$500
Day Care for Baby Ken	\$368	\$368
Entertainment	\$75	\$0
Clothing	\$100	\$50
Truck Payment	\$181	\$181
Car Payment	\$268	\$268
Car/truck Insurance	\$80	\$80
Fuel	\$182	\$182
Repairs and Maintenance	\$80	\$80
Miscellaneous Expenses	\$150	\$150
Saving for Retirement	\$500	\$300
Saving to Start Business	\$500	\$0
Total Expenses	\$4,322	\$3,497
Discretionary Income	\$115	-\$867

The McAlisters worked hard to save money to start their own company. They took a long look at their budget and decided that there were a few areas where they could cut back. They no longer needed to save money to start the company. That saves \$500 each month from the personal budget. They also cut back on entertainment, clothing, and savings for retirement. Chris quit his full-time job but plans to continue working part-time. Despite all that, the bottom line is that the couple will come up short by \$867 each month. Where will they get that money? How long will it be until the company becomes profitable? When can the company begin to pay a salary to the husband, and how much will he be paid? Your answers to the above questions could determine whether your company thrives or dies.

Personal Budget Assignment

What about your company? How much do you expect to take from the company on a monthly basis to live off? For this assignment, prepare a personal budget that shows your household income and expenses. Personal household expenses should never be mixed with business expenses. If you mix the two up you are just asking for trouble. Not only will it be confusing for you, if there is ever a legal issue involving the company or a question about taxes and your personal finances are all mixed up with the business's finances someone suing you can come after your personal assets (your house, car, cash, etc...) and so could the IRS. Always treat the company as a separate entity with separate checking accounts, credit cards, and record keeping. The business is more than just an extension of your personal affairs.

Because we are in prison, this may be a difficult assignment. We don't know what type of job we might get on the outside or how much it might pay. Furthermore, it may be difficult to guess how much the electric bill, grocery bill, and various other expenses will cost. Estimate, but try to do it as realistically as you know how. The point of this exercise is not to prepare an exact and accurate representation of what your actual financial situation will be. The point is to list a possible income that might be reasonable and an itemized list of all expenses. These might include child support, court costs, restitution, past due debts, as well as any other expenses that might apply to you. The bottom line of the budget should list discretionary income, which we get by adding up the total income and subtracting the total expenses. At this point, don't worry about your company's budget. Just prepare a simple personal budget before you start a company.

Bunkwork Assignment: Personal Budget

10 Points

Objectives:

- Use the next page to develop a budget that accurately depicts the situation that you can reasonably expect when you leave prison. Do not copy the McAlisters' example. You might work one job, two jobs, or three. Do you have a wife? If not, do not include her income. How much can you reasonably expect to earn each month?

Contents:

1. List all income that you can expect on a regular basis and total it
2. List all monthly expenses and total them up
3. Subtract the expenses from the income and list the discretionary income

Personal Budget Worksheet

Monthly Income (after taxes)

Income/salary from all sources	
Investment income	
Dividends, interest, capital gains	
Other income	
Total monthly income	

Monthly Savings

General	
Emergency/rainy day fund	
College/other education	
Retirement	
Other (i.e., house down payment)	
Total monthly savings	

Monthly Expenses

Home

Mortgage/rent/HOA	
Housecleaning/landscaping	
Electricity/Gas	
Water/Trash/Recycling	
Home phone	
Mobile phone	
Cable/Internet access	
Security	
Total home	

Personal

New clothes	
Dry cleaning/laundry	
Barbershop/salon	
Hobbies	
Charitable donations (cash)	
Child care	
Pets	
Total personal	

Food

Groceries	
Dining/take out	
Total food	

Auto/transportation

Car loan/lease	
Car insurance	
Maintenance	
Public transit	
Parking	
Gasoline	
Total auto/transportation	

Debt category

Credit cards	
Other loans/lines	
Total other	

Health

Toiletries	
Cosmetics	
Pharmacy	
Health Club	
Medical/dental	
Total health	

Entertainment/recreation

Movies/shows	
Vacation	
Parties/gifts	
Subscriptions	
Memberships (art,music)	
Total entertainment and recreation	

Education

Tuition	
Books	
Student loans	
Total education	

Total monthly expenses	
-------------------------------	--

Add up all total expense areas in grey.

Total monthly income	
- Total monthly expenses	
= Net cash flow	

Start-Up Costs and Funding

Now that you have an idea of how much money you need to pay yourself, you need to start looking at how much capital you will need to start up your business. This section is very straightforward. The challenge here is to list ALL the one-time costs associated with launching a new company. List **everything** you need to start your company and show how much it costs. After you list all the costs, the second step is to show where the money is coming from. That's it. It really is that simple. Just list what you need, estimate what you expect it will cost, and tell us how you will get the dough to pay for it.

The concept might be simple, but the process can be difficult and time consuming. If you forget to list a critical expense item, or if your cost estimates are sloppy, the company will be in deep trouble before you even get started. If you try to make your start-up costs look more affordable by underestimating the price for various items, you will only fool yourself. Be realistic and use your best estimates.

Start-Up Costs

Before writing down everything you'll need, take some time to list the major categories of start-up costs for your company. On your final Start-Up Costs Report, list the items from highest dollar amount to the lowest. Keep in mind that you're only looking for one-time start-up costs, not ongoing monthly expenses. We have listed many common major categories. Some of these might apply to your business; some may not. You might have a major category that is not listed below at all. Carefully consider what categories work for **your** company. Don't just use an example and try to plug in your information. It won't work!

Let's take a look at some of the most common major categories that apply to many start-up companies.

Real Estate

What will your company need in the real estate area? Mark Alans was operating out of his house. That still counts as office space. What is it going to cost you? Maybe that won't be enough for you. Your business might require a studio, a warehouse, an office building, or maybe just space for a hot dog cart. What will your business need on day one? Your start-up costs associated with real estate might include any of the following:

- Down payment for store rental
- Improvements to build out the store
 - Altering the floor plan of the building
 - Carpet
 - Lighting
- Land purchase
- Building Costs
- Finance charges on loans before the business is up and operating
- Display Cases
- Painting
- Decorating
- Anything required to build, upgrade, or improve the space your business will use



Office

What will be needed to furnish the office? Desks, chairs, file cabinets, lights, and office supplies might all be needed. Be conservative with this category. List what you need, not what you want.



Deposits

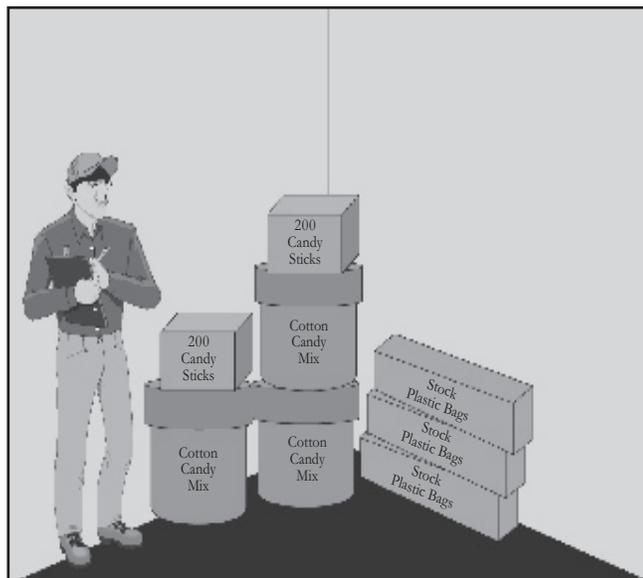


If you are renting real estate, you will probably be required to put down a deposit equal to three months rent. Anyone who has rented an apartment is familiar with this (first month, last month, security deposit). This should be listed as a start-up cost. You may also expect deposits for auto insurance policies, packaged business insurance policies (such as the Liability Insurance that Mark Alans purchased from Socrates National Insurance), utilities, and cell phones.

What about a down payment for a loan? These would *not* be listed in the deposit section because they have already been accounted for elsewhere. “How so?” you might ask. Look at the example of the truck purchased with a loan on the previous page. You listed the purchase price of the truck. Next, you listed the loan amount. The difference represents the down payment and is lumped together with the all the cash that the owner is investing.

Supplies

Supplies include anything that is consumed in the regular operations of your company. Many supplies are listed as variable expenses, but you will almost certainly need to place a sizable order up front when you start to be sure that you have enough supplies in stock. In a lawn service, supplies would include line for the string trimmer, blades for the mower and edger, and plastic bags for yard waste.



Inventory

Inventory is different than supplies. Inventory is product that is sold directly to the customer. A retail jewelry store might stock rings, chains, and lockets. All of these would be listed as inventory. For that same jewelry store solder, grinding wheels, and buffing compound would be supplies and not listed as inventory (because those things get used up in the *process* of serving their customers).

Grand Opening

With some companies, there are major marketing campaigns that are launched in the first few months in order to generate new business. This is most common when a business needs to build up regular customers soon after opening. Janitorial companies, lawn service companies, pest control services, and pool cleaning are all examples that would do very well to gather up repeat customers right away. Other companies such as house painting, tree service, and roofing do not have regular repeat customers, but rather have a need for a steady stream of new customers. If your company is one that needs a quick influx of regular customers, it would be a great idea to think about spending a considerable portion of your marketing budget on the big Grand Opening.



Professional Fees

Fees include the cost of legal work, accounting, or any other advisory type cost that your company may incur to get up and going.

Licenses and Permits

You will need to list all initial costs associated with obtaining the proper licenses and permits.

Payroll

Remember when we worked out our Personal Budget so we could find out what sort of salary we would need to include in our costs? You will need to consider that as part of your startup costs, as well. If the company doesn't turn a profit right away you and your family still need to live. Which brings us to the last category...

Operating Losses

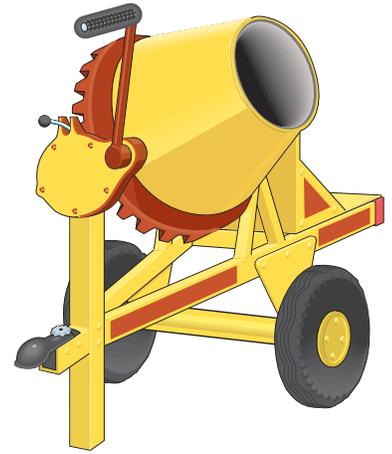
Remember that most companies lose money in the start-up phase. It could be months or years before they actually start earning a profit. You will want to include some extra cash for this start-up phase and for potential emergencies. You need to worry about two questions for this category. How many months will the company lose money, and how much money will it lose?

Realistically, you need to sit down and work out some long-term financial projections to estimate this number. In Small Business Class, we will actually take this step. For our purposes here, you will just need to make a rough guess. If you move on to SBC, you will certainly need to come back to this and revise that guess. Try to make your guess realistic, though. The important thing is to be able to predict how much money the company will lose so that you can be prepared to deal with those losses.



Equipment

What type of equipment will your company need? A lawn service company, would need lawn mowers, edgers, string trimmers, and other equipment. Mark Alans needed tools. Later on, he bought some lawn equipment and electronics. Often, other equipment (computers, printers, copy machines, etc...) is needed for the operations of the organization. List all the equipment you will use, even if you already own it. Mark Alans, for example, decided to use his own personal truck and tools for New Life Shed Building Co. This would still need to be listed in his start-up costs. If his truck is worth \$12,000, that gets listed in the 'Expense' section for \$12,000. You will list the truck *again* in the 'Funding' section as an "**in-kind donation**" from the owner. Mr. Alans would do the same for his tools.



Most companies don't list the small details. It's a good idea to lump smaller items into a single category rather than listing each item on its own. For example, instead of listing fifteen rubber bands, thirty paperclips, staples, paper, pens, etc... you can just list office supplies for \$300. Do NOT list expensive pieces of equipment together; list them separately. For example, if you have three trucks, don't list them together in a 'truck' category. Each truck, car, van, and trailer should be listed.

Most companies list vehicles as a sub-category of equipment. As we all know, there are many options to buy a vehicle. You can lease, buy, or donate your own vehicle to the business. It is important to list the purchase price or the current value of the vehicle, regardless of how you're paying for it. Let's break down some examples:

Example #1: In-kind Donation

Here are the facts:

- 2007 GMC 2500 work truck
- The truck is already owned by the company owner
- The owner purchased the truck in 2007 for \$21,000
- The current Kelly Blue Book value is \$13,750
- The owner chooses to "donate" the truck to the company

The question is...

How do you list this in the financial reports?

- You would list the truck and its current value of \$13,750 as a start-up cost. Notice that the value of the truck is not established by the sale price as it is in the next example, but instead a much lower price that reflects how much the truck has depreciated over the years
- In the funding section, an in-kind donation of \$13,750 is logged

Example #2: Loan Purchase

Here are the facts:

- 2007 GMC 2500 work truck
- Sale price \$12,000
- 25% down payment \$3,000
- Bank loan monthly payments: \$407.05 for 24 months at 8% interest

The question is...

how do you list this in the financial reports?

- For the start-up costs section, list the truck and its value of \$12,000
- In the funding section, list a bank loan for the truck at \$9,000
- The \$3,000 down payment will be included in the "owner's equity" total under funding
- Later on in the fixed expenses section, list a payment of \$407.05 for the first two years

Example #3: Leasing the truck

Here are the facts:

- 2012 GMC 2500 work truck
- The list price is \$24,950
- A 4-year lease is signed for the truck
- The capital reduction (down payment) is \$4,990
- The monthly payment is \$525

The question is...how do you list this in the financial reports?

- The list price is not needed for the calculations in the case of lease. The truck is not an owned asset of the company. The company is just paying to use the truck for a specific period of time
- The capital reduction of \$4990 would be listed as a start-up cost
- The monthly payment would be listed under fixed expenses



It's very important to be as accurate as possible in the Equipment category. Understanding, of course, that we have limited information in our current environment, we realize that any number you come up with may very well be a guess. Try to make it as educated of a guess that you possibly can. When grading this section, we will be looking for reasonable numbers. If you put down that you're buying a Mobile Food Vending truck for \$12.00 you will raise some eyebrows. Add a few zeroes and try to be as realistic as possible.

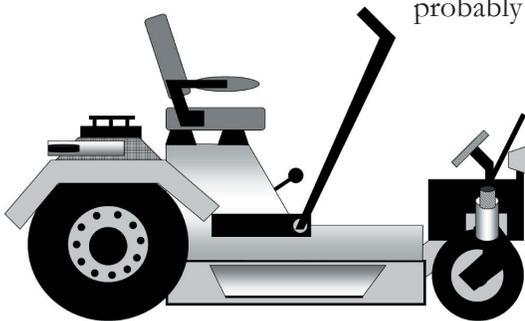
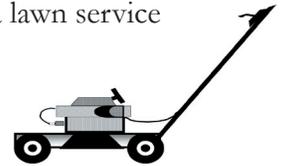
That said, when you get into a real world scenario, it is very important that you understand the implications of your purchasing decisions. Will it be better to buy cheap or pay more for something that lasts? Will it be worth it to pay for a machine that does many things that I don't need it to do yet? As a business owner, you need to make decisions like this every day. We call the concept...

Cost/Benefit Analysis

Let's think about lawn service for a minute. How much does it really cost to start up a lawn service company? Consider these two examples:

Company # 1

Could you start with nothing but a cheap, used lawn mower? You could just mow lawns in your own neighborhood and walk to each job. At the very low end you could probably start the company for less than \$400.00.



Company # 2

On the opposite end of the spectrum, we have the guy who gets a deluxe, brand new full size 4 x 4 truck; a John Deere zero turn radius, 25 horsepower, 56-inch mower deck; top of the line blowers, edgers, trimmers; and a big enclosed trailer. The total bill for all that equipment: \$135,000.

Which company would be more attractive to an investor? Which company is most likely to be profitable? The truth is that each of these companies made fatal errors when building the basic foundation of their businesses.

Company # 1 doesn't even have the minimum equipment needed to do a reasonable job. He won't have the capacity to service enough yards to earn anything but a few dollars. He's not much better than the kid roaming the neighborhood to earn some after-school money.

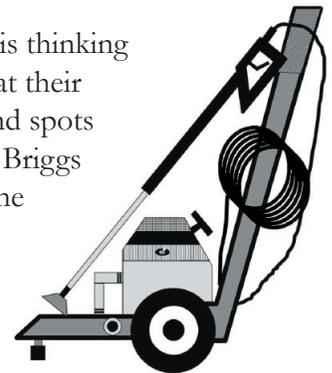
Company # 2 made the same mistake, but in the opposite direction. This company purchased some very expensive equipment that gives him the capacity to service a large number of jobs, but he also included some high-priced and unnecessary equipment. For instance, that deluxe brand new full-sized 4 x 4 pick-up truck may be something that the owner really enjoys, but it adds nothing to the operational efficiency of the company. In fact, it gets horrible fuel mileage.

As you build your company, you will need to make decisions on the purchase of equipment, vehicles, property, computers, and many other items. Whether or not you make a purchase should be determined by how it affects the productivity of the company as well as the cost to the company. The Cost/Benefit Analysis will drive every business decision you make. Do not be tempted to make purchases driven by personal pride or desire. So often, prospective new business owners plan extravagant employee lounges, pool tables, fancy cars, and other costs that are completely unrelated to what they need for the company. Once you are making the money that Google makes, you can install a two-story slide running directly from the second floor offices to the cafeteria. Until then, use the stairs.

So, which lawn mower should you purchase for your new lawn service? The very “best” one you can afford. “Best” is defined as the one that can mow the most amount of grass in the least amount of time. Spend your money on equipment that will increase your productivity. Mowing more lawns in an hour means more money in your pocket. What computer should you buy? Unless you’re running an on-line business that depends on your Internet traffic, the cheapest one you can find. The newest quad processor, water-cooled, nuclear-powered, large screen, made from polished titanium, and decked out in colored LED lights may look really cool and be great for gaming, but it adds nothing to your productivity if all you need to do is print out some spreadsheets. Even the most basic computer can perform all the tasks that you need to run a business.

