

An Introduction to Business and Business Planning

Dr. Jay A. Dewhurst



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Dr. Jay A. Dewhurst

An Introduction to Business and Business Planning

Introducing Business through the Development of a
Business Plan



An Introduction to Business and Business Planning

1st edition

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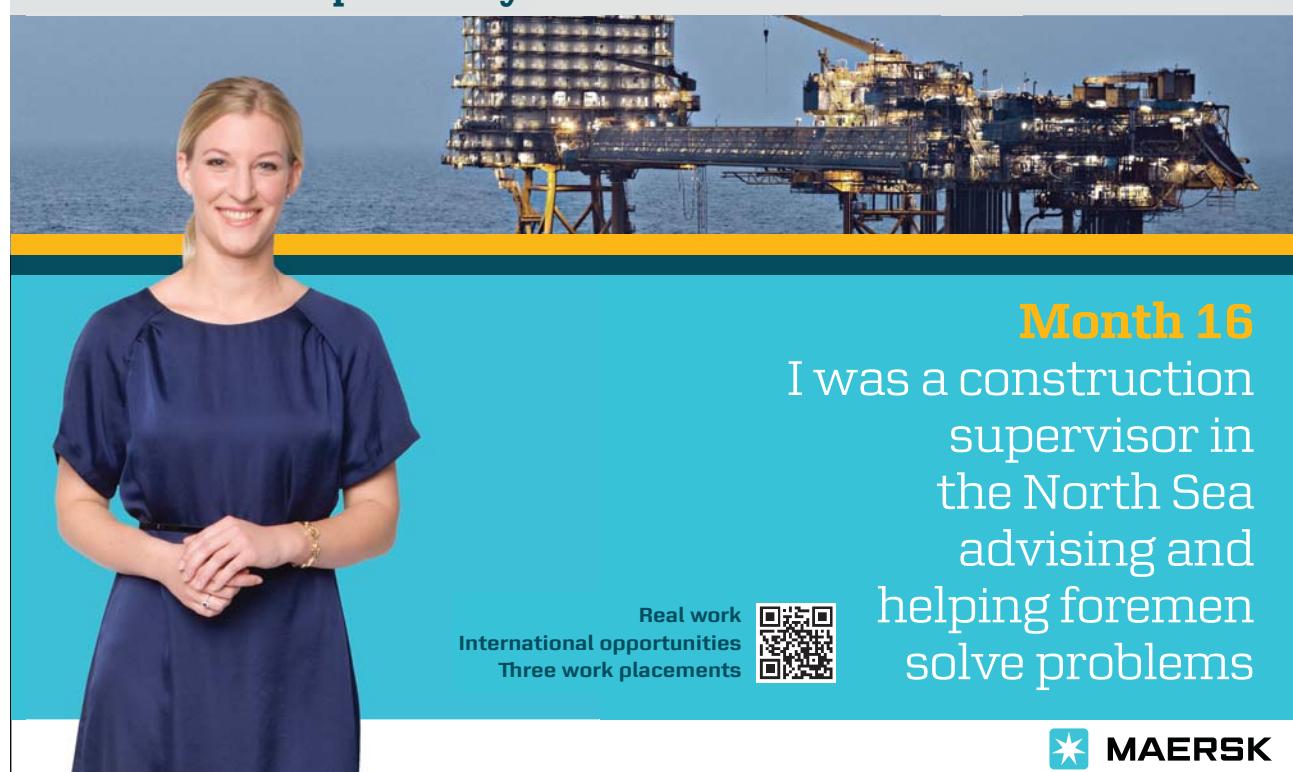
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Note to Instructors

Dear Instructor:

Having taught business introduction courses for many years and exploring different ways to introduce students to foundational business concepts, I realized that students, while learning important concepts under traditional methods, were unable to connect those ideas to one another. The student would successfully complete the course, but would not be able to relate marketing to accounting or management to finance.

The purpose of this book this book is to give you, as instructor, a text to introduce students to business concepts through the building of a basic business plan. I have used this method for many years and have found it to have a lasting impression on students.

My hope is that you too will find this method useful and this book a great help to you and your students.

Best Regards,

Dr. Jay A. Dewhurst

Foreword

Dr. Jay Dewhurst writes as any strong-minded academic would write, with research and exploration. The difference in this book is that he writes from years of personal experience as an entrepreneur.

You are about to gain invaluable knowledge and understanding without having to do all the research... he has done it for you, and has given the subject matter the advantage of his experiences.

As a former professor, I will tell you that this book is one of those you will keep for valuable reference for a long time to come.

Dr. Dewhurst has spent most of his adult years investing in business ventures. He has become expert in his knowledge of how to begin and cause a business to become profitable. He has been a mentor to scores of young adults who want to learn the unique career of being an entrepreneur.

Jay is a world traveler, imparting his knowledge and experience through seminars and workshops in many countries. He is a loving husband, doting father, and grandfather.

I am honored to recommend this book to all who choose to read it.

– Ross C. Harrison (Ret.) Educator/Minister

Acknowledgments

To Sue, my biggest fan.

To my children who make it all worthwhile.

To Melody (Mellie) who grows my heart.

To my Dad who always came through for me.

To my Mom, whose love never fails.

To Chuck who helped keep it all going.

To Daniel, Daysi, Uriel, Becky, John and Mary who continue to show me how to serve others.

To Charles, Pepper and Ed who laughed with me.

To Guillermo who took the leap of faith.

To my classmates at the school of hard knocks.

To future students, for whom I plant shade trees.

And most of all, to God who makes all things possible.

Introduction

When I was 13 years old, I knew I wanted to be a businessman. Having grown up on a farm in southeastern Ohio, it was my dream to move to a big city and be successful in some type of business.

After serving 4 years in the US Air Force in the mid-80s, I started business school at a small community college near my parent's farm, wherein I studied accounting, a field in which I had a very short and unhappy career.

After receiving my MBA from Marshall University in West Virginia, I set down the path to realizing my dream. However, what I soon learned was that business schools, while teaching you many important business concepts, do not typically prepare you to run a business. Instead, they prepare you to work for an existing business that takes these concepts, puts them into action and hopefully mentors you into a successful business career.

After many years of learning what to do, and more importantly what not to do in business, and having both succeeded as well as failed in several ventures, I began to formulate what I believe every business school graduate needs to know if they want to be an entrepreneur. That is not to say this is the be-all, end-all of business books. It is instead a practical guide that introduces you to business concepts as well as the future planning needed for your entrepreneurial career.

This book is written in a relaxed and casual manner in order to allow those with no previous experience in business to understand and apply this introductory information. Furthermore, by focusing on the business planning process, it is my hope that the reader can quickly apply the concepts to their real world goals.