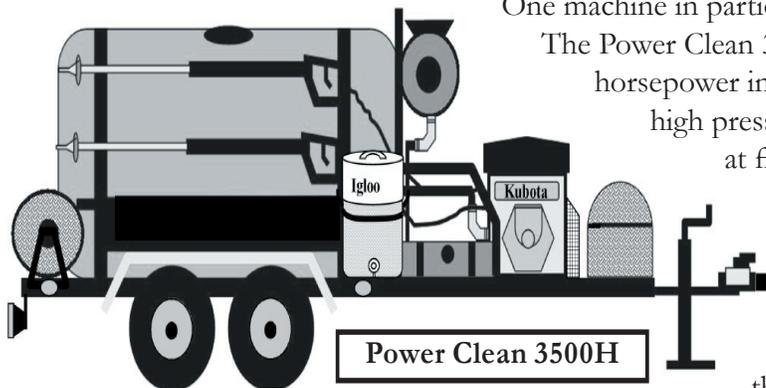
Let’s look at another example...

Brian is going into the pressure washing business. He’s saved up some cash and is thinking about what equipment he should buy, so he heads down to Home Depot to take a look at their selection. There are lots of pressure washers. He sees all kinds of makes and models and spots one called the Dynamo 2000. It’s a 2,000 PSI machine powered by an eight horsepower Briggs and Stratton engine that costs \$295. Brian has enough money to pay cash for the machine and could start working right away with it. Before he makes the purchase, he decides to check out the Internet to see if he can find an even better price. Brian is flabbergasted by what he finds. He suddenly sees a whole world of industrial and commercial pressure washing equipment that he didn’t even know existed.



Dynamo 2000

One machine in particular caught his eye:



The Power Clean 3500H. This commercial unit is powered by a 35 horsepower industrial Kubota diesel engine. It boasts two separate high pressure pumps that each maintain a continuous 3,500 PSI at five gallons per minute, a 500 gallon water tank, two 35 gallon chemical tanks, and it features three powered hose reels. The PC3500H also has a diesel hot water heater that can heat water to 200 degrees. The machine is mounted on a tandem axle trailer and looks extremely professional. The bad news is that it costs \$18,000.

Brian’s head is now swimming with all the numbers and specifications as he tries to figure out what it all means. Before making a decision, Brian built a chart to list the specifications of each machine side by side. Here is Brian’s fabulous chart:

<i>Feature</i>	<i>Dynamo 2000</i>	<i>Power Clean 3500H</i>
Price	\$295.00	\$18,000.00
Engine/Fuel (Horsepower)	Briggs & Stratton / Gasoline (8 hp)	Industrial Kubota / Diesel (35 hp)
Fuel Consumption	1 gallon / hour	2 gallons / hour
High Pressure Pump	One sealed unit	Two industrial rebuildable units
PSI Peak / Continuous	2,000 / 1,500	4,000 / fully adjustable up to 3,500
Gallons per minute	2 per pump	5 per pump
Pressure Hoses	One 50’ Poly	Three 400’ Steel-braided Rubber
Pressure Wands	One 3’ fixed tip	Two 6’ interchangeable tips
Hose Reels	None	Three (fully electric rewind)
Chemical Tanks	None	Two 35 gallon tanks
Chemical Hoses	None	150’ insulated
Water Heater	None	System rated up to 250 degrees F
Cleaning Capacity	500 sq ft/hour	3,500 sq ft/hour

Brian's chart presents some interesting information. Brian found out that there was more than one way to rate PSI. The peak PSI is the maximum pressure that a system can stand before it fails. The continuous PSI is the number that matters because that's the level where the system can truly operate. Brian also learned that some machines use more gallons of water per minute. The more water used, the higher the cleaning power. Water temperature makes a huge difference as well. For every temperature increase of twenty degrees, the cleaning power is doubled. The most telling number is at the very bottom. The Dynamo 2000 cleans 500 sq. ft. per hour. The PC3500H cleans 3,500 sq. ft. per hour. Translated into real world performance, how long would it take to do one job? If the standard job is a typical three bedroom house, it would take seven hours with the Dynamo 2000 and only one hour with PC3500H. How does that difference impact profit? Let's take a look using a typical job and a unit sale price of \$200. We haven't really discussed Cost of Goods Sold yet, but here is a small preview.

Cost of Goods Sold	Dynamo 2000	Power Clean 3500H
Labor	\$105.00	\$30.00
Fuel	\$21.00	\$6.00
Chemicals	\$3.00	\$3.00
Total Variable Expenses	\$129.00	\$39.00
Gross Profit per Unit	\$71.00	\$161.00
Capacity Projections		
Daily Sales Units	1	7
Weekly Sales	5	35
Monthly Sales	22	152
Monthly Gross Profit	\$1,537.15	\$24,399.55

Look at the difference in labor costs between the machines. The money Brian would save by buying the cheaper unit would quickly be lost in higher labor costs year after year. Not only does the Dynamo 2000 use more labor, but because it's so slow, its capacity to produce is severely limited. The Power Clean 3500H can clean more houses each month and is much cheaper to operate. Brian's choice is clear; the PC3500H provides higher capacity and higher gross profit per unit.

Now, you may be thinking, "Yeah, but what about getting started? Shouldn't I start with the cheap one?" Because Brian has taken the Credit and Debt Management course, he has a decent credit score and can lease the PC3500H for less than \$900 per month. Beyond that, look at the Monthly Gross Profit. Assume that you won't meet capacity and will only bring in 65 customers per month with the Power Clean 3500H. That's not even half as many customers as you could serve. Within three months, the unit would still pay for itself. If you met a full half capacity with the Dynamo 2000, it would take two years to even earn enough to purchase the Power Clean 3500H, and that's if no other expenses come up.

Negotiation

Now that you have an idea of what type of equipment you need, how do you make sure that you get the best possible price? In this section, we will look quickly at seven negotiating tactics commonly used by shrewd business people. If you understand them, they will be useful in many situations. Whether you are buying or selling, the same strategies and tactics can apply. By the way, you are not the only one who knows these great secrets to selling and negotiating. Every time you've bought a car, the salesman has used these tactics on you. See if you recognize any of them.

Comparison Shopping

So, you are in the market for an electric forklift. You drive down to the local forklift dealer and take a look at the latest offerings. The Hitachi K700 fits what you want, and, as fate would have it, today is the last day of a special promotion! The salesman invites you to quickly fill out the credit application so that he can get you approved. You can't believe your good fortune, so you fill out the form. Within twenty minutes, you're approved. You write the check for the down payment, and the deal is complete. Your new forklift will be prepped today and delivered to your warehouse tomorrow morning. You're very happy with your new purchase and so are your employees.



A week later, you're on the Internet trying to find some service information on your new Hitachi K700, and you're shocked when you find out that the very machine you just purchased is a discontinued model and that other dealers are selling the same machine for \$2,500 less than you paid for it! When you get your first bill, you pull out the bill of sale and credit contract and realize that you agreed to pay a whopping 18% interest rate on the equipment loan. Your blood is now boiling, but the fault does not lie with the dealer who overcharged you. The mistake was *yours*. You violated the first rule of negotiation: ***Always get several prices before you make a purchase.*** Not only did you fail to comparison shop for the equipment itself, but you also failed to comparison shop on the financing. Both mistakes will cost you dearly.

The old-fashioned way to comparison shop was to drive around to various dealers. That still works today, but you have even better options. The Internet allows you to comparison shop with dealers all over the country without leaving your office. Carefully compare various manufacturers and dealers. Eventually you will narrow your selection down to a particular make and model. At this point you can prepare a request for proposal or RFP. This is a standardized form which lists the specifications and requirements and invites various dealers to bid on supplying your needs, with Internet sites that specialize in gathering bids from many companies. Now, you're in a very good position to make the best possible buying decision.

So what about the good ol' Hitachi K700 back at the local dealer? Once you have done all the homework, you may still decide that you like the advantages of using the local dealer because of their service and convenience. The bottom line is that your comparison shopping will yield you the best bargain from that local dealer.

Of course, that's only half of the comparison shopping equation. Before you ever request bids or go to buy a piece of major equipment, be sure to talk to your local bank and credit union about the financing. In most cases, they can offer you much better rates than you could get from the dealer. There are exceptions to this. Sometimes manufacturers offer no interest or very low interest in order to promote their products. The point is to shop for the best financing or lease agreements before you commit to any purchase.

Deal with Decision Makers

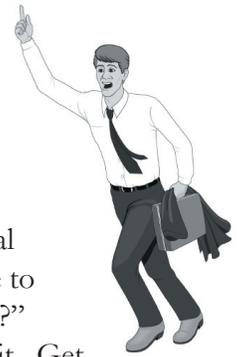
A business owner walks into a janitorial supply company looking to buy a sizable amount of equipment. The first person to greet him will inevitably be a salesman. The salesman is great at describing the equipment and providing essential information, but the salesman can't make any decisions about discounting the price. Those decisions are made by the manager or the owner. Here's a little trick they play on customers, and almost certainly you may remember a time when this was done to you.

The trick is that the salesman keeps you from talking directly to the decision maker and always puts himself in the position of being the kind, helpful person that is asking the decision maker for favors for you. They continually pit you against some unknown, unseen entity, and prevent you from negotiating directly. Your best bet is to ask to speak directly to the owner or manager. This is true regardless of whether you're buying or selling. Do not waste time trying to negotiate with someone that has no authority.

By the way, you can also use this tactic on them. Imagine that you've been negotiating for two hours and they've made their best and final offer. Instead of saying "yes" or "no" you say, "I'll have to check with my wife." You walk away and get on your cell phone for few minutes or you leave and return the next day. When you return you say something like this: "My wife is interested but she feels the price is \$500 too high. If you can come down another \$500, she's willing to make the purchase." Do you see the magic of this tactic? They spent two hours negotiating with you only to find out that you are not the decision maker. They really can't negotiate much because you have isolated them from *your* decision maker. They came up with their best deal before you ever went to the boss. In most cases, they'll offer to split the difference. If so, you just saved another \$250.00. Congratulations!

Walk Away

Be prepared to walk away if the deal is not right. There is nothing that will motivate the salesman to make a better offer than seeing his prospect walk out the door.



Trial Close

You can use this when selling your service. You're walking around talking with a potential customer about providing lawn service. The customer sounds interested. You ask, "If you were to use our service, would you prefer that we came out on Monday mornings or Tuesday afternoons?" Either answer is a nod that your customer is willing to make a commitment right now. Don't wait. Get out the contract.

If... Then....

The "if... then" close is typically used by a salesman in response to customer inquiries. For example, the customer asks, "Can I get this with stainless steel housing?" The salesman would reply, "If I can get one with stainless steel housing would you be willing to sign today?"

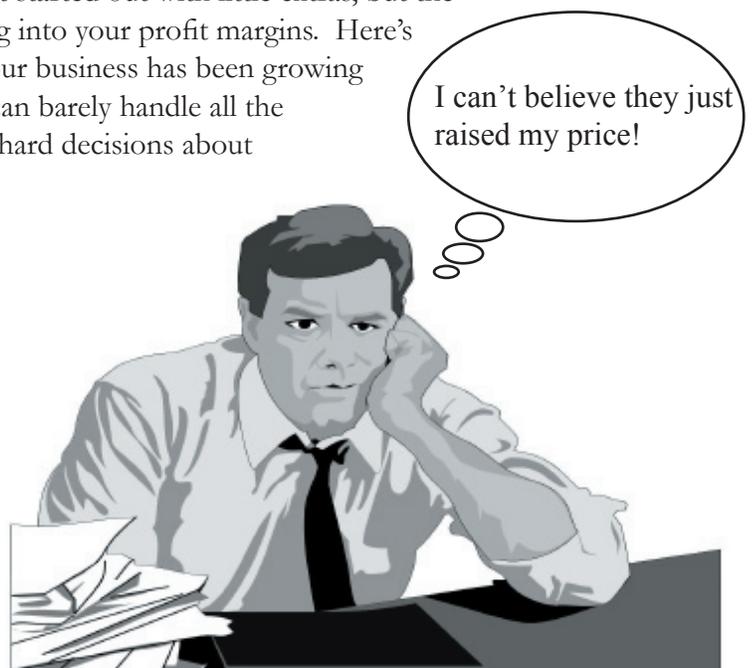
The Chisel



You've spent all afternoon haggling with the saleswoman about the various options and price on your new car. Finally, you both come to an agreement about the details, and you're getting ready to sign the contract. You put on your reading glasses, carefully read the contract, slowly pull out your pen. You then stop, pull back the pen, look over the top of your glasses and say, "This does include a full tank of gas, doesn't it?" What dealer in their right mind would blow the deal over a tank of gas? It works great when you're the buyer, but when you're the seller be careful or your customers might chisel you right into the poor house.

The Take Away

This is a great tactic, and it can be fun to use on a particularly demanding customer. You have regular customers that ask for more and more every month. It started out with little extras, but the demands just keep growing until they're seriously biting into your profit margins. Here's how the take away works: you tell the customer that your business has been growing by leaps and bounds. In fact, you're so busy that you can barely handle all the work. You feel bad about being forced to make some hard decisions about which customers you can keep and which ones you can't. You explain that you would love to keep him on the list, but because of his extra demands and your eroding profit margins, you will be forced to raise his price or discontinue the service. Suddenly his negotiation position has been degraded. You will likely find that he will offer to pay the increased rate, or, more likely, cease with the demands.

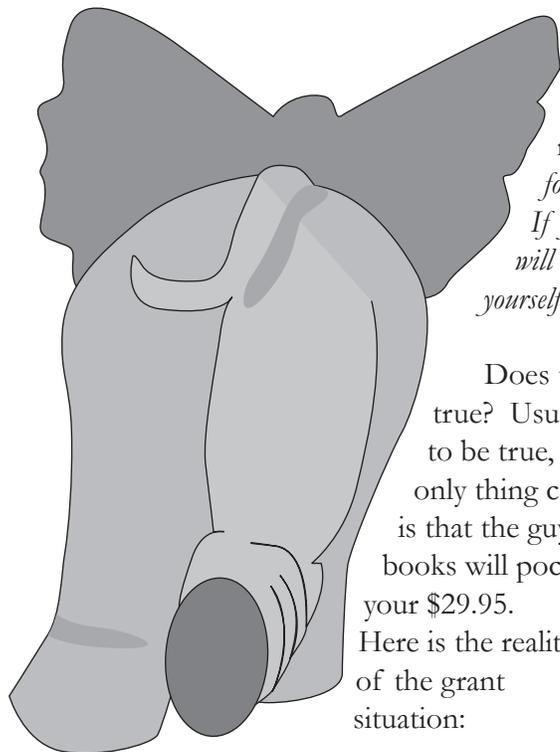


Funding

Once you've found the best prices and know how much money you need to start, you need to figure out where you're going to get it from. At this point, your business plan is really starting to take shape. You have a nice detailed list of everything that you need to launch your organization. Great job! Now all you have to do is come up with the money to pay for all that stuff. Wouldn't it be great if all you had to do is come up with a really good business plan and banks and investors would line up to offer you favorable terms on a loan? Better yet, you might get one of those famous grants from the government. You know, the government that's just waiting for the chance to throw money at you.

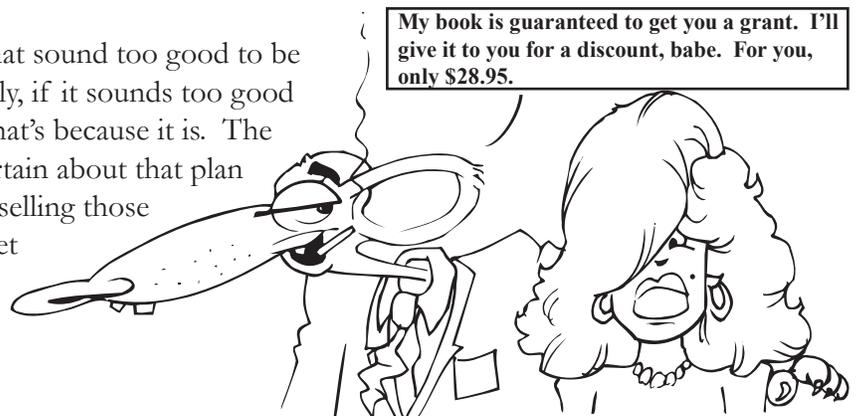
How much will you, the owner, invest? How much can be borrowed? Where are you borrowing the money from? Who are the investors and how much are they investing? In addition to investing money, you, as the owner, may also invest in-kind equipment that you already own personally (for instance, the truck that Mark Alans donated for company use). You will need to list all funding sources, and they need to total up to the same amount of money as the Start-Up Costs. In this funding section we will take a close look at all the options.

Grants



Let's talk about the elephant in the room first. A grant is "the giving of funds for a specific purpose." **Giving** is the key word. Grants never require the money to be paid back. There is an urban legend or myth that goes something like this: *"There are billions of dollars available for the taking! The money is just sitting there waiting for someone to request it. If you spend the tiny sum of \$29.95 (plus shipping and handling) for my book, it will supply you with all the great secrets you need to access these billions of dollars for yourself?"*

Does that sound too good to be true? Usually, if it sounds too good to be true, that's because it is. The only thing certain about that plan is that the guy selling those books will pocket your \$29.95. Here is the reality of the grant situation:



Grants are awarded by the federal government, state governments, cities, private charitable foundations, and individuals. The usual process begins in the agency with the funds. Let's take a look at a hypothetical example. The Florida legislature may decide that the state would be better served if there were more halfway houses for inmates that are newly released from prison. The state would designate a dollar amount for that purpose and assign a specific state agency to oversee the program. For instance, they might allocate three million dollars and assign the Department of Health Services (DHS) to administer the disbursements. DHS may be allowed to use one million for the administration and oversight. That would leave two million to give out. DHS would then publish the purpose and eligibility requirements for the grant.

The purpose of the grant might be summarized as follows:

- To reduce the risk of re-offending and help ex-offenders re-enter the free world
- To provide housing and food to ex-offenders with inadequate resources
- To provide life skills training

The eligibility requirements of the grant might be stated as follows:

- Recipients must be registered 501(c)(3) nonprofit organizations in good standing
- Recipients must be willing to accept any inmate referred by the FDOC
- Recipients must have at least a five year history of providing similar services
- Recipients must not charge the ex-offenders more than sixty dollars per month
- Recipients must provide three nutritious meals per day
- Recipients must provide four hours per week of alcohol and substance abuse training by a Certified Addiction Professional to every resident

Organizations that want those funds would write a grant proposal explaining how their purposes match up with the purposes stated by DHS, and they would need to provide proof that they meet all the eligibility requirements. Funds would then be awarded as follows:

- \$200 for each ex-offender that completes thirty days in the program
- An additional \$300 for each ex-offender that completes sixty days in the program
- An additional \$300 for each ex-offender that completes ninety days in the program

How many halfway houses do you think might apply for this funding? Most would be rejected right off the top because they couldn't meet the eligibility requirements. Of those that qualify, only the ones with the best plans would be selected.

Here's the point: most grants are provided for nonprofit organizations. There are very few grants available to "for profit" corporations. The ones that do exist, usually have very specific objectives. If you are starting a company, do not plan on a grant for any portion of your start-up funding.

Bank Loans

Ok, so you can't get a grant; no problem! Just head over to your local bank and hand them your stunning business plan and pick up the check. Sound good? If only it were that easy.



Banks loan money to those who can and will pay them back. Let's rephrase that a bit. Banks loan money to those who provide measurable evidence suggesting that they have the intention, desire, and ability to pay them back. Additionally, they look for a Plan B. If the money can't be paid back, they want something that they can repossess and sell. For the most part, banks have no interest in repossessing a business. They would much rather repossess a car, a truck, a van, or a heavy piece of equipment. They're looking for some asset that they can sell for a quick return. If additional funding is needed for your company, you might consider purchasing a work vehicle before launching the company. Use your good credit and long-standing job history to secure a good deal on a vehicle loan or an equipment loan.

Banks are best used for the purchase of hard assets like land and equipment. Your signature will be required to personally guarantee the repayment of the loan. This means that if the company defaults (goes bankrupt), *you* need to pay off the loan from your *personal* assets. Banks are not normally interested in handing out a "general small business loan" for things like salaries, supplies, marketing campaigns, and other expenses that are used up by small businesses. Because it's hard to repossess things that have already been used.

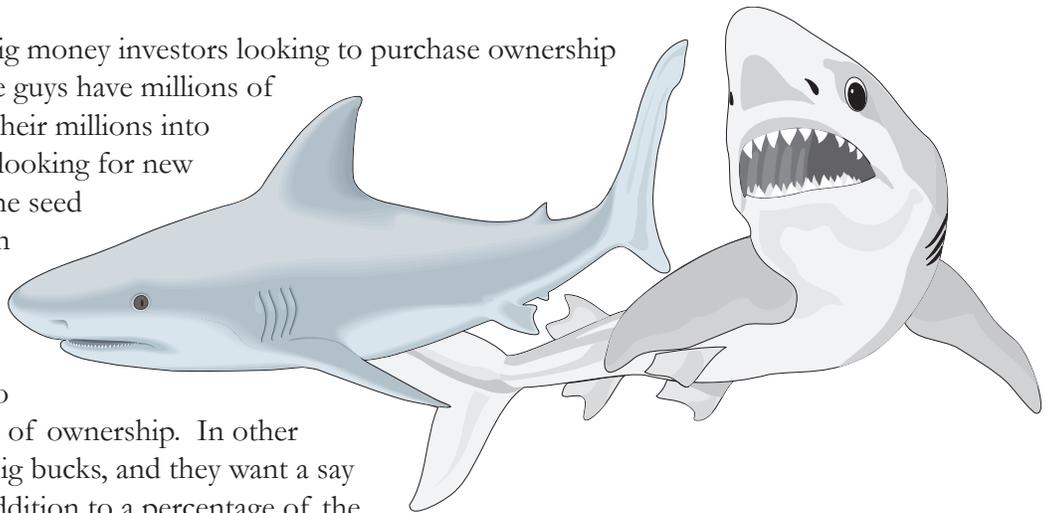
Small Business Association Loans

The Small Business Association (SBA) is part of the federal government. Part of what they do is guarantee loans for business owners who might not otherwise be able to get a loan. The SBA does NOT loan out money; they only guarantee that loans will be repaid. That means that if you plan to get a bank loan but don't have that collateral we were talking about, the SBA might put up the guarantee for you. Being a felon will not disqualify you from obtaining an SBA loan; however, there *are no special SBA loans just for felons*. The SBA publishes the qualifications for obtaining a small business loan. They are especially interested in loaning money to companies that will provide jobs. The SBA guarantees loans to established companies with good credit and, like any government program, it demands piles of paperwork and hurdles to jump. Their loans typically charge higher interest rates than non-SBA loans. Most business people find that SBA loans are more expensive and require more work than just getting a regular bank loan.

One SBA loan that is of particular interest to ex-offenders is the Community Express program that loans amounts up to \$25,000 to low to moderate income entrepreneurs. This program is to encourage business start-ups in historically under-utilized business zones (the 'hood', in other words). It still requires good credit and management experience, but it may be an option to look at for your business.

Venture Capitalists

Venture capitalists are big money investors looking to purchase ownership in start-up organizations. These guys have millions of dollars and are looking to turn their millions into billions. Venture capitalists are looking for new business ventures that need some seed money before they begin to earn outstanding returns. They want the next Apple, the next Google, or the next Facebook, but venture capitalists usually do not make loans; they buy shares of ownership. In other words, they are putting up the big bucks, and they want a say in how the company is run in addition to a percentage of the profits. If you've ever seen the TV show Shark Tank, you have a good idea of how a venture capitalist operates.



Angel Investors

Believe it or not, these are not winged people floating around waiting to give you money. An angel investor is a small-time venture capitalist, and they operate a bit differently than the big guys. Instead of dealing with business brokers, they often look to the internet. Imagine an internet site that's set up sort of like a dating service. A bunch of smart guys just like you develop really good business plans, and they all post their plans on this website. In the plan, they have a section entitled "Capital Requirements" that describes the deal being offered. Examples might look something like this:



- *Divine Doughnut Shop (DDS) will require \$89,500 in total start-up costs. The founder, Jeffrey Lebowski, will invest \$20,000 from his personal savings. DDS is seeking an angel investor to put up \$69,500. The angel investor will own 77% of the stock shares and could reasonably expect his original equity to be repaid after three years. The investor will also continue to receive dividend income exceeding \$27,000 per year for an indefinite period into the future.*
- *Cisco's Car Service needs \$390,000 to launch the company. The Lopez brothers are looking for an investor to fund this idea. The investor will put up all of the cash, receive 49% of the stock, and be entitled to the same percentage of profits.*

If you were an angel investor, what company would you invest in? The best deal attracts the angels. The bad deals get none. Angel investors are sophisticated and are not fond of losing money, so they demand safeguards of ownership and control. The deal can be constructed in any way that you could possibly imagine. In many cases, the founder has the option to buy back the ownership shares from the angel for a premium price, but the angel always gets his share.

Partners

Without very good credit and a substantial down payment, it can be very difficult to get a bank loan. But, it might be possible to team up with another person who has money to invest or is qualified to secure a loan. A business partner refers to any type of co-owner and may be under the structure of a corporation, LLC, or partnership. Do be aware that partners must be written into your business plans, though. If your “partner” is just handing you money and saying, “Do whatever you want with it; I don’t care” then this is not a partner, it’s a friend with particularly deep pockets. A true partner WILL have a say in how the company is run.

Example

John wants to start a pressure cleaning company. He works as a pre-delivery prep person at a car dealership and notices that one day a week a company arrives at the dealership and cleans the exterior of every car on the lot. He finds out that the company charges the dealership \$2.00 per car and typically cleans 500 to 700 cars.

John prices out the required equipment including a truck, trailer, and professional power washer with an ionizer to eliminate water spots on cars. The start-up costs total \$25,000. John has \$3,000 dollars saved up, but his credit score still needs some work.

Who would be a suitable person for John to approach with the idea of a partnership? What could a partner bring to the table other than money? If John is willing to work hard and share the profits, he may very well be able to find a partner. Keep in mind, a partner who puts up a majority of the money will demand a majority of control in the company.

Mr. Shaw owns the car dealership where John works as well as two other dealerships. John estimates that Mr. Shaw spends \$3,600 every week to get the cars cleaned at all three dealerships. Mr. Shaw could be the ideal partner. He could get John the best price on a used truck, provide money to purchase the equipment, and most importantly, provide a huge chunk of profitable work. Mr. Shaw would continue to spend the same amount each week for cleaning the cars, but he would also receive profit from the pressure washing service.

Family and Friends

What about family members such as mom Morticia, Uncle Fester, Cousin It, or sister Wednesday? They all have money stashed away, and they already know you. Might they be a good source of funding? Some people reading this might start itching just thinking of all the grief and heartache that they’ve endured because of bad business deals between family members. If Uncle Fester put up half the money to start your company, shouldn’t he be entitled to making half the decisions? If Cousin It provided a loan, would he be angry to see a new car purchased before he was paid back? If you chose to get funding from a family member, treat the transaction just like you would a loan from a total stranger. Spell out the terms of repayment and expectations in writing before any misunderstandings occur. For instance:

Example

Mom has agreed to loan Marissa \$12,000 to start her radiator rebuilding company. Marissa will pay the money back within two years with interest at the rate of 12%. The payments will be made monthly beginning on the third month after the grand opening. Mom will not be entitled to any say in the operations for the company, and Marissa will not borrow any other money until Mom is paid back. In the event that Marissa fails to make payments on time, Mom will be entitled to full ownership of the radiator machine and all the tools in the shop. Mom will sell the equipment and Marissa will still be liable for any amount that is not yet satisfied. If Marissa cannot pay the remaining amount, Mom will take ownership of Marissa’s favorite pit bull, Axel.

Credit Cards

No financial adviser in the world would recommend starting a company by using credit cards. Still, every day thousands of small business owners around the country use credit cards to buy equipment, supplies, and inventory to launch their companies. Why do business owners do this? It's easy. Credit cards are readily available and require no collateral. The problem is that credit card companies charge very high interest rates compared to the other options. If you use credit cards, be careful and use them wisely.



Owner's Equity

Most entrepreneurs' start-up funding comes from the owners' personal savings or other assets that they have accumulated over many years. This is an important point. If you plan to start a company, the first step is to go to work and start saving money. In many cases, 100% of the funding will come from the owner's equity. A good source of owner's equity could be a home equity loan.

Bunkwork Assignment: Start-Up Costs and Funding

15 Points

Objective:

- *The Start-up Costs and Funding section should clearly illustrate how much it will cost to launch the company and from where the money will come. The same format is appropriate for expanding a company.*

Contents:

1. List all the one-time start-up cost items. Group major categories together rather than detailed itemized listings.
2. List all funding sources.
3. The total costs must be equal to the total funding.

Chapter 5

The Customer

Writing Style

Before we begin our discussion about customers, it's important to go over some basic concepts about writing. Up to this point, all your assignments have only been dealing with numbers. Going forward, there will be much more writing involved. In business, a clear and concise writing style is important. Readers will not appreciate your brilliant business concept if it is described in a clumsy and poorly written style. Sentences and paragraphs should be kept short and precise. The opening sentence or paragraph should make your point. Think carefully about the point you want to make then make it, short and to the point. The main body of text should provide evidence or arguments to support your position. Finally, the conclusion supplies the reader with a quick recap of the information they just read. The same structure should be applied to the document as a whole and throughout each section of the document.



Be professional with your language. The language of the business world is Standardized English. That's not just in the United States. Whether you're in Hong Kong, Ireland, Australia, or Mexico, you may very well see contracts, bids, advertisements, and business reports written in Standardized English. If Bubba is a good ol' boy from Alabama and plans on opening a restaurant featuring the fine flavors and traditions of the Deep South, it will not help him to use slang terms such as "y'all" in his business plan. Bubba might use "y'all" in his advertising and on his menu because it helps to create the "Deep South" atmosphere, but in his business plan he should avoid slang and use the language of business.

That doesn't mean that you should try to use big words if you aren't sure of their meaning or of how to use them the right way. Keep your writing uncomplicated, straight-forward, and 'business professional.'

Business writing is a more technical form of writing, and it requires different skills than just writing a letter home. If a business plan is describing a business that will begin in the future, it's very important that the entire plan be written in the future tense. For example: ***New Life Shed Building Company will build and install quality custom sheds and porches***, NOT ***New Life Shed Building Company builds and installs quality custom sheds and porches***. That might seem like a minor point, but the idea is to present yourself as professionally as possible. Consistency is the key here. Use the future tense throughout your entire business plan.

How do you refer to your company? If your company is named: **New Life Shed Building Co.**, do you write out the entire name every single time you refer to the company in your business plan? If you do, the reader will quickly get very tired and frustrated with the repetition. You may use initials to refer to the company, and the proper way to do this is to reference the initials the first time they are used. For instance: ***New Life Shed Building Company (NLSB) will seek funding from one investor and apply for one bank loan***. From that point on, the initials NLSB may be used in place of the full company name. Notice that initials are always capitalized and need not include a period after each letter. You may also use a shortened version of the company name such as "**New Life**." You may also try using: The Company, The Firm, or The Organization. Each of these is acceptable and will make the document more readable and understandable.

One final note on style, be careful of your pronoun use. If Jose is the only person involved in the company, could he use the pronoun “I?” If it’s Jose and his son, could he use the pronoun “we?” It would be acceptable to use either one, but again, be consistent. Do not use “I” in one place and “we” in another. Consistency is one of the keys to a good, well-written business plan. The other option to consider is the use of a third person pronoun, which is considered very professional. Third person is the writer referring to another person or, in this case, the company itself. For example: ***New Life Shed Building Company is an innovative company. They use quality building materials.*** Again, be consistent. If you use the third person pronoun at all, you *must* use it throughout the entire document.

Each section that you write for your business plan will be graded according to an objective standard. Proper writing style must be used throughout. Spelling, grammar, content, and style will all contribute to your final grade.

A Word of Warning

One very common mistake that many people make when writing a business plan is to make it sound like an advertisement. Bear in mind that your customers will ***never*** read your business plan. Don’t write your plan as though you’re trying to sell a product or a service to a customer. The plan should be written for presentation to an investor (even if you are the only investor) or to a key employee.

Customer Service

Before we even start dealing with trying to define who your customer is, it is vital that everyone understands how important good customer service is. You can write the best business plan in the world. You can have all your funding in place with a fantastic idea for a company that really will rake in millions of dollars. It will do you absolutely no good if you or your salespeople treat your customers like dirt when they walk into your store. Consumers simply will not put up with poor customer service. Why would they? If they don’t like how they are treated, they can just walk away and find someone else who will provide them with the same or a similar product and treat them much better.



We like to think that we are at the whim of ‘big business,’ but the truth is that, in our economy, the consumer really does have all the power. Businesses are driven by profits. Don’t like the ecological practices of that chemical manufacturer or the service provided at the buffet down the street? Stop going there. When profits dry up, business practices change or the company dies. Of course, that is more true with some business models than with others. A pharmaceutical company that is the sole manufacturer of a much needed epinephrine drug can raise the price of that drug at will. People will still need it in order to treat their medical issues. However, with enough public outrage they can still be made to change their pricing strategies. What about here in prison? We are at the mercy of a monopoly if we want to buy anything out of the canteen. They can charge what they like because they are the sole provider of all goods to the prison population. Are they still at the mercy of the market? Would they still charge high prices if no one was buying what they were selling? Monopolies are much more difficult to influence, but they are still subject to the will of the consumer.

What about your business? How do you deal with a customer that is unruly or when something goes wrong? In this first writing assignment, we will look at how to present uncomfortable information to a customer with tact and professionalism.



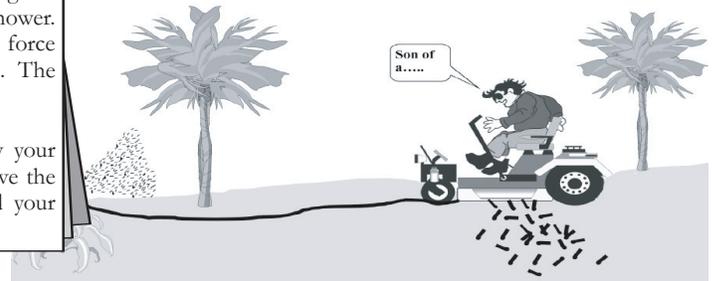
Bunkwork Assignment: Business Writing

10 Points

You own a small lawn service company. While servicing the lawn of a very good customer, the customer's hose gets entangled in the blade of your lawn mower. The hose is totally destroyed, and the water spigot was cracked from the force of the hose ripping out of the wall. Your lawn mower was also damaged. The customer was not home at the time of the incident.

Write a brief note to your customer explaining the situation and how your company will handle it. You will be graded based on your ability to solve the problem, handle the customer in a professional business manner, and your business writing style.

What do you do?