I wish each reader the very best and hope that in sharing my experiences, this book will help others to have prosperous and fulfilling business careers.

– Dr. Jay A. Dewhurst

1 An Introduction to Business

Your goals for this introduction business chapter are to learn about:

- *What constitutes a business*
- *What are different types of businesses*
- *The legal structure of businesses*
- *Introductory concepts in business*

Much like any endeavor, the business planning process is as much art as it is a science. Although there are items that you *must* have in a business plan, how *you* present them and augment them with helpful information to the reader is subjective and allows for a great deal of flexibility.

During the planning process it is critical that you keep in mind the reason you are writing the business plan. Many would-be entrepreneurs write the business plan simply to acquire financing. Although financing is an important reason to write the plan, it is important to understand that a good, practical business plan is a **tool** that can be used to increase your chances of success. Additionally, a good business plan is one that will act as a guide as you begin operating your business as well as a way to measure success as you progress, giving you a baseline for comparison.

This book is a practical guide to business planning, but there are certain concepts throughout the book that are there more to introduce you to business than to actually be used in the business plan per se. That does not diminish the importance of these concepts but should instead be viewed as an enhancement to your learning.

As you progress throughout this text, keep in mind that this is only an *introduction* to business and its concepts. Do not assume you should or will know any depth of these concepts; instead, realize that each chapter/concept is an introduction that will be covered in some depth in later courses.

1.1 Introductory Concepts in Business

To summarize all business concepts into one short chapter is not only impossible, but also disingenuous. Business, like any other academic discipline, involves a variety of subjects, and each can be studied in-depth. In the following section, I seek to give you a quick overview of the concepts typically covered in an introductory course, but aim to make it as painless as possible – a summary of summaries of a sort.

1.2 What is a business?

Let me first give you the textbook/dictionary definition. Miriam-Webster dictionary defines business as, “the activity of making, buying, or selling goods or providing services in exchange for money [;] work that is part of a job [;]: the amount of activity that is done by a store, company, factory etc.”¹ Better put, “business is any profit-seeking organization that provides goods or services designed to satisfy customers’ needs.

Although this technically correct, this is a practical guide to business; let me give you the practical explanation of what a business really is. These are not the same as what is addressed in the legal environment for business, but is more of perception and intent, i.e., what you want from your new business.

There are four categories of businesses. The first is a hobby business. A hobby business, just as the name implies, is a business where you enjoy a particular craft or activity that you occasionally, or even somewhat regularly, and make a little money selling these items or services. Typically this type of business is very small and is used as a fun outlet for energy or a supplement to your regular income.

One example of a hobby business would be someone who enjoys making small wooden craft items and sells them to friends, neighbors or even at an occasional craft show.

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There is nothing wrong with this type of business. In fact many retired people have a great deal of fun with hobby businesses and help them have a little extra spending money. However, this is not what we are addressing in this book as a business.

The second type of business is a lifestyle business. A lifestyle business is one in which the owner(s) make a living wage that typically could be earned working for someone else. However, the purpose of the lifestyle business is not really the money they make, but the lifestyle they enjoy.

Consider a young couple who enjoy outdoor activities. Even though both are educated and could work for an employer making a good salary, the couple really wants to do something outside. So, the couple opens a rafting and hiking business in the mountains. Although their earnings are not what they can make working in the city, the lifestyle they enjoy, rafting, camping, hiking etc allow them to enjoy their favorite activities and get paid doing those activities.

Lifestyle businesses are indeed businesses. They often require funding, accounting, marketing etc, but can be much less stress than a more conventional business with employees, large overhead etc.

The third category of business and the one we address in this book is what we will call a Small Business. Although there are definitions for what a small business is according the government, what we will consider small business will have the following:

1. Has a small group of owners, all personally on the hook for the success or failure of the business.
2. Employs people beyond just the owners.
3. Has some type of formal office, store etc.

Again, this is what we are considering a small business for this book only.

When you typically consider a small business, it is this type of business you are thinking of. There are myriad examples of this type of small business including your local hardware store, beauty salon or accounting offices. In fact, if you would have driven down any street in the US 30 years ago you would have seen this type of business on nearly every corner. Although there are still certainly many small businesses in the US, the corners are now populated by franchises or stores representing large corporations such as CVS or Walmart.

The main thing that separates this business from the two previous categories is that it has a tangible location and employs people. By employing people the owners are multiplying themselves by delegating tasks and responsibilities which allow the business to be bigger than just the owner(s). This multiplication of self is what allows a lifestyle company becomes a small company that enjoys larger returns from net profits, instead of just the wages the owner can make by working for himself.

The fourth category of businesses includes the aforementioned CVS, Walmart and all the large companies employing millions of people all around the world. These companies are usually publically traded (they sell stock on one of the public stock markets) and are highly structured with offices either all over a country or all over the world. These, gain, are not the kind of business this book addresses.

So, now that we have some common understanding of the four categories of businesses and understand the category this book addresses, let's consider a few important words or phrases of which you, as a new business owner, should have some knowledge.

1.3 Entrepreneurship

An **entrepreneur** is someone who organizes, manages, and assumes the risks of a business or enterprise. An entrepreneur is an agent of change. Entrepreneurship is the process of discovering new ways of combining resources.²

Entrepreneurs are often developers of new businesses but are not necessarily the inventor or creator of a product or service. Bill Gates and Paul Allen started Microsoft in 1975. Gates and Allen provide a great example of creating something from the ground up; however, other great entrepreneurs have taken ideas and improved them. Henry Ford, for example, took the idea of the automobile and both improved it and made it more affordable through mass production.

According to Forbes Magazine, there are around 11.5 million new businesses in the US each year, but the worldwide number is impossible to calculate. Businesses as small as a new vendor along the streets of Calcutta or as large as a multinational corporation are all included. For our purposes, however, consider an entrepreneur as an individual who starts a new business of any size, either alone or with partners.

1.4 Macro and Micro Economics

Economics can be a rather intimidating subject as it includes simple concepts we all deal with in everyday life, as well as complex subject matter that a lifetime of studying is needed to perfect.

For purposes of simplification, you need to know that there are two main divisions in economics: **macroeconomics** and **microeconomics**.

Macroeconomics is the study of large scale economies like that of a country. If you decide to continue in your business studies after this course, you will likely take a class that focuses on this as a subject matter. For this book, however, we will not comment beyond this definition. If you would like more information on macroeconomics, a good place to start is The Kahn Academy or other such sites that give a broad overview of the subject.

Microeconomics is just that – *micro*. It focuses on the economy, or the behavior of individuals and/or companies and how they spend limited resources. As with macroeconomics, microeconomics is covered in most business programs as a separate course. To help introduce you to microeconomic topics, terms and concepts are woven throughout the book.

1.5 Accounting and Financial Management

As stated earlier, my aim in this section is to simply introduce you to business concepts. To that end, below are definitions to introduce you to finance and accounting without getting bogged down in details.

Accounting: “the system of recording and summarizing business and financial transactions and analyzing, verifying, and reporting the results; *also:* the principles and procedures of accounting.”³

Finance: “the way in which money is used and handled; *especially:* the way in which large amounts of money are used and handled by governments and companies.”⁴

In chapter 12, you are introduced to the concepts involved in accounting and finance. These are each, of course, fields of study all to themselves, but for practical purposes I have included sections that will help you as you develop budgets and prepare you for the financial needs of your operations.

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1.6 Marketing

Marketing is the one area that is often discovered with more comfort than other business subjects. Entrepreneurs are usually excited about their product or service and are just itching to get out and tell the world about it.

However, marketing is not as straightforward as one might initially think. In chapters 4-9, you will learn about the different facets of marketing and how they relate to your planning process. Although not overly difficult, these concepts are critical to your success, and ample time should be invested in these areas.

1.7 Human Resource Management

The most valuable resource a company has is its people; however, it is also the area that causes the most challenges. In chapter 11, you will explore this difficult, yet critical area of study.

1.8 The Legal Environment in Business

A key decision you will need to make in starting your company is deciding what the legal structure of the company will be. The legal environment of each country is quite different and typically requires one to retain the services of a legal professional.

In the United States there are typically 6 types, or structures, for a business. The SBA list them as: sole proprietorship, limited liability company, cooperative, corporation, partnership, and S corporation.

Sole Proprietorship

A sole proprietorship is the most basic type of business to establish. You, alone own the company and are responsible for its assets and liabilities.

Sole Proprietorship

Pros	Cons
<ul style="list-style-type: none">→ Simple to start up→ Profits flow through to your personal tax – in the U.S., it is typically schedule "C" income but can be other schedules for rental, farm, investment, or other income.	<ul style="list-style-type: none">→ Does not protect the owner from personal liability→ All income is subject Social Security and Medicare taxes (US only)→ Allows for a single owner only

Example of a Sole Proprietorship:

Although sole proprietorships can come in sizes from a single owner to many employees, they are most common with very small business such as barbershops, consulting businesses (which can be organized in other fashions as well) or any business that is too small to warrant the legal and accounting expense associated with other legal forms.

Limited Liability Company

An LLC is designed to provide the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership.

<i>Limited Liability Company</i>	
Pros	Cons
<ul style="list-style-type: none">→ <i>Limits the liability of the owner to the business investment and asset.</i>→ <i>Allows for partners</i>→ <i>Flexibility in how the entity and owner(s) are taxed.</i>	<ul style="list-style-type: none">→ <i>May require additional tax filings</i>→ <i>Filing fees will apply</i>→ <i>Annual reporting required</i>

Note: There are circumstances where the owner's personal liability can be increased beyond the business. These may include in cases of fraud, negligence or if the LLC was established for the sole purpose of limiting liability.

Example of a Limited Liability Company:

Limited Liability Companies come in any rage f size from a one man (or woman) show to 100's or even 1000's of employees. The structure does not dictate how the company is operated, but is simply a legal definition that offers some legal liability protection. An added benefit is that the earnings can be distributed in a more favorable way to the owner, lowering overall tax exposure in some cases.

Cooperative

People form cooperatives to meet a collective need or to provide a service that benefits all member-owners.

<i>Cooperative</i>	
Pros	Cons
<ul style="list-style-type: none">→ <i>Particularly useful for farming or other products that can benefit from mass purchasing and selling while leaving the individual business autonomous</i>	<ul style="list-style-type: none">→ <i>The more voices and opinions involved, the more opportunity there is for disagreements and the "watering down" of ideas</i>→ <i>Requires additional management as it is a separate organization</i>

Example of a Cooperative:

Cooperatives are most commonly seen in rural farming areas when small farmers want to join together to protect prices by working together on the quantity they, as a group, can produce. It is also beneficial by giving the farmers some purchasing power by allowing them to negotiate prices for larger order quantities.

Corporation

A corporation is more complex and generally suggested for larger, established companies with multiple employees.

<i>Corporation</i>	
Pros	Cons
<ul style="list-style-type: none">→ <i>Limits liability of owners and investors</i>→ <i>Increases opportunity for investors</i>→ <i>Particularly useful for large organizations but may be used for smaller operations as well</i>	<ul style="list-style-type: none">→ <i>Double taxation (both the entity and the profits distributed to the owners/investors are taxed)</i>→ <i>Complexity in tax law</i>→ <i>Increased reporting requirements</i>

Example of a Corporation:

Just like most of the other legal forms of businesses, corporations can be small or large. When we typically think of a corporation, however, we think of the sky scraper with the enormous executive offices and board rooms for the cold hearted.

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This may be the case at times, but corporations can be small and personal or even large and socially responsible. The fact that a business is a corporation is no indication of how they operate or how many they employ. In fact, many medical doctors have practices that are corporations, but act in a very personal, heartfelt manner toward their patients.

S Corporation

An S corporation is similar to a C corporation but you are taxed only on the personal level.⁵

There are other business structures including ones that may be used for professional organizations such as attorneys, physicians etc. and vary according to the business location.

S Corporation	
Pros	Cons
<ul style="list-style-type: none">→ Gives the advantages of both a corporation and a partnership→ Pass-through taxation (not double taxed as in the corporation)→ Access to more and better financing/investing	<ul style="list-style-type: none">→ Not as much flexibility for owners→ Tax filings are more complex than in a partnership

For more information on the structures for businesses in the United States, go to www.sba.gov.

Example of an S-Corporation:

An S-Corporation is typically limited in size by the constraints it has on classes of stock. An S-Corporation is limited in the number of stockholders it may have as well as the classes of stock. An S-Corporation will only have common stock and not preferred or other classes of stock that allow for distribution of profits or investor payouts to be different for different classes of investors.

An example of an S-Corporation would be a group of 5 people who start a heating and cooling company employing 100 people. Each of the owners is actively involved and pays themselves a salary. In addition to their earning, however, they enjoy a distribution of profits which is not first subject to a corporate income tax, saving the owners substantially.

Partnership

There are several different types of partnerships, which depend on the nature of the arrangement and partner responsibility for the business.

All partners are “Agents” of the company and may obligate all partners for decisions made unilaterally.

Partnership

All partners are "Agents" of the company and may obligate all partners for decisions made unilaterally.