Target Market

Who is your customer? Who is your customer? Who is your customer? The **target market** is simply a detailed description of who your customers are. The more you know about your customers, the better you will be able to both serve their needs and market to them more efficiently. The question a good business owner asks repeatedly is: **Who is my customer?** How can you answer a question like that?

Target Market

A description of the prospects who might be interested in purchasing your product or service.

Demographic Profile for Individuals

In the business world, customers are described using **demographic** qualifiers. In other words, rather than describing our customers in general terms, such as 'rich' or 'poor,' in business we prefer to use specific descriptions that can be clearly defined. How could you describe wealth or poverty? One measure of a customer's financial situation might be income level (how much money do they make in a year?). Another way to measure financial strength might be accumulated wealth or net worth (how much money do they have available for use?). Even net worth could be unpacked further. How much is his house worth? How much does he owe on the house. How much money does he have in the bank? If a company is selling \$32,000 sport fishing boats, it needs to find customers who can afford such a luxury purchase. Looking for "rich people" is not enough information. Look at the comparison here between Mark and Jeff.

Demographic

The statistical characteristics of human populations used to identify market segments.

Mark/Jeff Comparison		
	Mark	Jeff
Annual Income	\$75,000	\$175,000
Home Value	\$180,000	\$350,000
Mortgage on House	None	\$325,000
Liquid Cash Assets	\$85,000	\$500
Credit Card Debt	\$120	\$45,000
Credit Score	800	523

Who would be a better candidate to purchase the boat? Jeff might very well be considered rich. He's driving a leased BMW, sporting a Rolex submariner, and wearing a navy blue, pin-striped, Carolina Herrera suit, with a Hermes tie; but can he really afford the new boat?

What are the demographic qualifiers that relate to your company? If you're selling high priced sport fishing boats, the financial situation of your customers is very important. If you're opening a barber shop, is the financial situation of your customers still relevant? On the next page, we'll take a careful and very detailed look at the demographic profile developed for a barber shop and several other companies. Given these demographic profiles, what effect would this have on how you organized one of these companies?

Take a close look at the table to the right. The demographic categories we look at here are Age, Sex, Income Level, Race, Religion, Education, Profession, and Industry. Each category is further broken down into sections (age ranges, income ranges, and so on). What this demographic study does is break down how many of each category and section uses these types of services or companies. For example, 20% of the people who use barber shops are 19-25 years old. Only 9% of barber shop users are 41-50. On the other hand, 25% of people who use Exterior Painting services are 41-50. Exterior Painting Services are not used by anyone under the age of 18.

Each category is broken down this way. 42% of customers who buy retail sunglasses earn between \$40,001 and \$60,000 per year. People of Native American descent make up 0% of the customers of mobile vending services. And so on. Bear in mind that demographic information like this always applies to a very specific area or region. These percentages could look very different in Florida, Tampa than they would in Kalamazoo, Michigan.

How could this demographic information influence:

- Company Name
- Services offered
- Decor of property
- Pricing strategy
- Reading material offered in the lobby
- Payment methods accepted
- Type of employees
- Choice of company colors
- Language used in advertising
- Lines of hair products sold

This chart catalogs some hypothetical demographic profiles. As you study the information in the chart, you might notice that some categories would be of particular interest to one company, but not very important to another. What categories would influence *your* company? Not all demographic qualifiers are listed in this chart, of course. You might also want to know about your potential customer's (the target market's) hobbies, political leanings, social activities, television viewing habits, travel schedule, credit ratings, cultural traditions, sexual orientation, fashion preferences, health conditions, number of children, type of education and the list continues.

Demographics						
	Mobile Vending	Exterior Painting	Barber Shop	Home Remodel	Dump Truck	Retail Sunglasses
Age						
5 - 13	1%	0%	9%	0%	0%	0%
14 - 18	10%	0%	14%	0%	0%	13%
19 - 25	24%	3%	20%	5%	0%	41%
26 - 30	16%	12%	11%	19%	19%	16%
31 - 40	18%	19%	9%	31%	31%	11%
41 - 50	12%	25%	9%	26%	19%	9%
51 - 60	9%	26%	10%	16%	14%	6%
61 - 70	8%	5%	10%	3%	14%	3%
71 +	2%	10%	8%	0%	3%	1%
Total	100%	100%	100%	100%	100%	100%
Sex						
Male	48%	76%	100%	62%	98%	32%
Female	52%	24%	0%	38%	2%	68%
Total	100%	100%	100%	100%	100%	100%
Income Level						
< 20,000	14%	3%	45%	0%	0%	5%
20,001 - 40,000	37%	21%	36%	16%	29%	28%
40,001 - 60,000	27%	33%	14%	35%	49%	42%
60,001 - 80,000	8%	21%	3%	22%	18%	16%
80,001 - 100,000	7%	19%	1%	21%	2%	5%
100,000 +	7%	3%	1%	6%	2%	4%
Total	100%	100%	100%	100%	100%	100%
Race						
White	66%	62%	4%	44%	40%	62%
Black	8%	3%	81%	21%	47%	9%
Hispanic	18%	16%	12%	9%	13%	4%
Asian	3%	11%	0%	1%	0%	21%
Native Amer.	0%	1%	2%	3%	0%	3%
Middle Eastern	2%	2%	0%	16%	0%	1%
Other	3%	5%	1%	6%	0%	0%
Total	100%	100%	100%	100%	100%	100%
Religion						
Christian	73%	64%	72%	56%	64%	66%
Judaism	2%	15%	0%	9%	1%	4%
Islam	3%	12%	3%	11%	6%	1%
Buddhist	0%	3%	0%	2%	0%	1%
Other	22%	6%	25%	22%	29%	28%
Total	100%	100%	100%	100%	100%	100%
Education						
< High School	9%	1%	26%	0%	9%	2%
High School Deg.	37%	19%	47%	21%	36%	25%
Associates Degree	26%	19%	19%	26%	26%	25%
Bachelors Degree	18%	32%	6%	41%	28%	32%
Graduate Degree	10%	29%	2%	12%	1%	10%
Total	100%	100%	100%	100%	100%	94%
Profession						
Unemployed	1%	0%	14%	0%	0%	2%
Unskilled Laborer	15%	0%	22%	0%	0%	9%
Skilled Laborer	21%	3%	41%	7%	26%	19%
Technical	18%	12%	9%	26%	31%	25%
Clerical	24%	29%	2%	19%	16%	19%
Professional	21%	56%	12%	48%	27%	26%
Total	100%	100%	100%	100%	100%	100%
Industry						
Service	9%	4%	24%	2%	1%	19%
Retail	3%	2%	9%	3%	0%	13%
Health Care	1%	14%	2%	9%	1%	8%
Manufacturing	2%	8%	3%	5%	3%	6%
Financial	16%	8%	1%	7%	0%	3%
Insurance	31%	6%	1%	5%	1%	2%
Food Service	1%	6%	11%	16%	3%	9%
Entertainment	0%	1%	3%	4%	0%	6%
Transportation	1%	1%	3%	2%	26%	2%
Real Estate	5%	21%	6%	15%	16%	4%
Construction	2%	13%	16%	2%	46%	6%
Agriculture	0%	0%	2%	1%	3%	5%
Computer	13%	6%	6%	18%	0%	4%
Automotive	2%	3%	9%	9%	0%	11%
Communications	14%	7%	4%	2%	0%	2%
Total	100%	100%	100%	100%	100%	100%

You should always attempt to describe your target market in exclusive terms, not inclusive terms. What do we mean by that? Take a look at the table below.

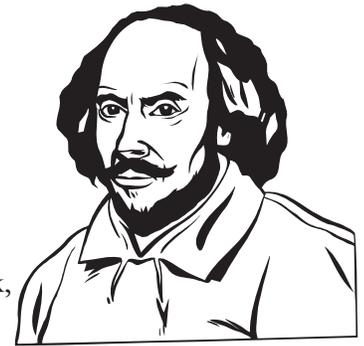
	Inclusive	Exclusive
Age	Cell phones for anyone	For the young and upcoming technology generation
Income	Entrées from hot dogs to lobster	A menu that caters to the discriminating taste
Race	Shoes for all fashions	Distinctive urban footwear
Religion	Religious jewelry for all faiths	Custom religious jewelry and art for orthodox Christians
Sex	Haircuts for men and women	Traditional barber shop for men who love sports
Education	Used cars	Pre-owned Mercedes with factory warranties

The exclusive model always works better for a small start-up organization. Wal-Mart sells to everyone. Super Cuts targets everyone. Those are national companies with multimillion dollar advertising budgets. Would you want to try competing against them head-to-head? Wise entrepreneurs never fight battles like that. They use tactics like using exclusive demographics to capture smaller chunks of that big market.

Who is your customer? What demographic qualifiers might be significant for your industry? Let's take a look at an example: Mark Alans is is launching a company that builds custom-made sheds. In the chart below, we'll look at what demographic qualifiers might apply to this business.

New Life Shed Building Co.		
	Applicable	Explanation
Age	Yes	Age is a factor for buying custom-built sheds as it is both tied to income and purchasing decisions. Children don't tend to buy a lot of sheds
Sex	No	
Income Level	Yes	Customers must be able to afford to buy a shed. With costs reasonable, the income target could be low (\$24,000 per year and up)
Race	No	
Religion	No	
Education	No	
Profession	No	
Industry	No	
Political Party	No	
Home Ownership	Yes	Only homeowners are likely to purchase a shed or porch. That means we can disqualify anyone who rents or lives in a condo or apartment.
Home Value	Yes	Custom-built sheds are likely to raise the value of a property, so mid-to-high priced homes would be a good target.
Geographic Area of Country	No	
Section of City	Yes	Since there is only one owner/operator, our target market should include the areas that are accessible to a quick commute from our base of operations
Social Activities	No	
Children	No	

The challenge is to identify and describe components that will impact your particular company. For New Life Shed Building Co., the main demographic qualifiers for customers would be income and home ownership with some consideration given to Age, Home Value and Section of the City. Qualifiers like Sex, Race, Religion, or Political Party Affiliation are not really important in identifying who our customers would be for sheds since those details do not really affect a person's decision when buying our product. Shakespeare said, "To be or not to be, that is the question." With all due respect to Shakespeare, he didn't know marketing. Those of us in marketing ask, "Who is your customer?" That is the question!



Demographic Profile for Companies

For businesses selling to the general public, using demographic qualifiers for individuals makes perfect sense, but for those selling commercial products (selling to other businesses, in other words), the picture becomes a little more complicated. The question, however, remains the same. Who is your customer?

In this scenario, the answer is very different. The demographic qualifiers must first describe the type of company that is most likely to purchase your product or service, and then secondly describe the individuals in those companies that are most likely to make the purchasing decisions. The following are some example demographic qualifiers that apply to businesses:

- Size of facility (in square feet)
- Number of employees
- Number of vehicles in fleet
- Number of computers at facility
- Size of parking lot
- Size of lawn and gardens
- Type of exterior of building
- Age of building
- Amount of power used
- Number of e-mails processed daily
- Hours of operation
- Income levels of employees

Clearly, not all of these would apply to every business. There are many qualifiers that are not listed which would apply to some businesses. When a company has clearly defined its niche, this exercise comes into focus. For a company that fails to identify a niche, figuring out how to qualify who their customer is becomes very difficult.

So, now we have a list of demographic information about our customers. What do we do with it? With this information, we can paint an accurate picture of the person who will buy our product or service. Does it tell us what every single person who walks into the store will look like? No, but it does tell us what a 'typical' customer will look like. And, *that* allows us to make good decisions about how and where to spend our money in order to reach those customers.

As an example, let's say you want to start a business selling fine hand-rolled cigars. You might use the following demographic qualifiers: Age, Income Level, Hobbies, Sex and Race. What does the typical customer who purchases fine hand-rolled cigars look like? He's probably middle-aged, wealthy, and male. There might be an even split between Hispanic and Caucasian customers. Many are golfers.

Does that mean that you would refuse to sell a cigar to a nineteen-year-old Asian yoga instructor? Of course not. You're going to sell to anyone who wants to make a legal purchase. Knowing what your typical customer looks like, however, allows you to make informed decisions about where to spend your advertising dollars, where to target your marketing. Would it make sense to place advertisements for your cigars in Yoga magazine or in National Geographic Kids? Of course not. Children can't legally purchase your product and people who buy yoga magazines usually don't smoke. It would make far more sense to advertise in Men's Journal or Golfing Weekly.



How would you go about getting all this valuable information in the real world? If your company sold janitorial services to dental offices, you might look up all the dentists' offices in the area and go interview the people at each office. That would be highly accurate but also extremely time consuming and expensive. An alternative might be to only sample a few dentists' offices and draw logical conclusions about the others. For most companies, instead of trying to do the research in person they outsource the job to "list companies." Many of these companies advertise on the internet, and they will sell you very detailed demographic information about any target market you ask for. Each piece of information you get has a price tag attached to it, of course. Be sure you only pay for the information that you need for your company.

Bunkwork Assignment: Target Market

15 Points

Objective:

- *This section should clearly and accurately describe a specific target market that is sufficiently narrow to be suitable for a small start-up organization.*

Contents:

1. Identify your basic target market. Is it individuals or businesses?
2. Demographic profile:
 - a. For individuals, list the five most significant demographic attributes that identify the target market.
 - b. For businesses, list the four most significant demographic attributes that identify the company, and list the four most significant demographic attributes that identify the decision maker.
3. Explain how you will apply this demographic information to your marketing campaign.

Creating Customers

Demographics might tell me what my customers *should* look like. Customers on paper are all well and good, but how do we translate that into real, flesh-and-blood customers? First, you need to take a serious look at exactly what your company is doing.

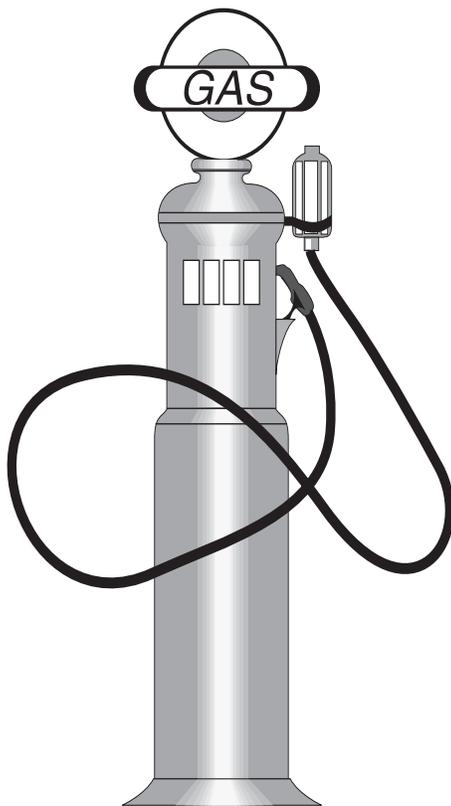
"I have a million dollar business idea that I would like to share with you. This idea is so great that it's a sure hit. It cannot fail. Have you ever had a Fluff 'n Nutter Sandwich? They're fantastic! You take two pieces of bread, put peanut butter on one side of the sandwich and marshmallow fluff on the other side of the sandwich. Well, here's my great idea. We'll take a jar of peanut butter and swirl in the marshmallow fluff! Everybody will love it, and we can sell it in grocery stores everywhere!"

This story was overheard in a prison dorm from the mouth of an enthusiastic would-be entrepreneur. He made an extremely common mistake in the business world. This mistake violates the first rule of marketing. The rule is this: ***A company must sell what the public wants to buy, not what the company wants to sell.*** This entrepreneur loved the taste of Fluff 'n Nutter sandwiches. His mistake was assuming that everybody else would love them, too. Even if many people did love them, the next question is: do they want to buy the swirled mix rather than simply purchasing a jar of peanut butter and jar of fluff?



Customer Demand is the idea that customers have needs, wants, tastes, and desires. A skilled businessman will try to understand the customer's demand before even starting a company. This is called 'Market Research.' Market research in large companies may be quite sophisticated and expensive, but for smaller companies it might simply be listening attentively to people describing their unmet needs. For instance, if your neighbor's garage door breaks and he complains that he can't find anyone to repair it, that may present an opportunity.

Let's look at a company that found a great way to produce widgets. Remember widgets? They're shiny, reliable, and very well built. They spin. They light up. The company has a great advertising campaign and a team of highly-trained sales people. The Widget Company is a *company in search of customers*. Looking for customers is an expensive proposition, and there's another problem with WidgetCo. Nobody wants to buy widgets. It's not that the product is bad or faulty. It's just that customers don't have a need for them and don't care.



Contrast that scenario with the high demand for Gidgets offered by GidgetCo. A gidget is a fictional product that improves the gas mileage on any car by 30% simply by plugging it in. Gas prices are on the rise, and finances are tight. Customers are desperate to find ways to save money. The gidget manufacturer most likely will need to spend very little money on advertising or that crack team of sales representatives. The truth is that, because the product is in such high demand, there will be armies of *customers in search of a company*. Would you rather own WidgetCo or GidgetCo?

You might not be able to invent and build a gidget that would boost gas mileage by 30%, but you may very well find customers in search of a company. Few people are totally satisfied with every aspect of the many companies they deal with every day. Imagine a woman who purchases lunch five days a week from a local sandwich shop. The sandwiches are great, the prices are reasonable, and the service is good. She likes the place, but if you were to ask her what she didn't like, she would quickly tell you that she's irritated that they always run out of unsweetened tea by 1:30pm right when she goes to lunch. If a new sandwich shop opened up nearby and always had a supply of fresh unsweetened tea on hand, do you think this customer might be willing to change?

That can be all it takes to open the door of opportunity. Find one unmet need, and then meet it. The truth is that most customers are constantly searching for better, faster, cheaper, or easier-to-use products and services. Before you begin any serious business enterprise, do your homework. Listen to people and find out what they're looking for. In business, we call this **demand**.