Pros	Cons
<ul style="list-style-type: none">→ Simple to start→ Reporting is flexible→ Allows for multiple owners→ Easy to change entity structure at any time→ Gives more and better access to financing	<ul style="list-style-type: none">→ Liability to owners is unlimited→ Partners (owners) are jointly and severally responsible for company obligations

An Example of a Partnership:

Most partnerships, which can be called by other names in certain states or countries, are companies with 2 or 3 owners (can be more). A good example of a partnership would be in a consulting firm or even a car maintenance garage where the owners are actively involved in the business (Not a limited partnership) and are liable for the business personally, jointly and severally (independently).

1.9 Banking and Securities

Each country differs greatly in the way it handles its banking system. Most countries, however, have private, for-profit banks that work within a centralized banking system controlled by the government. In the United States, there is the Federal Reserve System which is technically separate from the government; however, the "Fed" is subject to the government for appointments of chairpersons as well as oversight from congress.

For the purposes of a small business, banking needs are fairly simple and require very little time to establish. Each bank may differ in what documentation is required, but often includes documentation from the government showing you are recognized as a separate legal entity (unless you are a sole proprietorship), any identification numbers assigned to the business, as well as corporate resolutions where applicable.

If you need to accept credit/debit cards or some other form of payment, banks can usually offer you a selection of add-on, fee-based services for your accounts.

1.10 Business Information Systems

Business information systems include everything from your accounting and payroll to the inventory control systems possibly used for point of sale transactions. Needs vary greatly by business and will need to be addressed in your business plan, as these systems can be quite expensive.

A great place to start looking for what others are using in your industry is on the web such the US Small Business Administration at www.sba.gov. Type in your business type and software and you will likely find custom solutions for your industry. Often, more generic or mainstream software can be used that will meet your needs while keeping cost low. In addition to Microsoft Office software, there are many accounting programs that are inexpensive and easy to use such as QuickBooks, Sage (Peachtree), and many others.

In addition to your software needs, there are hardware needs you must consider. It is always best to seek out a professional who can advise you on what you will need and the cost associated. Beware, however, that it is in their best interest to sell you equipment, so you will want to get more than one opinion.

This book will not address specific solutions as technology changes rapidly.

1.11 Global Business Environment

Since the Industrial Revolution in the late 1700s to today, markets have become less and less localized, progressing to a more global focus. According to your specific company, which could be a small local restaurant to an international exporter, your environment will vary widely.

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Understanding global trends and how those trends may affect your business are an important part of the planning process. The web is a great place to access trade journals and other articles that may provide insight to your industry. Addressing these trends in your planning process shows a depth of knowledge and sophistication that will be beneficial to you in the planning, financing and operational phases of your business.

1.11.1 Critical Inquiry

- A. Visit www.sba.gov and click on “Starting and Managing” along the top of the page. What five areas of the site did you find most helpful? Why? Be specific.
- b) Find a website of your choice that discusses starting a business. List five points that you believe will be helpful to you as you begin the business planning process.

1.11.2 Ethical Application

The Bernie Madoff Scandal

Having built a secret investment-advising empire on lies and deception in the form of the greatest Ponzi scheme ever devised, Bernie Madoff, and his respective companies, had their share of ethical dilemmas throughout the course of four decades. With tens of billions of dollars invested by clients from all around the world, the scale seems almost unimaginable. Madoff broke most, if not every ethical rule in business. Looking at the broader picture, we can analyze how Madoff’s humble beginnings showed early warning signs that he was headed toward major ethical disaster.

Early in Madoff’s career, he worked in the stock market and as a trader. It was then he began running a side business that he kept out of sight of even his closest family members. The business started off by promising clients fast, high-yielding returns on their investments. Once investors took the bait, he used other investments to bring in the high returns. These gains drew the attention of other, newer investors who saw the potential money-making possibilities. This was the start of the great Ponzi scheme (or “Pyramid Scheme”), in which new clients’ investments would be used to fund older clients’ returns. This sort of scheme is illegal and unethical, as it requires deception and theft to function.

At the height of his career, Madoff was the well-sought after investment advisor in the business, though he was not licensed by the U.S. government to perform such operations. In fact, Madoff used bribery tactics to persuade investment companies that funneled capital into his business to never use his name. Though it’s no secret Bernie Madoff was the chief puppeteer of this master scheme, he was not alone in bringing it to fruition. However, it took both the negligent cooperation of business professionals around the world and a glaring lack of due diligence on the part of supervisory government agencies for this inconceivable fraud to continue as long as it did.

Let’s examine how every decision we make can have long-term consequences, which can often be clouded by the possibility of short-term gains.

After creating a monster, Bernie Madoff was unable, or unwilling, to reign in the rise of his business to the world stage. Upon seeing the possibility of quick, high-yielding returns, the collective greed of hungry investors propelled Madoff to get more and more clients, which he needed in order to pay the ever-increasing number of returns. *How can small decisions we make play out the same way? Give an example of how a decision to act unethically can ‘snowball’ into a major, and even illegal, situation.*

Conflicts of Interest are situations in which a person or group is involved in one or more relationships which overlap, and that individual has the potential to act without the best interests of the all parties involved. In other words, the individual puts their own benefit above that of the others involved, and exploits the relationship for personal gain. *Give examples of how this might have happened in the case of Bernie Madoff and how he could have avoided it.*

1.11.3 Building Leadership Skills

Below are two team building exercises from Huddle.com. You and your team should complete these and then write a reflection on the following:

- A. Are you a good team member? Why or why not?
- B. What can you do to become a better team member?
- C. What qualities do you possess which you feel make you a contributing team member? What weaknesses do you possess that you feel may hold you or your team back?
- D. What areas do you hope to improve through the constructive criticism and feedback of your teammates?
- E. What qualities do you see within your teammates that you feel will be strengths for the project? Weaknesses?

Two Truths and a Lie

Time: 15–30 minutes

Begin by having each team member secretly write down two truths about themselves and one lie on a small piece of paper – Do not reveal to anyone what you have written down! Once each person has completed this step, allow 10–15 minutes for open conversation – much like a cocktail party – where everyone quizzes each other on their three questions. The idea is to convince others that your lie is actually a truth; at the same time, you should be trying to your teammates’ truths/lies by asking them questions. Don’t reveal your two truths or lie to anyone – even if the majority of the office already has it figured out! After the conversational period, gather in a circle and one by one repeat each one of your three statements and have the group vote on which one they think is the lie. You can play this game competitively and award points for each lie you guess or for stumping other players on your own lie. This game encourages better communication in the office, as well as building rapport among your coworkers.