Demand

The measure of the market's size and strength.

Demand

Does anyone out there really want to buy your product or service? If so, how many? How badly do they want to buy it? How much would they be willing to pay for it? What are some factors that might increase or decrease demand for your product or service? If you have a lot of people who desperately desire to purchase your product or service, you're in a good position. If you have very few people with a slight interest, you might be in trouble.

Market Size and Strength

How big is the market you plan to serve? How many people are in the total market? These are critical questions that will help define the maximum capacity you should plan to be able to serve. If you offer a lawn service in Orlando, how would you describe the size of the total market? You could start by going to census data to find that the total population is 199,000 people. Is that the size of the total market? A better number might be the number of households in Orlando. The average household in the U.S. has 2.3 people. So we divide the population by 2.3 to come up with 86,500 households. Is that the size of the total market? Not all households live in a single family home or have a lawn. In Orlando, only 50% of households live in single family homes. That leaves only 43,250 single family homes. Is that the size of the total market? Only 24% of those single family homes use a lawn service. That means the total size of the market is 10,380. But, are you really offering lawn service to all of Orlando? You might only decide to offer service in select areas. If that is the case, you would define your market in terms of the area you hope to cover, not all of Orlando.

The next question is: how *strong* is the demand? Buddy's monthly budget looks like the chart over on the right. It includes items such as a mortgage payment, car payment, phone bill, entertainment, electric bill, clothing, travel, lawn service, food, and others. Now imagine that Buddy loses his job and, although he gets a new job, it pays a little bit less. Buddy has to give up a few of the "good things" in life. What would he give up first? What is the last thing Buddy would give up? Notice how small a slice of the pie lawn service receives. Where would lawn service fit in the ranking of items to cut back on?



In measuring the strength and size of a market, we rank the portion of the market that wants your product or service and the degree to which those customers want your service or product, and some combinations are preferable to others. For instance, the size "*Everybody*" and strength "*Can't Live Without It*" sound pretty good, but are they good if you're just starting up? The definition of 'mass market' is a product that nearly everyone *needs* to purchase, things like automobile tires. Anyone with a car needs tires. The problem is the massive competition in those mass markets. How many tire stores do you see on any major street? In addition to those, you could find tires at Wal-Mart, Costco, Sam's Club, and you can even order tires on Amazon. It's very difficult for a small business to penetrate mass markets like that.

What works best for a brand new company? Consider those that are small in size but high in strength. Everybody buys bread. Few people buy Lamborghinis. Who makes more money, bread salesmen or the Lamborghini salesmen? The demand for Lamborghinis is small, but, for those who can afford it, the strength of the demand is very high.

**The
Entrepreneur's
Sweet Spots**

		Market Demand				
Size	Everybody					
	Most People					
	Some People					
	Few People					
	Nobody					
			Don't like it at all	It's OK, but not special	They like it somewhat	They love it
		Strength				

How would you rate different business models on that chart? Barber shops, hot dog vendors, cataract surgery centers, organic vitamin sellers, high performance car parts shops, tire stores, satellite telephone vendors, and wind turbine installers all occupy very different positions on that grid. The thing to keep in mind is this: are you going to be able to meet the demand? If you open a small company that sells a specialty product, but it's just you putting the product together, what will you do if literally EVERYONE suddenly wants one? Believe it or not, it is just as easy for a company to be ruined by success as by failure. You want the strength of the demand for your product to be something that you can realistically meet. Otherwise, you end up providing poor customer service, which never leads to more sales.

Variables of Demand

Variables of demand are influenced by many factors. Think of factors that might motivate a particular customer to buy your product or service. Every company will have different variables of demand. The choice to purchase a burrito for lunch is driven by very different considerations than the choice to buy a new compact car. Take a look at the chart to the right. No one who wants a burrito is going to think about horsepower or top speed, and calories are just not a consideration for people buying a compact car.

Burrito	Compact Car
Taste	Price
Calories	Miles per Gallon
Price	Horsepower
Fat Grams	Color
Convenience	Top Speed
Size	Number of Seats
Atmosphere	Sound System

There are variables that influence whether an individual customer will purchase one *particular* burrito or car over another. Some variables influence whether a person in general might be motivated to purchase a burrito *OR* a car. The following factors are general variables that have impacts on many markets. What variables might affect your product or service?

Seasonal

If you opened a snow plowing service in Chicago in November, you could expect some pretty brisk business for the next few months. It wouldn't be very smart, however, to take the November through February and use those months as a basis to project sales for the rest of the year. Seasonal variations can affect demand in many businesses. Retailers often earn large percentages of their annual sales between Thanksgiving and Christmas. In the previous examples, the seasonal variation is enormous and the effects are obvious, but often the influence is much more subtle. For instance, a roofer might expect increased demand in the spring when there's more rain. Sunglasses can be sold year round as can lemonade, but the owner of a store selling sunglasses might expect an increase during the summer months when people spend more time outdoors. So might a specialty lemonade shop.



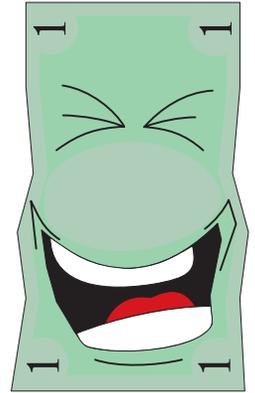
Think about your business and how seasonal changes might affect your sales. If you have a lawn service, you might list the months of the year and how often you would need to service a particular lawn each month like in the chart below.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Weekly Service	1	1	2	4	4	5	4	4	4	3	2	1

How would this information be valuable to you as a business owner? What month would be best to launch the company? Would it impact your ability to hire and keep employees? Seasonal fluctuations can have a profound affect on a company. Anticipating this can make the difference between success or failure.

Economy

The economy also influences demand for your product or service. When the economy is booming, many businesses thrive, but not all of them. Some companies actually do better in hard times. If you're selling Corvettes, you can expect to do well during the good times but not make many sales during the bad. What about pawn shops? They do well when people are hurting financially. A home builder's financial health is closely linked to the economy. How will the general economy influence demand for your company?



Disasters

You just opened a business in Pensacola, Florida, and a category three hurricane slams directly into the city. The storm floods houses, knocks out the power, damages roofs, and washes out some roads. Will the hurricane hurt or help your company? The answer is not as straightforward as you might first think. If you opened a restaurant near the beach and endured some damage to the roof, lost power, and the road was washed out, you might be hurting. On the other hand, if you opened a water restoration company and were in the business of cleaning up flooded houses, you might make outstanding profits. Roofers, tree service companies, plywood sales, and generator sales might all thrive. Some businesses actually depend on natural or man-made disasters for sales. Other companies are affected incidentally. Describe how your company might be affected by potential disasters.



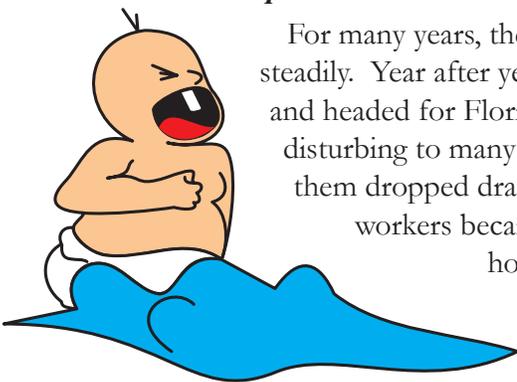
Special Events

The Super Bowl is scheduled to be held in your city. Will that event impact the demand for your product or service? There are some businesses that are directly tied to special events. The food vendor at the state fair, for example. Hotels, rental cars, and restaurants are often affected by special events. Special events can either help or hurt a company. Think about how any special event might impact your organization.



Population Trends

For many years, the population of Florida expanded steadily. Year after year, families packed up the U-Haul and headed for Florida. In 2009, that trend reversed. This information was shocking and disturbing to many people. Home builders continued to build homes, but the demand for them dropped dramatically. Suddenly home prices started plummeting, and construction workers became unemployed. Florida's economy has historically been closely tied to home building, and so it was impacted greatly when the population started to fall. Other trends in population, such as aging and birthrates, can also impact many companies. What changes in population trends might cause variations in the demand for your product or service?



Pricing Strategy

How much should you charge for your product or service? In economics, we learn that a lower price equals higher sales. Is that true? Will people buy more if the price is lower? The answer is a qualified yes. With just this little information, many new business owners make the *low price mistake*. The low price mistake is when someone assumes that a lower price will bring in more customers and help the company get started. Here is the part that gets tricky. Higher sales volume is not necessarily helpful to a small company. Take a look at the example on the next page.



Case Study

Skip decides to start an interior design company, in Key West, named Skip's Fabulous Designs. Skip has a degree in design from San Francisco University and a real eye for color and style. Skip has done extensive market research and found that established designers with a first-rate reputation, in Key West, charge the customer \$115.00 per hour. The average bill is for 9 hours or \$1,035. There are also many young interior designers attempting to earn a reputation who charge only \$65.00 per hour. Not only do the start-ups charge a much lower rate, but they typically bill only 3 hours on average. That means the young start-ups only bill \$195.00 on average. Skip would love to earn \$115.00 an hour, and even \$65.00 sounded like a decent rate. Skip is living with his parents above the garage, so he has no monthly bills; factoring all of this information in, he decides that he will only charge \$40.00 per hour until he begins to earn a reputation. Is this a good strategy?

- If Skip only charges \$40.00 per hour, will that bring in more sales?
- How would Skip's competition respond to the lower price Skip is offering?
- What type of customer is most likely to be attracted to the deeply discounted rate?
- How do the "discount" customers compare to customers who will pay a premium rate?
- Will a good reputation with "discount" customers translate to gains in "full price" customers, or just generate more "discount" customers?
- If Skip is making ends meet on the slim profits from the deeply discounted rate but then his parents kick him out, and he has a sudden increase in personal monthly expenses, will he be in a financial bind?
- If Skip suddenly increases his rate to \$65.00, how will his existing customers respond?
- What options could Skip have used to make more sales other than just offering a low price?

Lower Price or Higher Value

A wise man once said, *"If the customer is not ready to make the purchase, the seller has only two options. Option number 1 is to reduce the price. Option number 2 is to increase the value."* Reducing the price is too often the first response for novice business owners. They keep reducing the price and complaining about the dog-eat-dog competition. So how can an entrepreneur increase the *value* of his product or service?

If the customer is not prepared to pay the asking price, the challenge is to increase the value in the customer's eye by demonstrating the benefit to them. Value is both objective and subjective. Objective value can simply be measured. For instance, gold is rated first for its purity, and the measurement rating is stated in karats. 18 karat gold is more valuable than 14 karat gold but less valuable than 24 karat gold. Finally, the gold is weighed in Troy ounces. The purity and the weight combine to give an objective value to virtually any piece of gold. The objective value is important, but it's not the only measure. Two men could each be selling a gold chain and medallion made of 24 karat gold that weighs 7 Troy ounces. The first man is named Mucci, and he has a standard chain with a latch and a plain looking medallion. He's trying to sell the piece at a flea market, in Waldo, FL. The second man is named Gucci (maybe you've heard of him), and he has a sterling worldwide reputation. His chain is being sold in a fashionable boutique in Manhattan. The objective value of both chains are identical, but the subjective values are quite different. The subjective value can have a major effect on the price.

Use objective and subjective benefits to build the value of your product or service. The importance of charging a fair price and earning a reasonable profit will become obvious when we work out the Cost of Goods Sold later. Low profit margins can hamstring a start-up operation and threaten its survival. This is where developing a unique benefit to the customer will enable your company to command higher prices.

For example, have you ever heard of Wonder Bread? They sell cheap, sliced white bread. There is an old saying that goes like this: “It’s the best thing since sliced bread.” The funny thing about that saying is that, when the automated bread slicer was invented, no one cared. No one thought it was all that big of a deal to have a device that would save you the minimal effort it took to slice bread by hand. When Wonder Bread came along, they didn’t sell sliced bread. What they sold was *convenience*. By marketing their product as something that would make food preparation more convenient, they raised the subjective value of their product. Effectively, they created demand by repackaging what they were selling.

The chart below was taken from a trade magazine, CleanFax, in the carpet cleaning industry, in April of 2011. Notice how the level of service corresponds to the type of customers and the price that can be demanded.

Service Level	Low-End	Mid-Range	High-End
Technical Education	Little training	Certification classes	Experienced and educated
Upholstery Cleaning	None	Clean basic fabrics	Confident to clean all fabrics
Cleaning Speed (sq.ft. per hour)	500 - 800	300 – 400	300 - 350
Price per cleanable square foot	.12 - .18	.26 - .32	.40 +
6 Foot Sofa Price	-----	\$75 - \$125	\$175 +
Van / Equipment	Used	Good – New	Good – New - Immaculate
Company Image	Weak image	Good image	Polished Image
Service Level	Fast and cheap	Adequate and affordable	Personal, professional, and skilled
Credentials	None	Certified Technician	Master Cleaner
Presentation	Basic	Some Extras (booties, etc)	All of the Bells and Whistles
Follow-up	None	Reminder card	Stay in touch regularly

Economics Primer on Pricing

How much should you charge for your product or service? A good place to find that answer is to go back to the purpose of the company: ***to earn a profit***. The price you set should be as high as the market will bear. Simply put, you need to find the maximum price that your target market will pay for your product or service. In theory, if the price was a dollar higher, the purchase would not be made. By finding this ideal price, you don’t leave any potential profit on the table. This is a bit more complicated than it might first appear. Unfortunately, there is no magic formula to set the highest price the market will bear. We see it here all the time. Why is Ramen soup so expensive at the canteen window? Because people are willing to pay that price for it. Every time they raise the price, they test the waters to see if the market will bear just a little bit more. And, every time it works, we increase their profits.

Bunkwork Assignment: Demand

15 Points

Objective:

- This section should address the demand in a way that judges the viability of the product or service.

Contents:

1. Estimate the total market size and the number of prospects in your area.
2. Evaluate the strength of demand.
3. Explain how the size and strength of the market will shape your company.
4. Identify at least five variables that will affect demand for your product or service.
5. Define factors that may justify increasing the sale price.

Chapter 6

The Real Numbers

Competition Analysis

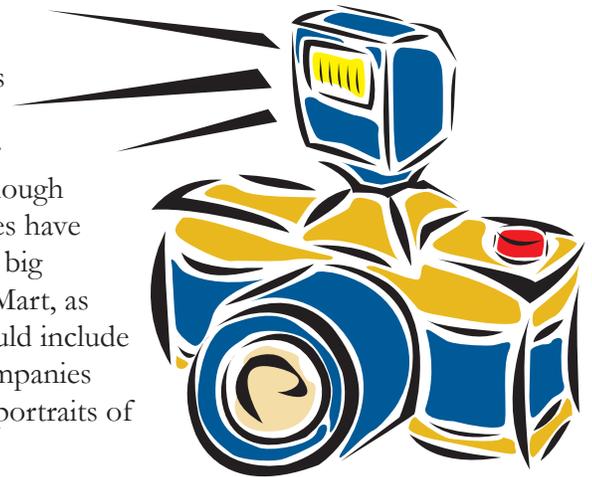
Now that you have an idea of your niche, how much money you will need to start your business, and what your customers look like, you need to start thinking about who you will be competing with for those customers.

The more you get to know your **competition**, the better off you will be when it comes to understanding their actions and anticipating their moves. Before you ever start your own company, you should conduct an intensive study of any other companies in your area that provide similar products or services to the ones that you hope to supply. What do you know about the competition in your chosen field? Who are your competitors? What do they do well? What are some areas they could improve on? How can you stand out and stand up against them? There are many ways to look at these questions. In this section, we will consider both direct and indirect competitors.

Competition
Rivalry in business for customers or markets that in a free enterprise system can lead to lower prices and better quality.

Direct Competitors

Jerry was preparing to open a digital photography portrait company in downtown Sarasota. The company would print portraits on canvas with archive quality inks that would last for 100 years. Jerry might think that he has no direct competition because no other artists in Sarasota specialize in the unique process he offers. Even though the competition does not provide **exactly** the same service, Jerry does have several direct competitors. His direct competitors would include the big photography companies like Olan Mills, Glamour Shots, Sears, Wal-Mart, as well as many other smaller companies. Other direct competitors would include the many artists who work in oil paints. Although none of these companies may offer the exact service and quality that Jerry does, they all offer portraits of people. They would all be considered direct competitors.



Before Jerry opens the company, he would be wise to carefully evaluate these companies and compare and contrast the features and benefits he intends to offer with those of his direct competitors. One way to compare and contrast is to build a chart (also called a **matrix**) listing all the competitors in one column. The top row is used for listing benefits or features that are relevant to your industry. When doing this for your company, you must build your own matrix. Never attempt to use the matrix from another company and just plug in your company name because each company is unique. Think through all the factors that will affect your particular customers. Also, don't just use the matrix to make your company look good.

Matrix
A set of numbers or terms arranged in rows and columns.

Take off the rose-colored glasses and try to accurately explore the strengths and weakness of the competition and compare them to the features and benefits of your company. On the next page is Jerry's matrix for his digital photography studio.