Life Highlights Game

Time Required: 30 minutes

This is an excellent icebreaker activity that's perfect for small and large groups alike. Begin by asking each participant to close their eyes for one minute and consider the best moments of their lives. This can include moments they've had alone or moments they've shared with family or friends; these moments can also pertain to professional successes, personal revelations, or exciting life adventures. After the participants have had a moment to run through highlights of their lives, inform them that their search for highlights is about to be narrowed. Keeping their eyes closed, ask each participant to take a moment to decide what 30 seconds of their life they would relive if they only had thirty seconds left to live. The first part of the activity enables participants to reflect back on their lives, while the second part (which we'll discuss in a moment) enables them to get to know their coworkers on a more intimate level. The second portion of the game is the "review" section. The leader of the activity will ask each and every participant what their 30 seconds entailed and why they chose it, which will allow participants to get a feel for each other's passions, loves, and personalities.⁶

1.11.4 The Global Stage

Businesses come in many sizes from a sole-proprietorship with the owner as the only employee to a large multinational company employing hundreds of thousands of individuals.

For this exercise, research the metropolitan area closest to you and find three multinational companies that are not from your country. (You may expand your search area if needed). For each of these companies answer the following:

1. Where is there main headquarters?
2. Who is their CEO?
3. What year did they start operations?
4. What year did they start operations in the area closest to you?

2 The Business Plan

Your goals for this business plan chapter are to learn about:

- What is a business plan
- What are the parts of a business plan

The age old wisdom, “People who fail to plan, plan to fail,” is particularly true in business. Starting (or purchasing) a business is not a gamble in which one should use intuition, or “gut instinct,” to predict success or failure. Regardless of experience, the need for a business plan is crucial. This is true for three main reasons: *profit potential, market viability, and financing*.

2.1 Determine the Potential for Profits

Profit potential goes to the heart of business. The primary reason to start a business is to make a profit. This profit then increases the net worth of the owners, maximizing their wealth. This wealth may be modest in that it supports an individual owner and his family, or it could be a major multinational corporation that has thousands of shareholders who want to profit from an investment. Either way, the purpose to take the risk of business is profit.



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So, what is profit? The profit equation is simply:

$$\begin{aligned} & \text{Revenue} \\ - & \underline{\text{Expenses}} \\ = & \text{Profit or Loss} \end{aligned}$$

As you will learn in chapter 11 and in future accounting courses, determining this can be complicated, but the equation, in its simplest form, is always the same. You will estimate profit or loss, which will help you determine how you want to proceed.

With each business venture, there is an inherent risk of failure. In fact, according to the United States Small Business Administration (SBA), three out of ten new businesses do not survive two years, half do not survive five years, and only one-third last ten years or more.⁷ The potential profit of a venture must be compared to the risk when determining whether or not to proceed. This is called the *Risk-Reward Tradeoff*.

"Planning is one of the most important parts of running a business, no matter whether it is a large multinational corporation trying to plan an expansion or a small business launching an exciting new product."

The Risk Reward Tradeoff (often referred to as Risk Reward Ratio) is explained well by Investopedia when it defines it as "a ratio used by many investors to compare the expected returns of an investment to the amount of risk undertaken to capture these returns. This ratio is calculated mathematically by dividing the amount he or she stands to lose if the price moves in the unexpected direction (i.e. the risk) by the amount of profit the trader expects to have made when the position is closed (i.e. the reward)."⁸ Although this can be a mathematical equation, for our purposes, we should simply understand that the higher the risk, the higher the *potential* profit.

The take away as you approach a business venture is this: Do your homework; be realistic; and use the process of writing the plan to help you determine how you proceed. You should then consider what the worst case scenario could be (bankruptcy, loss of capital etc.). If you can't live with that possibility, then walk away. If you can, then proceed with caution.

2.2 Determine Market Viability

In the 1989 film, *Field of Dreams*, farmer Ray Kinsella (Kevin Costner) plans to build a baseball stadium. In this endeavor, he's advised, "If you build it they will come." Although it works out for this fictional character, it is rare that customers come running to buy your service or product just because you've built it. In fact, being unrealistic in the market viability of your product or service is one of the main reasons business owners are caught off guard the first few weeks and months of a new venture.

It is critical that time, energy, and resources be dedicated to determine the market viability for your venture. Unless you know yourself to be completely objective, you should consider hiring a qualified, unbiased third party to do the research and give you an honest, objective opinion on your product or service. Lying to yourself at this stage is incredibly easy to do if you are excited about your venture and believe in its likely success with little or no data of support.

Irene A. Blake writes that there are 8 steps to determine market viability:

Step 1

Check out businesses in the geographic area you plan to target to determine the level of competition you might experience, types of marketing efforts that may succeed or fail, and demographics of customers who purchased a similar product or service. For example, visit competitor stores and websites, evaluate promotion and sales efforts, and observe foot traffic.

Step 2

Make a list of customer demographics which you believe target customers for your type of new offering share based on your competitor evaluation and expert analyses from industry publications. These demographics can include age, family status, and income, among others. If your budget allows, hire a market research firm to provide you with customer demographics data for local, national, or international sales of similar products or services.

Step 3

Narrow your target market by requesting feedback from a small group of people that have the customer demographics you're considering. For example, buy a list of targeted contact leads from a direct marketing or survey firm, and then, send a questionnaire to the group that asks about their demographics, interests, and shopping habits, such as their reasons for shopping at certain stores and types of products or services they value most.

Step 4

Invite 15 or 20 people from your narrowed list to try a prototype or limited release of a product to get their general responses and feedback about ways you can make the offering better. For example, allow those in your test group to try your offering for 10 days and then ask them to complete a survey or participate in a face-to-face focus group discussion about what they liked or disliked.

Step 5

Change your plan based on your research as needed, and then conduct additional survey and focus group research. Repeat this process until you feel you have a product or service that can succeed with your target customers.

Step 6

Make a list of other factors, aside from customer opinion, which can affect the success of your offering. Such factors include natural or man-made disasters, economic changes, new businesses or emerging technologies. Make a list of alternative methods to attract customers, boost sales, or expand your offering to other markets if necessary.

Step 7

Estimate the initial and long-term costs for developing, releasing and promoting a product based on your research and cost estimates from those directly involved with the project, such as designers, manufacturers, advertisers, project managers and team members.

Step 8

Analyze all of your data to determine if you should move forward with your new product or service.¹⁰

By determining a product's lack of viability, you can save yourself future heartache and financial loss. However, if the viability is not in the market for your product or service, don't give up. You should consider other products and services and offer one that has the great potential. Remember, the business plan is as much about learning what you should not to do as about learning what you should do.

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2.3 Getting Financing

Although financing is covered in Chapter 11, it is important at this point to understand the role business planning plays when looking at how to finance your venture.

Consider a scenario where you have large sums of readily available cash and are looking for businesses in which to invest. Now picture an individual coming to see you about getting access to some of your money for a business venture; an impeccably dressed graduate of Harvard University walks in your office. The graduate pitches her idea which sounds impressive. However, when you ask questions regarding her plans, she simply says “It will all work out”.