Jerry's Matrix

Direct Competitors	Price for 15 X 24	Background Material	Medium	Frame	Turnaround Time	Terms of Service	Delivery
Olan Mills	\$450	Canvas	4 Color Premium Ink	3 inch 4 choices	2 weeks	Check, Visa, Payment Plan	Pick up at store
Glamour Shots	\$375	Canvas	3 Color Premium Ink	2.5 inch 12 choices	3 -4 weeks	Check, Visa	Mailed to your home
Sears	\$380	Canvas	4 Color Premium Ink	3 inch 7 choices	3 weeks	Check, Visa, Payment Plan	Pick up at store
Wal-Mart	\$125	Paper	3 Color Ink Jet	1.5 inch 3 choices	Same Day	Check, Visa	Pick up at store
Perfect Portraits	\$330	Canvas	4 Color Premium Ink	2 inch 9 choices	1 week	Check, Visa	Pick up at store
Susan's Photography	\$175	Paper	3 Color Laser Printer	none	2 weeks	Check	Pick up at her house
Patricia's Paintings	\$1,350	Canvas	Oil Paint	3 to 2 inch 14 choices	3 months	Check	Pick up at her house
Imperial Imaging	\$731	Canvas	7 Color Laser Printer	2 inch 35 choices	3-5 weeks	Check	Pick up at store
Shutterbugs	\$260	Paper	3 Color Ink Jet	2 inch 3 choices	3 days	Check, Visa	Pick up or mailed
Jerry's Digital Portraits	\$400	Canvas	7 Color, Four layers, Laser, 100 Year Archive Inks	3 inch Custom Finishes	5 days	Check, Visa	Delivered to home and professionally hung on the wall

After considering all of the information in the matrix, what company would you select if you wanted a portrait of your family? Would price be the biggest factor? Would delivery time be a factor? Oil paintings can last over a thousand years. How long will most photographs last? Do you think the 100 year archive quality ink would be a major selling feature? Olan Mills is well known for packaging products and offering a monthly payment plan. Would that be attractive? What could a small company do to compete against the payment plans from Olan Mills?

Indirect Competitors

In addition to his direct competitors, Jerry must also consider any indirect competitors. What is an indirect competitor? Indirect competitors include any business that is competing for the money that the consumer would otherwise spend on a portrait.

Imagine that Jerry identifies Ben Wilkers as a prospect within his target market. Jerry uses advertising to appeal to Ben, asking him to consider a family portrait. Ben has a young family and is very interested in preserving a memory of them in a professional portrait, so he takes a look at his monthly budget to see if he can afford it. Remember when we talked about Demand? One of the factors was the strength of the demand for your product or service. We talked about what a customer would be willing to give up out of their existing budget to spend on your product or service. That's what Indirect Competition is all about.

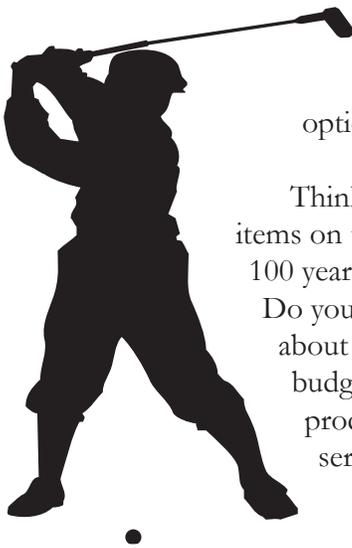


Jerry is asking Ben to spend \$400.00 on a really nice portrait. Look over Ben's budget at the right. Where would he take the money from? He could take it from his entertainment budget. That would seem to fit nicely, but what if Mrs. Wilkers isn't willing to give up her social scene for a month? What about travel? Could they skip the monthly weekend jaunt to Key West? They might squeeze the four hundred bucks out of the clothing category or any of several others. Some categories in the budget are simply off limits or non-negotiable. Things like house payments, car payments, the kids' college fund, and retirement are categories that just don't make sense to take money out of.

The categories that are shaded in Ben's budget are variable expenses. In a general sense, all variable expenses are indirect competitors. Those items are all competing for the same money, money that might be spent on a portrait from Jerry. The entertainment category is the one that needs special attention. It is most likely that Ben would look to the entertainment category first when looking for portrait money. What do you think Ben spends his entertainment budget on? It could be...

- Fine Dining
- Golf
- Weekly Movie Night
- Sporting Events
- Comic Convention
- New Videogame for the kids

Ben's Budget	
Monthly Budget for Ben Wilkers	
Income	
Ben's Salary	\$3,275.00
Wife's Job	\$1,695.00
Rental Income	\$1,254.00
Dividend Payment from Trust Fund	\$900.00
Total Income	\$7,124.00
Expenses	
House Mortgage	\$1,916.00
Summer Home Mortgage	\$412.00
Phone Bill	\$189.00
Electric Bill	\$427.00
Car Payments	\$892.00
Retirement Savings	\$300.00
Boat Payment	\$615.00
Kids' College Fund	\$120.00
Food	\$375.00
Clothing	\$350.00
Medical	\$75.00
Disposable	\$200.00
Travel	\$400.00
Entertainment	\$619.00
Fuel	\$234.00
Total Expenses	\$7,124.00



These types of indirect competitors all affect Ben's purchasing decisions. How could Jerry convince Ben that a portrait is a better choice than those other entertainment options?

Think about this. How would a portrait compare to the other items on the list? One thing to consider is that the portrait lasts for 100 years. The other things on the list might last for a few hours.

Do you think Jerry could use that as a major selling point? What about your company? Think about what category of Ben's budget he would look in if he were thinking about buying your product or service? How would purchasing your product or service benefit him more than other items in that category?

The list to the right shows some general categories that are included in most personal budgets. Would any of those describe your product or service? If so, then any other items that would fall in the same category are your indirect competitors. How do you stack up to the indirect competition? Can you find something about your product or service that is distinctly beneficial to the customer, something that will separate you and your company from the other items in that category?

Indirect Competitors
Financial Categories
House Payment
Savings
Transportation
Food and Hygiene
Clothing
Household Service
Childcare
Education
Health Care
Entertainment and Travel
Insurance
Home Improvement
Repairs and Maintenance
Miscellaneous

Of course, this list describes a personal budget. If you sell to businesses, their budgets will look very different and you will have to adapt to what the categories on their budgets would look like. You will still need to identify your indirect competitors and describe how they influence your organization.

For New Life Shed Building Co., a description of the indirect competitors would look something like this:

“A shed building service is lumped into the home improvement category and customers are likely to consider purchasing a shed alongside the purchase of a pool, deck, painting their house, and other similar services. The main ways New Life Shed Building Co. will stand out from these indirect competitors are through versatility and cost. Unlike a deck or the painting of the house, a shed offers a multitude of uses for the same product. New Life also offers their product for a significantly lower cost than the installation of a pool or deck.”

What if you don't have much experience in the industry you are thinking about? One way to find out more about the service or product you plan to sell is to become a customer of companies that already do. Purchase their products or services. What did you like about the experience? What was inconvenient? Were you content with the price? Were they professional? What could you improve about any of these things? This can give you some great ideas about how to deal with your direct competition.

Another tactic is to actually work for your future competition, become an employee. If you plan to open a roofing company, it would be a great idea to go to work for another roofing contractor. The view from the inside is unique. You could learn how they bid their jobs, what shortcuts are used, how they treat their customers, what they pay their employees, how they generate new customers, and so on... Working for another company in your chosen industry can give you an enormous amount of information about your future competitors. That information will allow you to establish a list of “best practices” that you can put in place when you start your own company. One thing to be aware of when using this tactic is “non-compete clauses” in your employment contracts. Many employers will have you sign paperwork when you start working that prohibits you from competing with them for a specific length of time. Read what you are signing very carefully so that you know what you are agreeing to. Often, non-compete clauses are limited by a geographic area, so as long as you don't open a competing business within a certain range of their stores (so that you aren't pulling their customers away).

Of course, the information we have available to us here is limited. On the outside, there are many sources that you can go to to size up your competition. Start with the Internet and also think about any of the following sources:

- Business and technical publications
- Trade shows
- Customer feedback
- Company documents
- Suppliers and distributors
- Government filings
- Management speeches
- Stock market analyses
- Their employees

The better you are at evaluating your competitors, the better you will be able to stand up to them, choosing the battles that you can win and avoiding ambushes along the way. Find a way to do what they do better than they do it, and you will surpass them.

Bunkwork Assignment: Competition Analysis

10 Points

Objective:

- This section should identify the competition and accurately predict how their strengths and weaknesses will impact your operation.

Contents:

1. List the direct competition.
2. Identify those things that may influence customer purchasing decisions.
3. Compare and contrast your features and benefits with those of your direct competitors and summarize any advantages and disadvantages.
4. Describe the general financial category that you are competing in. List some of the indirect competitors that also draw from that same financial category and explain how your product or service will measure up.

Cost of Goods Sold



We've mentioned this topic several times in passing in the previous chapters. Cost of Goods Sold (**COGS**) is one of the most vital points to take away from this course. We've been sort of dancing around the issue of how much you should charge for your product or service. The **Cost of Goods Sold Statement** is how you find out the actual number that you should aim for when pricing whatever you are selling.

Cost of Goods Sold Statement

A report that itemizes the expenses incurred to sell one additional unit and determines gross profit.

Let's assume that you're opening up a hot dog vending cart. Your main product is a hot dog combo meal. How much will it cost you to make **one** hot dog combo meal? The question is not how much will the hot dog combo meal *sell for*, but rather how much will it *cost your company* to:



- Purchase the food
- Buy the supplies
- Get fuel to cook the hot dog
- Pay the cook to grill/boil/steam the hot dog
- Pay the prep person to assemble the hot dog
- Pay the cashier to ring up the meal and hand it to the customer
- Repair and maintain the equipment

Why would this information be so important? We already looked at start-up costs. Those costs included a lot of the fixed expenses that will occur for the business all the time, but the types of expenses we are looking at here are very different. We can't possibly guess how much we'll spend on the purchase of hot dogs every month. One month, we might be very busy and need to purchase \$2,800 worth of franks. During a slower month, we may only need to spend \$150 on the dogs. Some expenses are directly linked to how much we sell; these expenses are called **variable costs**.

Variable Cost

An expense that changes in relation to the number of units made or sold.

The Cost of Goods Sold statement is concerned with how much it costs to produce exactly *one* unit of sale. **COGS** is a summary of all the variable costs associated with producing one unit of sale. The terms “variable cost,” “variable expense,” and “Cost of Goods Sold” are often used interchangeably. This information let’s us accurately project what it will mean financially if the company sells 10 units, 150 units, or 900.

Unit of Sale

What is it that your company sells? Your answer to that question is the very first step to building a COGS statement. At this stage in your business planning, you should have a good idea of your answer. If you want to start an auto repair shop you might start by listing all the services your company provides. You might start explaining how some jobs are large and others are small. One car might need an oil change, another one might need a transmission rebuilt. The challenge is to describe a standardized unit of sale. In a word or two, can you identify what it is that your company sells? In most cases the unit of sale is an *average*. There is seldom one right answer, but there are some wrong ones. For instance, a company that does exterior house painting could choose one square foot of painted area, one hour of labor, or the average size of a house that is painted. Any of those choices could work well. He could also use one gallon of paint as a unit of sale. The gallon of paint might be a poor choice because the sale price that is charged to the customer would never be based on the number of gallons of paint used.

<p>Unit of Sale The standard or average product or service that a company sells.</p>

Sale Price

Typically, the best choice for a unit of sale is tied closely to the sale price. If the painting job bid was based on the square footage to be painted, then one square foot would be a good standard unit of sale. In some cases, the job bid is based on a rough estimate. For example, prices might be based on: one bedroom, two bedroom, three bedroom, four bedroom and five bedroom homes. The average unit of sale might be a three bedroom home. One gallon of paint would again probably be a poor choice because you would never sit down and tell the customers that you will charge them \$5 per gallon of paint used. Why not? What if you spilled some? Would the price to the customer then go up? The price and the unit of sale should be based on a realistic standard.

How much should you charge for your product or service? We already discussed the quick answer to this: as much as the market will bear. It is a quick answer, but not really very helpful if you do not know how to determine what the market will bear. There are three common ways to figure that out:

1. Use the competition’s Pricing

You want to sell handmade shoes. It may sound obvious, but it makes sense to look at what your direct competitors are charging for something similar. If most shoe selling companies in your area are charging \$50 for a pair of custom shoes, that is what the market will bear. If people are able and willing to spend \$50 on those custom shoes, why would a smart businessman only charge \$20? You would be leaving money on the table that could be going to your business.

2. Cost Plus

Another method for determining your sale price is to calculate the costs associated with producing or purchasing the product and then adding a percentage to it. For example, if it costs you \$15 to build one pair of handmade shoes, you might consider 100% to be a reasonable mark up. In that case you would charge your customers \$30.



3. Combination Pricing

In the real world, people don't just rely on the competition's price or on the "cost plus" method. Most companies use a combination of the two methods. If you hoped to charge \$30 for your shoes, you must then check to see how much others are charging for similar shoes. If a store in the mall is charging \$45, and another store in a strip mall charges \$29.99, you're probably in the right ballpark. On the other hand, if you find several stores selling identical shoes for \$17, then you might want re-evaluate your pricing strategy. Are you purchasing your materials from the wrong supplier? Are the other stores selling cheap knockoffs? Are they able to purchase at much larger quantities and thus charge lower prices?

Variable Costs

The first thing you did when you began planning your company was to ask the question, "How much will it cost to start the company?" Your answer to that question was given in your Start-up and Funding Statement. In addition to all the one-time costs associated with starting a company, every business has two types of re-occurring expenses: variable and fixed. **Variable costs**, on the other hand, are those that change with the number of units you make or sell. For example, if you sell model trains, your variable costs are the motor, wheels, carriage, and anything else that includes the physical cost of making the train, plus the cost of paying someone to assemble it, and the shipping costs.

<p>Variable Cost An expense that changes in relation to the number of units made or sold.</p>
--

Fixed costs are those that will not go up or down with the number of products you make or sell. Fixed costs happen whether or not you ever sell a single thing. The rent needs to be paid. The electric bill needs to be paid even if you don't have any sales. If you have a loom used to knit the sweaters you sell, your payment for that loom and the depreciation of it will not change, regardless of whether you make one sweater or a thousand.

<p>Fixed Cost An expense that occurs every month regardless of the number of units made or sold.</p>

The Cost of Goods Sold Statement attempts to answer the question: how much does it cost to produce one unit? If you're making surf boards, how much will it cost your company to shape, finish, and sell one surf board? This deals with the variable costs, the costs that change with the number of units produced. The Cost of Goods Sold statement should identify *all* of the variable costs associated with producing and selling the unit of sale. Remember that variable costs are not just costs that change from month to month. They are costs that rise or fall in direct relation to the number of units made or sold.

The Cost of Goods Sold statement attempts to measure all of the variable costs. Let's take a look at some typical variable costs:

1. Labor Cost

Labor may very well be the largest variable cost that occurs in many service companies. Labor is a variable cost when the labor is directly used to produce the product or service. In other words, going back to our handmade shoes, if it takes you 14 hours to produce one shoe then it costs you 28 hours of labor to produce one pair.

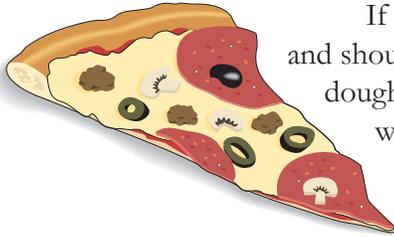
2. Raw Materials

Raw materials include the items that you need to use to make the product that will be sold. If you're making furniture; the wood, screws, glue, stain, and varnish would all be included in your variable costs. The amount you need changes in direct relation to the number of units sold. Some businesses that are often thought of as service companies also use raw materials. For example: painting companies use paint, pest control companies use insecticide, and concrete refinishing companies use stains and sealers. The amount that they use varies based on how many customers they service.

4. Inventory

Inventory is a product that is purchased for resale to the customer. Clearly this is a variable cost that should be included in the COGS statement. If I buy watches from a wholesaler at a discounted price and then resell those watches to the public for a profit, those watches would represent my inventory. The size of the order that I place with the wholesaler is directly tied to how many watches I anticipate selling.

5. Food Cost



If you're in the food service industry, food cost is definitely tied to the unit of sale and should be included in the COGS statement. Are you making pizza? You'll need dough, sauce, cheese, maybe some pepperoni, mushrooms and olives... All of these would be considered food costs. It's not considered inventory because you're not selling dough or sauce or cheese. You're selling the product that you make with them.

6. Supplies

Supplies are different than raw materials or inventory. Supplies are not part of the final product, but rather they are an incidental cost associated with the sale. A retail store would include the plastic bags, receipt paper, or even coat hangers if that is included in the purchase. Those things are not what they are selling, but they only get used up if something gets sold. A restaurant would include paper cups, napkins, table linens, and other similar items. Supplies are only included if they are directly related to the sale of one unit. Supplies to clean the bathroom at the shoe shop would not be included because the bathrooms need to be cleaned no matter how many customers there are. On the other hand, if you were running a janitorial service company, those cleaning supplies may very well fall in this category.



7. Fuel

Many service companies involve driving to the customer's home or office. The fuel used to provide the service is certainly part of COGS. Fuel used to operate equipment (generators, pressure washers, etc...) is also part of COGS.

8. Advertising

Each company will have to decide how and when to spend its advertising dollars. Some companies, like retail stores in malls, spend big advertising dollars during the holiday season because that's when people are most likely to buy. That type of retail store could naturally tie its advertising cost to units sold. In other cases, advertising will directly and immediately impact the level of sales. If advertising costs are closely linked to units sold then it could be included in the COGS statement.

Not all advertising plans work the same. A lawn service might spend a lot of money in the spring to generate annual contracts. The advertising money is spent in the spring, but the money comes in all year long. This type of cost might be included in the fixed costs section and budgeted throughout the year. Another option would be to include a major marketing campaign in start-up costs and only a smaller amount in the fixed section. That decision is really up to you as the business owner.

9. Shipping

Many companies sell products that are shipped directly to customers. In most cases, the customer pays for the shipping. If the customer doesn't, then those shipping costs would be included in COGS.

Note: You may have noticed that there are some expenses that are not listed at all in the previous list. These might include: telephone, rent, electric, accountant payments, truck payments, and many others. This was not an oversight. All those are Fixed Expenses and will be shown in the company's monthly budget. This class does not cover the monthly budget for the business itself (though we did look at a personal budget). If you continue on into the SBC class, you can be sure that you will be accounting for *ALL* of those other expenses.

Target Percentage

All of the categories we've talked about in this section can be expressed as either a dollar amount or a percentage of sales. Both calculations are important. The dollar amount lets you know how much money each item will cost. The percentage amount allows you to compare your numbers to the industry averages and see how you stack up against the competition. Here's how we arrive at the Target Percentage:

$$\text{Target Percentage} = \text{Variable Cost} \div \text{Sale Price}$$

Gross Profit

The third line from the bottom on the COGS statement reveals the very important gross profit per unit of sale. Gross profit tells you, the business owner, how much money from each sale will be left over to contribute to fixed costs and then net profit or the bottom line. Gross profit is calculated by using the following formula:

$$\text{Gross Profit} = \text{Sale Price} - \text{Total Cost of Goods Sold}$$

Gross Margin Percentage

The gross margin percentage is very useful for comparing your projections to industry averages even when the dollar amounts are very different. The gross margin percentage is calculated using the following formula:

$$\text{Gross Margin} = \text{Gross Profit} \div \text{Sale Price}$$

Industry Average

One way to keep your estimate on track is to compare your numbers to industry averages (the average of other companies in the same industry as your company). Here in prison, these numbers can be very hard to come by. We simply don't have access to the resources that are available on the outside. When working out a real COGS statement in the outside world, you can find these numbers very easily on the Internet or at a public library. And, you want to use very accurate numbers. For this class, we have provided some common industry averages in a chart at the end of this section. If your industry is not represented on the chart, try to make as realistic of an estimate as you think you can or ask your facilitator for some averages that you can use.

Testing COGS

Are you content with your gross profit? Does your gross margin look pretty good? On paper, you can always make more profit just by adjusting the numbers until you like what they tell you. You could cut back on your labor costs by paying all your employees minimum wage. You could buy less expensive roast beef for the sandwiches that you sell by buying a generic brand instead of Boar's Head. What happens if you want to pay your employees above average wages? Smart business owners can spend hours asking these types of questions, plugging in the numbers, and forecasting the results. What is your strategy? Do you plan on purchasing the cheapest components and paying your employees as little as possible? How would that strategy mesh with a plan to charge a premium price? What would happen if a critical cost such as labor was forgotten? If your projections are not accurate in COGS, you will stand no chance of building any type of reliable forecast. COGS is the cornerstone on which all future financial projections are based.

Let's look at some examples:

Painting (exterior residential)			
Cost of Goods Sold			
Unit of Sale:	1 sq. ft. (3 coats)		
Sale Price:	\$0.95		
Item Description	Industry Range	Target %	Cost: 1 Unit of Sale
Labor Cost	22%...32%	27%	\$0.26
Paint	5%...20%	9%	\$0.08
Supplies	1%...3%	2%	\$0.02
Repairs & Maintenance	2%...5%	1%	\$0.01
Advertising	.5%...3%	1%	\$0.01
Total Cost of Goods Sold		40%	\$0.38
Gross Profit			\$0.57
Gross Margin			60%
Industry Average Gross Margin			69%

In this example, we're painting houses. So, we've chosen 1 square foot with 3 coats of paint as our unit of sale.

95 cents per square foot is a little lower than what the competition charges, but it is very close. By choosing a lower price point, we hope to undercut their sales and draw some of their customers to us.

What 'target percentage' tells us is how much of the sale price gets used up by our variable supplies. In other words, if we charge the customer 95 cents per square foot, 27% of that money (26 cents in this case) gets spent on the labor it costs to paint the house. Our formula to find the target percentage looked like this:

Target Percentage = Variable Cost ÷ Sale Price
 So, for our Labor Cost, the math would look something like this:

$$\$0.26 \div \$0.95 = .27 \text{ or... } 27\%$$

We can estimate how much paint is used up in painting 1 square foot three times. Most painting companies spend 5%-20% of their sale price on paint. We're using 9% or 9 cents.

We've included supplies like paint brushes and repair costs since the ladders and vehicles we use wear down the more we use them.

We've chosen to include an advertising cost to cover some of the expense of the marketing that we do with the company. Be aware that, if you choose to do this, that means you are passing some of that advertising cost on to the customer. Because of that, we try to keep the target percentage low.

The Total Cost of Goods Sold is found simply by adding the Target Percentage column and the Cost of 1 Unit of Sale column down.

$$27\% + 9\% + 2\% + 1\% + 1\% = 40\%$$

The Industry Average (or Range) tells us what the Target Percentage of our competitors in the industry looks like. This lets us see how we measure up (if we are charging more or less than other companies). If your Target Percentage ends up much higher than the Industry Average, then you may want to re-examine your pricing strategy.

Lastly, let's look at the last three lines. Gross Profit is not the same as Net Profit. It does represent how much profit is left over after all the variable expenses are taken out, but remember that we still have fixed expenses to worry about. However, Gross Profit gives us a good idea of how we stand in comparison to the competition and a general idea of how much profit we will make. The formula for gross profit looked like this:

Gross Profit = Sale Price - Total Cost of Goods Sold

So, we have calculated the gross profit as follows:

$$\$0.95 - \$0.38 = \$0.57$$

57 cents may not seem like a huge profit, but bear in mind that that is per square foot. If you take a job to paint a very modest 400 square foot house that would translate to \$228 in gross profit.

Gross Margin works the same way. It lets us see how we measure against our competitors. Using the formula (**Gross Margin = Gross Profit ÷ Sale Price**) we would calculate the Gross Margin like this:

$$\$0.57 \div \$0.95 = .6 \text{ or... } 60\%$$
 The Industry Average Gross Margin is 69%, so we could actually stand to charge a bit more if we wanted to increase our profits.

A barber shop offers a challenge right up front. Some barbershops hire barbers and others just rent out chairs. Which method is best? What are the advantages of each strategy? Notice how the unit of sale changes in relation the owner's strategy.

Take a look at the line item of labor cost. Does that mean that the barbers are paid an hourly wage that roughly totals about 55% of sales, or that the barbers are independent contractors paid on a percentage basis?

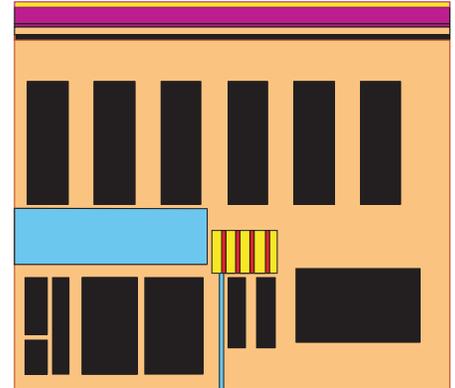


Barber Shop #1			
Cost of Goods Sold			
Unit of Sale:	One Hair Cut		
Sale Price:	\$11.00		
Item Description	Industry Range	Target %	Cost: 1 Unit of Sale
Labor Cost	45%...55%	55%	\$6.05
Advertising	2%...5%	5%	\$0.55
Supplies	2%...5%	4%	\$0.44
Repairs & Maintenance	1%...5%	3%	\$0.33
			\$0.00
Total Cost of Goods Sold		67%	\$7.37
Gross Profit			\$3.63
Gross Margin			33%
Industry Average Gross Margin			32%

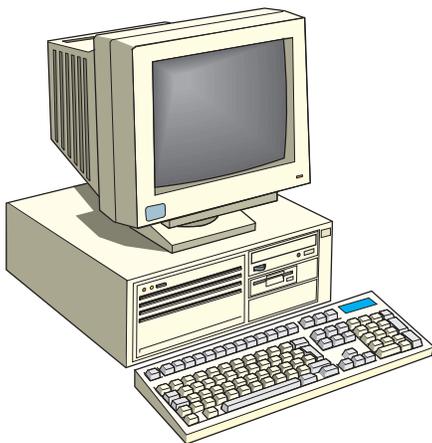
Barber Shop #2			
Cost of Goods Sold			
Unit of Sale:	Monthly Rent (one station)		
Sale Price:	\$450.00		
Item Description	Industry Range	Target %	Cost: 1 Unit of Sale
No Variable Costs!!!!			\$0.00
			\$0.00
			\$0.00
			\$0.00
			\$0.00
Total Cost of Goods Sold		0%	\$0.00
Gross Profit			\$450.00
Gross Margin			100%
Industry Average Gross Margin			32%



Retail Sales			
Cost of Goods Sold			
Unit of Sale:	Average Sale		
Sale Price:	\$75.00		
Item Description	Industry Range	Target %	Cost for One Unit of Sale
Inventory Cost	45%...55%	53%	\$39.75
Labor Cost	10%...20%	13%	\$9.75
Advertising	1%...3%	2%	\$1.50
			\$0.00
			\$0.00
Total Cost of Goods Sold		68%	\$51.00
Gross Profit			\$24.00
Gross Margin			32%
Industry Average Gross Margin			32%



If you want to sell products would you be better off opening a traditional retail store or selling via the Internet? Why are the numbers so different? What information can you pick up by just comparing the COGS for each variety?



Internet Sales			
Cost of Goods Sold			
Unit of Sale:	One Pair of Sunglasses		
Sale Price:	\$32.00		
Item Description	Industry Range	Target %	Cost: 1 Unit of Sale
Inventory Cost	45%...55%	45%	\$14.40
Advertising	5%...15%	10%	\$3.20
Labor Cost	8%...20%	8%	\$2.56
Shipping	2%...5%	3%	\$0.96
			\$0.00
Total Cost of Goods Sold		66%	\$21.12
Gross Profit			\$10.88
Gross Margin			34%
Industry Average Gross Margin			32%

Bunkwork Assignment: Cost of Goods Sold

40 Points

Objective:

- This section should clearly indicate what the unit of sale is and how much it costs to produce that one unit of sale.

Contents:

1. Clearly describe your company's unit of sale.
2. List the sale price for one unit of sale.
3. List all of the variable costs associated with producing one unit of sale.
4. Identify the total dollar amount and target percentage for each variable cost.
5. Add together all variable costs to give the total cost of goods sold.
6. Compute the gross profit.
7. Calculate the gross margin as a percentage of the sale price.

Below is a chart listing Industry Averages for many different industries. All Ranges are not listed and be mindful of the fact that this list is very dated. Use your best estimate or ask your facilitator for Industry Ranges that are not listed here that you cannot make a good guess at.

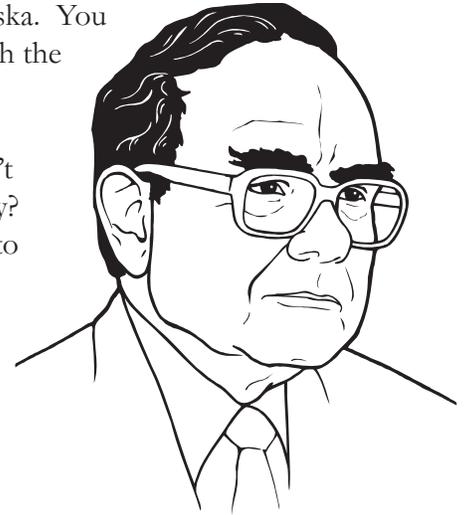
Industry Averages	Net Profit Margin	Gross Profit Margin	Debt to Equity Ratio	Payroll as a % sales	Sales per Employee	Profit per Employee	Advertising as a % Sales
The Metrics	Net Pretax Profit ÷ Revenue	Gross Profit ÷ Revenue	Total Liabilities ÷ Total Equity				
Accommodations & Food	3.9%	67%	2.9%	23%	\$70,584	\$5,103	2.1%
Administrative & Support	5.7%	52%	2.4%	21%	\$157,249	\$9,100	1.1%
Construction	5.4%	29%	2.3%	13%	\$239,911	\$15,994	0.6%
Finance and Insurance	9.5%	84%	14.4%	29%	\$170,877	\$18,027	1.7%
Health Care	7.8%	87%	1.5%	33%	\$152,706	\$11,473	2.8%
Logistics	3.9%	55%	2.8%	19%	\$126,334	\$13,151	0.6%
Manufacturing	5.0%	35%	2.2%	15%	\$203,965	\$12,191	0.8%
Professional Services	9.2%	69%	1.8%	27%	\$163,798	\$18,590	0.1%
Real Estate	4.0%	89%	2.9%	16%	\$217,679	\$121,656	1.4%
Retail	2.7%	32%	2.7%	13%	\$277,970	\$9,041	1.5%
Technology & Media	5.7%	66%	2.2%	26%	\$195,688	\$13,678	1.5%
Wholesale Trade	3.4%	29%	2.6%	12%	\$395,290	\$15,771	0.7%
Your Company							

Source: Inc. Magazine, November 2008, pp. 105-109.

Chapter 7

Brief Business Description

Imagine that you have a rich Uncle Warren who lives in Omaha, Nebraska. You see him at a family reunion and start to tell him all about your business idea with the hopes of getting money to start the company. Uncle Warren stops you in mid-sentence and says that he has a rule: “*Never mix business and pleasure.*” He invites you to write him a letter telling him about your business idea. He doesn’t want a full business plan, just a letter describing the basics. What would you say? How long would the letter be? What are the main points that you would want to cover? Maybe you don’t have a rich uncle. Most of us don’t, but the question is still relevant. What we’re looking for is sometimes called an “*elevator speech.*” Visualize that you step on an elevator with your business plan in hand and someone asks you to describe your business plan. How long will it take until you arrive at the nineteenth floor? That’s how long you have to talk. Brevity is the key here. You have a lot to say and a very short time to say it.



Because you’ve already taken the time to define a specific niche, examine your competition, work out your pricing strategy, think about what customers you will be trying to reach, and even calculate how much capital you’ll need to start up your business, you are well on your way to describing the company. For this class, we’ll take a look at seven areas. We’ll explain each of the sections and then offer two examples. The first example will be a good illustration, and the second will be a bad one. Finally, you will be given your last assignment at the end of this chapter. Pay careful attention to the instructions for each section to help you master the assignment.

For our good/bad examples, we will be looking at the Lopez brothers which will show up in boxes like this. Luis (aka, Cisco) and Pedro Lopez are brothers who have strong backgrounds that make them ideal candidates to open an auto repair shop. They each write a business plan. Pedro writes a good example of a business plan, while Cisco... not so much. Pedro’s example uses the ideas and principles that you’ve been learning in this class. Cisco’s example is fun because it ignores the ideas and principles and just charges forward with ambitious good intentions. Ever heard the expression, “*Fools rush in where angels fear to tread?*” Cisco’s business plan features two fools on the path to a capitalist catastrophe.



1. Industry Segment and Geographic Area

This section challenges you to reduce the niche assignment into written form. Look back over your chart and think about how you might describe your niche in a sentence or two. The geographic area the business covers should be well defined and the product or service offered needs to match the community it serves. Do not attempt to describe a very large geographic area, rather you should describe a small area and find a way to win a significant portion of that smaller market.

Cisco's Business Plan	Pedro's Business Plan
1. Cisco's fixes cars, trucks, motorcycles and anything with wheels. We're gonna have shops in Florida, Georgia and Alabama. The shops will be in big cities and small towns.	1. Autobahn Automotive Inc. (AAI) will repair automobiles. The shop will be located in the Metrowest area of Orlando adjacent to Bay Hill Country Club.



Note that in Cisco's example, it's very unclear what he is actually doing. Do they really fix *anything* with wheels? What about roller skates, golf carts, trains or 747's? Cisco also does not narrow down where the business will start out. He certainly has big dreams of taking over the world, but he has no plan to open the first shop. On top of all that, his language is not business professional. It's not even very clear what the name of the business will be.

Pedro, on the other hand, is very specific. He names the business first: Autobahn Automotive Inc. He then gives an acronym: AAI. Now, he is free to use either the full name or the abbreviation throughout the rest of the document and still sound professional. He gives an exact location where the first shop will be located. Pedro's business plan is much easier to envision for any potential investor.

2. Owner Qualifications

This section should describe who owns the company and what specialized skills and qualifications the owner brings to the company. For example, Jessica plans to start a welding company and has twelve years' experience in fabrication and welding. She also has an Associate's Degree in Business Management. Each of these skills greatly increases the probability of her company becoming successful. Other skills (like integrity, drive, and personality) might be classified as 'soft skills.' All are good things to include here. Let's see how Cisco and Pedro handle this section...



Cisco's Business Plan	Pedro's Business Plan
2. I, Cisco, am the owner of my company with my brother Pedro. I can fix just about anything and I've been fixen stuff since I was a kid. I've worked on motorcycles, trucks and even worked on cars from other continece. I was just born good with my hands. My brother Pedro looks after the books and handles the numbers. He's real smart and went to college and everything. He worked for the government but got canned because his boss was a jerk.	2. The owners of the company are Luis and Pedro Lopez. Luis brings fifteen years' experience in European auto repair including seven years as the service manager for Mercedes Benz, and four years as senior mechanic at BMW. Pedro brings a strong financial background with a Bachelor's Degree in business finance and is a certified public accountant. His work experience includes four years as an IRS auditor and three years in private accounting, specializing in bookkeeping and taxes for small companies.



Cisco starts out trying to sound like he's writing a deposition ("I, Cisco..."). Yet, Cisco isn't even his real name. He never mentions last names at all. As an investor, if you wanted to look up the owners' qualifications, you would have no idea where to even start. The experience that Cisco lists is vague and unspecific for both his brother and himself. He misspells words or uses the wrong ones. And, why would he mention that Pedro got fired?