Now consider a second scenario in which a high school graduate comes to see you and has a detailed business plan showing solid research and clear logical conclusion. Her product or service is solid and her plan shows moderate potential.

In which company do you invest?

When a bank or other lender considers a venture, their primary source of information is the business plan. Without a plan the lender cannot properly analyze a venture and therefore will simply refuse to proceed. However, with a good business plan, a lender is able to analyze data and decide if this particular venture is within their investment parameters. Although a business plan, even a great business plan, is not a guarantee of financing, not having one is certainly a fast way to failure, particularly regarding financing.

The Makeup of a Business Plan

Although there are many ways to write a business plan, the better business plans use some of the more common sections. The US SBA has a convenient resource that walks you through the business plan process and includes these areas:

Cover page

Executive Summary

Market Research

Product or Service Line

Marketing and Sales

Financial Projections

As this book is designed to help students build a business plan as part of a larger curriculum, you will be varying from this traditional approach, writing some sections in different order and delving more deeply into others. For the purposes of this text, you will approach the business plan in the following order:

1. Concept Development
2. Marketing
 - a) Product
 - b) Place
 - c) Price
 - d) Promotion
3. General Management and Operations
4. Accounting and Finance
5. Budgeting
6. Breakeven and Other Analysis
7. Bringing it all Together
 - a) Cover Page
 - b) Executive Summary
 - c) Conclusion/Wrap up Remarks
 - d) Appendix and Other Attachments

The importance of a business plan cannot be overstated. Without a solid business plan, you put your financial future in great jeopardy. By doing the work required, you significantly increase your potential for success.

2.4.1 Knowledge to Action

The templates needed for this book are available by sending an e-mail to info@practicalbusinessplanning.com placing in the subject line Bookboon template request. (Note: You will be placed on a mailing list for entrepreneurs. If you wish to be off of the list, you must purchase the templates at www.practicalbusinessplanning.com.) With each chapter, you will build on what you have learned and will ultimately have a business plan as a final project.

For this chapter you will go to the section Business Concept and write at least 1–2 pages summarizing your business concept. The concept can be revisited at any point, so try not to get bogged down into concerns you are having. Instead, get something on the page to get you started and return to it later as your concept takes better shape.

2.4.2 Critical Inquiry

Go to www.sba.org and find their version of a business plan. Answer the following questions:

- A. What do you like and dislike about this plan?
- B. Knowing what you know at this point, what can you do to strengthen this plan?
- C. If you were a lender reading this plan, what questions would you have?

2.4.3 Ethical Application

Monsanto is an American multinational, agricultural, and chemical corporation based in Missouri. In recent years, the company has come under greater and greater scrutiny for its business practices, and whether or not they are ethical in nature.

With a direct reach of over 66 countries worldwide, Monsanto is the leading producer of genetically modified (GM) seeds. In its early days, Monsanto was a manufacturer of detergents, pesticides and other chemicals. It even developed the famous, or rather, infamous, chemical, 'Agent Orange' that was used by the American military during the Vietnam War to inflict brutal casualties to the Viet Cong.

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So how did a company that made military weapons-grade chemicals begin supplying farmers with genetically modified seeds? Simple. In the mid-1980s Monsanto was patenting pharmaceuticals and made the jump in 1994 to seed and crop technology. Since this shift in product, Monsanto has been increasingly expanding its reach by acquisitioning global seed companies.

Ethical Issue 1: Bribery

On the front page of their company policy manual, Monsanto explains its stance on bribery, and firmly expresses that it is ‘strictly prohibited’. Unfortunately, in 2005 Monsanto came under fire for its bribery of an Indonesian official, which resulted in a \$1.5 million fine. The initial bribe was to be paid to Indonesian government officials in order to stop environmental impact studies from being conducted on its cotton.

There are the multifaceted ethical issues here. Firstly, we must remember that the bribery issue was never the primary ethical dilemma. It did, however, do a wonderful job at covering the real issue, which was the environmental impact of Monsanto’s cotton production. With a small fee of \$1.5 million, the company took the heat from the bribery scandal, and then continued with its cotton operations in the region.

Many companies often illustrate their intentions and true ethical standards when investigations into their business practices take place. Looking at Monsanto’s response to the allegations of bribery, a senior manager (not a low-level employee) directed an Indonesian consulting firm to give \$50,000 to a high-level Indonesian environmental official. Immediately following the fallout, Monsanto fired the “employee” in what they were now labeling a “subsidiary,” or secondary company, effectively distancing themselves from the spotlight. However, Monsanto was also found to have paid bribes to high-level government officials for years.

Ethical Issue 2: Unethical Profiteering

Many images come to mind when I think of “the Terminator,” namely Arnold Schwarzenegger riding a motorcycle and saying ‘I’ll be back.’ One thing that never comes to mind, or never should come to mind, is food. However, Monsanto has, since its early years as a seed producer, developed a gene within the seeds they sell to their farmers termed the “Terminator Gene.” This gene effectively removes a seeds ability to reproduce, causing the farmer to return to the company each year to buy more seeds.

This “patent on life” and abuse of low-income farmers is unethical. Ignoring the deeper issues of long-term environmental effects, as well as the effects to the world’s seed reserves from this sort of profit-minded behavior, should Monsanto be allowed to alter the very genetic makeup of seeds that are used to feed billions of people around the world? If so, who should be in charge of testing the data to determine if this behavior is safe for humans? The FDA, the United States’ Food and Drug Administration, does not conduct tests on companies, but rather, they examine the “self-tests” companies do on their own. This sort of testing can be easily manipulated, so are self-tests such as these ethical?

Ethical Dilemma 3: PCBs

Monsanto was the nation's largest producer of PCBs, a chemical compound used as a coolant, until it was outlawed in 1977 due to the fact that it is known to be cancer-causing in animals and humans. The dilemma came when allegations were confirmed that Monsanto had knowingly dumped tons of the chemical compound into streams which led directly to the local water supply. It had also buried millions of pounds of the chemical on hillsides overlooking local communities. The company paid \$700 million to settle claims but was not shut down for its gross negligence. Similar dumpsites can be found in the UK.

Monsanto's ethical dilemmas do not stop there. From the use of growth hormones which have been shown to cause cancer in humans and injury to cattle, to suing farmers for patent violation because the wind blew Monsanto seeds into an adjacent field, to the cause of cancers, allergies, and immune suppression disorders worldwide from genetically modified foods, Monsanto is seen by many as the ultimate example of a business that has no ethical standards for operation.

Your Turn: Look over the three ethical dilemmas and give examples of how Monsanto should have acted ethically for each dilemma. Search an ethical issue not listed among the three and describe the issue and how it could have been handled ethically.¹¹

2.4.3 Building Leadership Skills

Go to <http://freestrengthsfinder.workuno.com/> and take the free strength finder's test. (You will not need the expanded test results requiring a fee to be paid; however, you may decide to do so for your own edification).

- A. What are your strengths?
- B. Are you well suited for a profession in business? As an entrepreneur?
- C. What does this say about your leadership skills?
- D. Compare your results with the results of your team members. What have you learned about each of them?
- E. How can you each use the results to work better as a team?

2.4.4 The Global Stage

Using the three companies from Chapter 1, provide a 1 page historical summary for each companies.

3 The Concept

Your goals for this concept chapter are to learn about:

- How to develop a concept
- How to assess the viability of your concept

Many times the concept phase is either given (such as when you purchase an existing business) or has been bouncing around in your mind for some time. However, it is important not to be too casual about this phase of your plan. Although a restaurant selling hotdogs and hamburgers may *seem* obvious, the subtleties that separate you from others may not be so easy to see at first.

Let's consider for a moment a beauty salon. Each salon has basic functions such as shampooing, hair-cutting, permanents, coloring and other services typical for a hair salon. Some may even add manicures and pedicures, massages, or even tanning. However, the services are basically the same in many respects. So, how is a beauty salon concept not obvious?

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Recently, my son-in-law brought me a business card for a hair salon that focuses primarily on men. It has a sports theme with large televisions in a stadium-style waiting room. The employees wear sport shirts of local and national teams, and the rooms have themes such as a locker room.

Now compare this concept with the hair salon you last visited. Are these the same concept? Yes, they are both cutting hair and offer many of the same services, but are they the same concept?

When developing your concept, you should not only consider the practical, straightforward product or service offerings of your company, but the emotional nuances as well.

Consider again the typical hair salon seen in every city. How do you feel about it? Does it engender a strong emotion at all? Now consider the sports themed hair salon. How would that make you feel? Which salon engenders a stronger emotion? If you are a sports fanatic, the sports themed salon will likely excite you, making you feel something special about yourself and your experience with the salon. It is this feeling that will not only attract a certain clientele but will often allow for an increase in prices and profitability. This concept is covered in-depth in marketing but should be considered at this stage as well.

When developing your concept there are 5 main questions upon which you should focus:

1. Who are trying to attract?
2. What feeling are you attempting to engender?
3. Is there a market need for this emotion?
4. How will you be different from others?
5. How long will this opportunity last?

Who Are You Trying to Attract?

Your first reaction to the question of who you want to attract may be, well...everyone, but that is most likely not the case. Much like the beauty salon focusing on men who love sports, your business will have nuances that focus on a specific demographic. It is this demographic that you will focus your attention regarding marketing and other critical decisions for your business.

To best determine who you want to attract, consider in your mind's eye your first week of business. What does it look like? Who do you see coming in the door as your customer? It is that person on which you want to focus your attention.

What feeling are you attempting to engender?

According to the demographic you are targeting, your business should engender a feeling for the customer. Everything from the color of the walls to the music playing in the background all set a mood that should be attractive to your customers. In the case of the sports-themed beauty salon, the stadium seating, sports networks on the televisions, and the staff wearing jerseys all engender a feeling of being in a sports stadium. People who do not like sports would not be attracted to this theme, but the target market, likely young males, will be very attracted to this theme and will not only come to the salon, but will likely pay a premium for that feeling.

Consider the last time you bought clothes or at least shopped for them. You can buy clothes in many different outlets, but you chose to buy from that store in particular. Why?

If you shop in a mall, you have likely experienced clothing stores that have very scantily clad young people on large posters outside the store and modern loud music playing inside. Obviously this store is not trying to attract a seventy-year old grandmother. So who are they trying to attract? Clearly they are targeting a young demographic and have focused the feel of the store to that narrow audience. When their customer buys from them, the customer receives a feeling much more about the store than about the actual clothing purchased. It is that feeling that is incredibly important when developing the concept for your business.

Is there a market need for this emotion?

So, now that you have some idea of the feeling or emotion you want to engender in your audience, you need to ensure there is an actual market for that emotion. Not all feelings have the same appeal and yours may be too narrow to be viable.

It is important to point out at this stage that you should not fall too madly in love with your concept. Remember, the purpose of a business is to make money. If your great idea will not make you money, or enough money to make it worth your while, then move on to another idea.

If we look again at the sports themed beauty salon and agree that the major audience for this emotion is young males (Yes, women like sports too, but not in the same numbers), it would not make much sense to place this salon next to an all-female university. However good the idea is, it has to match the market need.

How will you be different from others?

Although there are some very original ideas, most are not original and are simply an attempt to build a better mousetrap so to speak.

How long will this opportunity last?

Every idea, regardless of its impact on society, runs its course. That course may be short lived or may last many lifetimes, but eventually something will come along and replace it.

This book, just 20 years ago, would need to have been printed and distributed via bookstores can now be viewed electronically or ordered online and shipped directly to your home. This seems very normal to us now, but when the printing press was invented it would not have been conceived of.

Of course there are myriad other questions you may ask, but these five are good start. As you progress through the business plan, particularly in the marketing section, these and other questions will be answered, and your concept will be strengthened, increasing your potential for success.

3.1 Knowledge to Action

Using the template provided by this book or available at www.practicalbusinessplanning.com), you will begin to write your business plan. With each chapter, you will build on what you have learned and will ultimately have a business plan as a final project.

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For this chapter you will go to the section Business Concept and write at least 1–2 pages summarizing your business concept. The concept can be revisited at any point, so try not to get bogged down into concerns you are having. Instead, get something on the page to get you started and return to it later as your concept takes better shape.

3.1.1 Critical Inquiry

“New Coke”

In 1985 the Coca-Cola Company came out with a new formula that was eventually known as “New Coke.” The new formula was an enormous failure and lead to the eventual return to the old formula.

1. Considering Coca-Cola’s vast resources, why was this new concept a failure?
2. List two failed products and two successful products that are similar to one another.

Compare and contrast those concepts.

3.1.2 Ethical Application

“Save Money, Live Better”

With a slogan that makes two very attractive promises, Wal-Mart Corporation boldly claims to be, not only the supplier of all the needs of the modern American family, but a way to save a few dollars whilst making your life better.

As subjective and misleading a statement like this can be, we are not looking into the ethics of Wal-Mart’s slogan, but rather the ethicality of their business practices. Wal-Mart is, however, the world’s largest private employer with over two million employees, as well as the world’s second largest corporation.

Ethical Dilemma: “How do you save all that money?”