Pedro is, again, very specific. He lists the full real names of both owners. The names imply that they are related, but he makes no special reference to the relationship because it is not important to the running of the business. What's more important is whether or not they are qualified to operate this business, and the qualifications that he lists indicate that they are very well suited to operating a small auto repair shop.

3. Company Explanation

This part can be longer because it tries to explain what your company is actually doing. It should offer factual information but not get bogged down with huge amounts of detail.

If your company repairs automotive windshields at the customer's home or place of business you need to say that, but you don't need to get into details about where you buy the glass, how many types of glass windshields are offered, or the hours of operation. Don't make the mistake of offering a big list of everything your company can do. We're looking for general descriptions here.



Cisco's Business Plan	Pedro's Business Plan	
<p>3) Cisco's Car Repair will fix your mufflers, brakes, and do tune ups on any types of cars and trucks and I do the very best work at prices on the low low, we also detail your car for free with every repair, and I can even work on motorcycles and replace windshield wipers and do oil changes as well as air filters every 15,000 miles if you bring your car in on time.</p>	<p>3) AAI will provide engine and drive train service on fine German automobiles including Mercedes Benz, BMW, Porsche and Audi.</p>	

Cisco makes the mistake here of using advertising talk and slang. Remember, investors would be viewing your business plan, not customers. What you are selling here is your professionalism and your qualifications, the viability of your business and not your product or service. There is no focus to his statements. Basically, all I know is that he does work on cars and some other things. In addition, he uses poor grammar (run-on sentences) and keeps switching pronouns between we and I. Cisco does not present an image of professionalism at all.

Pedro is very concise and focused, narrowing down his service to a premium segment on select vehicles. He says what he needs to say and then moves on.

4. Unique Features

What will your company do that is different and better than the competition? This should be an advantage to the customer. We're looking for facts here, not **platitudes**.

Platitudes
Vague, overused cliches that may sound good, but mean nothing.

If you're selling notebook computers you could offer facts like: "40 hour battery, Intel 6 processor, 4GB RAM, 200GB hard drive, 13.5" touchscreen, with detachable keyboard." Those are facts. Platitudes sound very different. Imagine describing a computer

like this: 'fast, reliable, and suitable for most any use.' Platitudes don't give any actual information. They just float words out that sound like they *should* be good. Open up any newspaper and look at the advertisements or look at the side of just about any service truck. You might see some of these:

- Commercial and Residential
- Friendly
- Bonded and Insured
- Fast Service
- Family Owned
- 24 hour Emergency Service
- Reliable
- No job too big or too small
- Professional
- Lowest Price, Best Quality



Those are all platitudes. They sound great but give no real information. Almost all painting companies do residential and commercial painting. Most companies have some type of insurance or bonding. What does 'family owned' mean? Does the Mafia own it? Of course you claim to be reliable; prove it! You're friendly? Does that mean you're going to flirt with my wife? You're fast? Let me guess, you'll get there 'as soon as you can.' So your plumbing company offers 24-hour emergency service? So, if my toilet is spewing sewage all over the bathroom I don't have to make an appointment? All plumbing companies do that. Are you serious about "no job too big?" Could your one-man janitorial service really handle a national contract to clean 400 high-rise office buildings scattered throughout the southeast? What about "too small?" Can you come out and clean a 3 x 3 doormat?

When you're describing the unique features of your business we want nothing but the facts.

Cisco's Business Plan	Pedro's Business Plan
<p>4) People all over town know me. If you ask the guys on the corner they will tell you that Cisco will hook your ride up decent. I am the only one in the southeast that has that kind of street cred. I know what I'm doing and there isn't anything that I can't fix, including windshield wipers.</p>	<p>4) AAI will be factory certified to perform warranty drive-train repairs on Mercedes Benz, BMW, Porsche and Audi. The firm will provide high performance options and modifications that are not available from the dealers, but are compliant with the factory warranty.</p>



Cisco offers no facts at all. Platitudes and bragging do not make up for the fact that you are presenting no real information. Be specific and offer details that can be verified.

AAI offers clearly stated features that are unique and will make the shop stand out from other repair shops. Can I verify that a shop is factory certified? Can I look up whether or not a modification will affect the warranty on my car? Pedro makes a good case with solid facts.

5. Target Market

Who are your customers? How would you describe the people who would be most likely to purchase your product or service? In the business world, we describe people who are likely to make a purchase as the target market. You've already got all the data you need for this section from the work you did on the Target Market assignment. Now, it's simply a matter of summing it up in a couple sentences. Remember that this represents the people you hope to serve by providing them with a product or service that is valuable to them. The target market is best described with the demographic qualifiers you chose earlier. Selling football equipment to children's teams? Your demographic qualifiers are going to look very different than a company selling football jerseys to tailgaters. Obviously, a business owner would serve anyone who came through the door. It wouldn't make sense not to. If a kid walked into your tailgating shop wanting to buy a football jersey, you would sell her a football jersey. However, it wouldn't make sense to target your advertising dollars to children.



Cisco's Business Plan	Pedro's Business Plan
5) We serve all ages, races, and religions; if your car is broke, we fix mufflers, brakes and almost anything, even replace windshield wipers. We give discounts to the needy and seniors.	5) Autobahn Automotive Inc. will service cars that retail for an average price of \$65,000. These customers demand first-class service and are willing to pay premium prices. They typically earn over \$180,000 per year and fall into the age range of thirty-five to fifty-five.

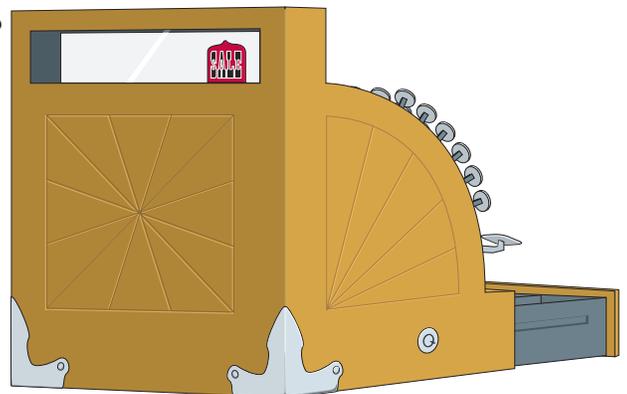


If Cisco is anything, he's consistent. He has no idea who his customer actually is, so he attempts to describe anyone and everyone. Again, just like with our football jersey example, Cisco may very well repair a car for a 95-year-old Japanese woman, but she would not be his primary target for a customer.

Pedro breaks down exactly what his typical customers look like. He classifies them by car value, age, and income in a way that relates to the service that the company provides. Would he service the drive-train for that 95-year-old Japanese lady's BMW? Of course. However, she still is not part of his target market.

6. Point of Sale

How will your product or service be sold? Do you plan to make cold calls to business people and sell snack food? Will you take cash, credit cards, bitcoins, or all three? This section should summarize how you will make sales and how you will get paid. When is the decision made to purchase your product or service? When is the payment made? Are there different answers to those last two questions? For New Life Shed Building Co., Mark Alans is selling sheds on site and he takes cash or checks. That's fairly simple; but what about the concrete company that builds driveways? They advertise in the neighborhood newspaper and a customer calls. When does the customer pay?



The concrete company may ask for 50% down and 50% upon completion of the job. Is there a contract that spells out those details? Instead of pouring a driveway, which is typically a one-time service, consider a lawn service that maintains its client's yards weekly but bills at the end of the month. All of these companies would describe different Points of Sale.

Cisco's Business Plan	Pedro's Business Plan
<p>6) Cisco's will use word of mouth, flyers, and television advertising during the Super Bowl. To keep costs low and protect the privacy of the company's financial position, Cisco's will only accept cash. In some cases, the customer will have to pay for the parts before the work can be started. That's because the parts can be expensive and it ain't our job to be a bank. And don't try to bring your own parts either, because that's not the way we do it.</p>	<p>6) AAI will rely on a high-tech sign that features computer-generated graphics. The shop is located on Kirkman Road. Traffic studies have revealed that of the 15,000 cars that traverse the route, about 4% will match the demographic profile of the target market. That translates to 600 prospects per day that will see the sign. The sign will emphasize AAI's factory authorized technicians and various high performance modifications. AAI will provide written estimates and accept full payment upon completion of the work. Naturally AAI will accept all major credit cards or approved checks.</p>



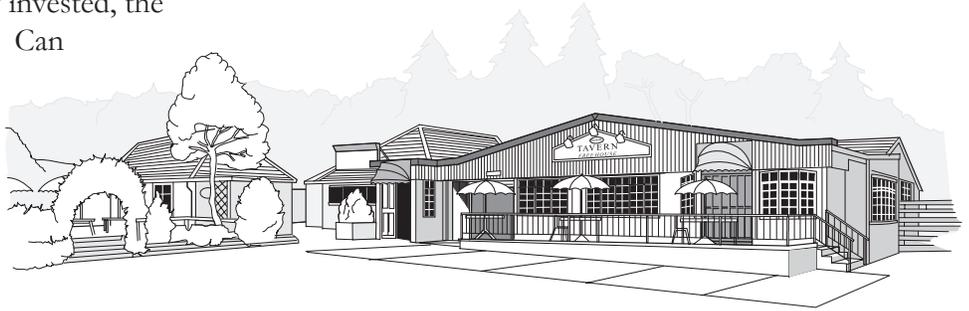
Because Cisco did not do any work on his target market, he has no idea how to reach his customers. He plans to advertise during the Super Bowl AND keep costs low? And, here is a common mistake that many starting business owners make. Advertise to your specific target market. Remember that, at this point, you are just a small operation trying to carve out a place in the world. Advertising nationally would only generate sales that you can't service. What if you advertised state-wide? If it cost you \$45 in gas to get to Miami and the trip only generated \$40 in sales, it would make no sense to try to service that customer.

Cisco presents himself like someone who probably isn't keeping any records or paying any taxes. Pedro does a much better job. His advertising is appropriate with realistic expectations about reaching his target market. He plans to use a payment system that is professional and in keeping with industry standards. Is a sign sufficient advertising for a business? It can be if it can communicate enough information in a short amount of time. For AAI, the sign will be speaking directly to their target market while they are in the very vehicles that the company hopes to service. If you were running a print shop, a sign may not be adequate to reach the customers you want to target.

7. Scope and Size

How big of a company are you planning to start? We're not asking about your future plans here. We're looking for a description of the humble beginnings. We're not interested in your plans to manufacture and sell young men's urban clothing under your own nationally recognized brand. Tell us about your booth at the flea market where you'll sell air brushed T-shirts and shorts on the weekends to get your name out there.

A lot of people dream of owning and operating a restaurant. Most restaurants struggle and barely manage to survive on tiny profit margins of less than five percent. Many restaurants go broke and close their doors within a year. A few restaurants reap huge profits. On average, it costs one million dollars to open a restaurant in the United States. Some restaurants spend much less; others invest over ten million. One of the big reasons restaurants fail is undercapitalization. The more money invested, the higher the probability of great profits. Can you open a restaurant for less than \$100,000? Sure; but be careful. Such a small investment will require you to cut some major corners. A small commercial kitchen alone will cost over \$50,000. When describing the size of your company be sure to describe something that you could reasonably afford to start.



Typical English country restaurant

This section should address:

- How many employees are involved in the company?
- What is the capacity of the company (what is the maximum number of customers you could serve)?
- How many customers could you realistically expect in a typical month?

Cisco's Business Plan	Pedro's Business Plan
7) Cisco's will start out with 25 shops and each shop will have 10 bays and a pool table with a bar area. I'm the main boss because Luis just does the numbers if ya know what I mean. There will about 50 or 200 employees. We gonna bring down about a million a day, profit. Oh yeah!	7) AAI will feature a 4 bay shop and small, but stylishly furnished office / lobby area. Pedro will manage the office. Luis will administer the shop and supervise four technicians. Each bay can service up to 3 cars per day. This gives AAI a capacity of 310 cars per month. The goal is to service 200 cars per month.



Cisco is just out of control here. Do you sense a little rivalry between the brothers here? Why is it showing up in a business plan? How many employees will he have? 50-200 is a huge range. And, is it wise to have a bar in a car repair shop? Aren't the people waiting in it going to be getting into their cars and driving away? All of those things might sound sexy, but none of them are needed expenses for what he is trying to do. Cisco is trying to go too big too fast and has no idea about where his company is realistically going.

Pedro describes a reasonable and appropriate size for a starting business. He gives an exact number of employees, and, if there is any rivalry between him and his brother, he leaves it out of his business plan. The investors do not need to know that.

Who would you invest your money with, Cisco or Pedro? The answer should be obvious. Pedro comes across as the brother who is really taking this seriously, and if you truly plan to begin your own business you should take it seriously, too. Treat your investors like professional business people, and they will treat you the same.

Bunkwork Assignment: Brief Business Description

20 Points

Objectives:

- This assignment should clearly and accurately describe the business using only factual information.

Contents:

1. Describe the industry segment and geographic area
2. List the owner(s) of the company and give qualifications for operating the company
3. Explain what your company will do
4. Define the unique feature(s) of your company that can benefit the customer
5. Describe the target market using at least two demographic qualifiers
6. Discuss how your product or service will be sold
7. Explain the scope and size of the company

Congratulations, on completing the DBC course! It's been a lot of work to get to this point. You should now have the beginnings of a working knowledge of the financial aspects of your business idea, and those skills that will be needed for you to be a successful entrepreneur. Those students that have completed DBC with a grade of 140 or higher are invited to participate in the Small Business Concepts program also offered by REEFS. Let your facilitator know if you do not wish to go on. If you are continuing, **KEEP THE WORK YOU DID HERE.**

The Small Business Concepts (SBC) program is designed to help you build a complete and viable business plan. What is a viable business plan? It is a realistic plan that takes into account your personal situation, business experience, abilities, and access to capital. Even with the reality that you will leave prison with a felony record and fifty dollars, small business ownership **IS** within your grasp if you have a well-developed business plan and a strong desire to see it through.

The SBC program primarily focuses on the construction of a business plan, but it will not teach you everything you need to know to run your business. The business plan is just a starting point that defines the concept and identifies the details of your business goals. The significance of having a solid business plan is that it can transform a vague idea into a specific goal. Once the goal is on paper and the details have been clarified, something exciting begins to happen. Your business plan can give your life a productive purpose and direction. It can spawn the hope and energy needed to drive you toward success.

The SBC program will **NOT** be easy. It will require hard work (even more than you faced here), persistence, and the desire on your part to learn and apply information that may be foreign to you. Some of you may have extensive experience in business, while others may have limited experience or none at all, but we all have room to grow and plenty to learn. We all have valuable life experience to offer and share. So, if you plan to continue on take a rest now. You earned it. But, be prepared to really get to work.





Appendix

Brief Business Description

New Life Shed Building Company

1. New Life Shed Building Co. (NLSB) will build sheds, filling Home Owners' need for additional secure storage space. The company will be located at 525 West Avenue, Simpson City, Florida.
2. The owner of NLSB, Aloysius Beeman, has 20 years' experience in construction as a carpenter. Mr. Beeman is enrolled in Massup Community College taking classes to earn an Associate's Degree in Business Administration.
3. NLSB will build sheds to fit the specific needs of their customers. Mr. Beeman is a hands-on owner who works directly with the clients in order to satisfy their individual requirements. His experience allows him to recommend alternative solutions to customers' problems prior to construction.
4. NLSB's market advantage is its ability for custom design work and detail, adding windows, door styles, storage shelving or built-in racks for specific uses to meet the customers' needs. This allows the Home Owner to utilize their sheds not just for storage but for many different purposes, ranging from studios for artists, craft making, and more.
5. The Lambeth Valley section of Simpson City houses many young families. NLSB will offer custom built sheds at a minimal price point so it will target single family homes with an annual income of \$25,000 or more. More than 50% of the target customers will have at least one child. 20% of the homes have a single car garage, 10% a carport. 70% have only a driveway, leaving an unfilled need for storage space to safely secure lawn equipment, bicycles, toys, etc...
6. The Company will accept Visa, Mastercard, cash, and checks for payment with half due as a down payment upon signing of the contract to build and the remainder due upon completion of the construction. NLSB will offer a 90 day guarantee to replace the shed at no cost should the construction prove to be faulty. Pamphlets distributed at local businesses such as grocery stores, Laundromats, churches and car washes will be utilized to draw in customers along with lawn signs on display during construction.
7. NLSB will begin with a single owner/operator. If and when additional help is needed, Mr. Beeman plans to hire employees on a one by one basis to cover expansion requirements. He plans to work with ex-felons by partnering with Horizon Communities in Prison to identify potential new hires, allowing him to help others to re-enter society and take advantage of the tax break available for hiring recently released inmates.

Competition Analysis Example for New Life Shed Building Co.

Y = Yes N = No A = Available	Basic Price for an 8'x8'x8' shed	Floor	Custom Styles offered	Assembly	Delivery	Windows available	Door Style	Turn-around time	Material	Payment Terms
	\$599	N	N	DIY	N	N	Slide	In Stock	Metal	Credit Card, check, or Cash
	\$499	N	N	DIY	N	N	Slide	In Stock	Metal	Credit Card, check, or Cash
	\$799	A	Y	Built on-site	Y	Y	Slide or Hinge	2-4 Weeks as scheduled by contractor	Metal or Wood	Credit Card, check, or Cash
	\$849	N	N	DIY	N	N	Slide	In Stock	Metal	Credit Card, check, or Cash
	\$699	A	Y	Built on-site	Y	Y	Slide	1-2 Weeks depending on his schedule	Metal or Wood	Check or Cash
	\$799	N	N	DIY	Y	N	Slide	In Stock	Metal or Wood	Credit Card, check or Cash
	\$725	A	Y	Built on-site	Y	Y	Customer choice	1-4 Days as scheduled by customer	Wood	Credit Card, check, or Cash