Wal-Mart is known for its relentless approach in offering its customers the lowest possible prices, but does that lower price come at a cost too great to be offset by the short-term gains of a few extra dollars in your pocket? Many believe the answer to that question is a resounding “Yes.” Small businesses around the country have been pushed to bankruptcy and outsourcing due to the unbeatable competition from Wal-Mart.

In nearly every town and village across Europe you can find butchers, shoemakers, music stores, and local famers’ markets. These businesses are what drive not only economies, but also job creation and skilled labor careers. In the United States, this was once also the case; however, large retail giants like Wal-Mart have offered customers prices that are impossible to match by these local shops.

Customers, thinking they will save a little bit of cash, opt for the national retail chain, and the doors of small businesses everywhere close for good. The short-term losses are in the jobs of shop owners and employees, but the long-term losses are in the decimation of entire career fields whose skills have been lost.

Other long-term effects are direct results of Wal-Mart's business practices. Wal-Mart not only offers low prices to its customers, but it also demands these low prices from its suppliers. For example, Levi Strauss, the American clothing company that introduced the world to blue jeans, was a top player in the business. Unfortunately, customers are increasingly buying jeans from Wal-Mart due to their low prices, and in order to stay in business, Levi Strauss must now sell their jeans in Wal-Mart stores around the country.

The problem with this union is that Levi's Jeans were originally prided for their American-made quality, providing skilled labor and jobs to thousands of American workers. However, once Wal-Mart became Levi's largest seller of jeans, they began to demand lower-prices of the brand. In order to meet these demands, Levi Strauss had to fire nearly its entire American workforce and outsource its manufacturing to Mexico where labor is cheaper. Other companies like Master Lock, Vlasic, and Nabisco also found themselves in the same predicament as Levi Strauss.

Another issue that, while not illegal, could be considered unethical, if not also a major conflict of interest, is Wal-Mart's routine demands to see the financial reporting of its suppliers in order to find out where they need to make cuts in order to maintain their low prices.

Some may ask why these suppliers don't simply cut ties with Wal-Mart and choose to sell elsewhere. The problem is many of these companies would be run out of business by competitors that took a deal with Wal-Mart, the world's largest retailer. In order to stay viable and successful, these companies and suppliers made deals that would inevitably hand over control of their business to Wal-Mart.

Small towns that once had factories filled with skilled laborers in trade industries have seen their and the laborers turn to unemployment. Factories and small businesses that once supplied the needs of small towns and cities have been replaced with huge retail stores filled with low-quality merchandise manufactured in foreign countries, and Wal-Mart, the very company that helped cause the collapse of these industries now employs the resulted abandon workforce. On other words, small businesses owned my families are not gone and those same families work for Walmart and a large decrease in pay.

Once, a long time ago, Wal-Mart prided itself of American-made products, at least on paper, but in its drive for being the cheapest retailer in the business, quality has been set to the side, and its slogan has demonstrated the change in ethics. Now, the slogan reads, 'Save Money...' which seems to me more accurate of Wal-Mart's real ideals: driving all competition to extinction by selling products as cheap as possible. Unfortunately, or rather fortunately, this sort of practice is self-destructive. When you cut the ground out from under a pyramid in order to build it, it will inevitable crumble.

Discussion questions:

1. Though Wal-Mart may not be breaking the law by some of its business practices, are they ethical? Give specific examples. Also, give a scenario in which one of the ethical dilemmas that Wal-Mart has faced in recent years could have been handled better.
2. Answer in essay form (give at least two paragraphs and cite sources when necessary): Should financial gain be the ultimate objective of a business? Does the Wal-Mart approach to business leave the customer and the economy better or worse off than before?

3.2 Building Leadership Skills

For this exercise, you will choose a leader of a for-profit organization to interview. This leader does not necessarily have to be at the highest level in the organization but should be someone with many years of experience on which you may draw.

Go to this interview prepared with at least 10 questions about leadership. An example of a question you may ask is, “What have been your biggest successes and failures in leadership?” or “Who is your favorite leader?”

Prepare a journal on the lessons you are learning about regarding leadership and how you are applying them in your life.

3.2.1 The Global Stage

From what you have learned regarding the three multinational companies from chapter’s 1 and 2, how have their products changed over the years? How did they change their products to best suit your country’s needs?

4 Marketing

Your goals for this marketing chapter are to learn about:

- What are the 4 P's of marketing
- What ways are there to advertise and market

Marketing can be an enormous amount of fun for a new business owner. Through it, you get to “yell from the hilltops” the exciting news of your great product. The decisions made in marketing, however, are more complex than initially thought, but with proper planning, these decisions can be an effective tool in driving the sales in your company.

It is important to understand that advertising is just one part of marketing. Marketing can include public relations and civic service in addition to advertising. To properly market your product or service, you need to approach the marketing in as many ways as necessary.

Marketing is best presented through the **Marketing Mix**. The Marketing Mix is also called **The 4-Ps of Marketing**. The 4-Ps are **product, price, place** and **promotion**. Each “P” is identified separately, but they work together to promote the right product in the right place and at the right price.

A woman with dark hair is shown from the chest up, covering her eyes with her hands. She has a distressed expression. The background is a light blue gradient with faint green leaf patterns. To the right of the woman, the text "What do you want to do?" is displayed in a large, white, sans-serif font. Below this text is a block of text about career opportunities at Volvo. At the bottom right, the Volvo logo is shown with the text "AB Volvo (publ)" and the website "www.volvolgroup.com". A horizontal bar at the very bottom lists various Volvo divisions: VOLVO TRUCKS | RENAULT TRUCKS | MACK TRUCKS | VOLVO BUSES | VOLVO CONSTRUCTION EQUIPMENT | VOLVO PENTA | VOLVO AERO | VOLVO IT | VOLVO FINANCIAL SERVICES | VOLVO 3P | VOLVO POWERTRAIN | VOLVO PARTS | VOLVO TECHNOLOGY | VOLVO LOGISTICS | BUSINESS AREA ASIA.

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4.1 Product

There is significant overlap in the product and concept. Where the concept focused on the big picture of your product and services, in the product section we will focus on more of the specifics.

Once you have the concept in mind, you should now think about the following:

1. Is there a single product or does it have many separate categories? An example would be for a clothing store which sells men's, women's, and children's clothes.
2. Who will be supplying this product? Am I manufacturing the product from scratch, or am I buying from a supplier?
3. If manufacturing the product, who is doing the engineering, beta testing, etc.? (You should have a separate section of your plan just for the manufacturing that answers these questions as well as covers your overall production facility, production lines, including plant and equipment, quality assurance etc.).
4. If buying from a supplier, identify who these suppliers are, what the lead time is for orders, what the shipping cost is, etc.
5. How will my office or store be presented to customers? Will it be a physical location or virtual space (web presence) or both?
6. What will my sign look like? Will I have a logo? Who will be designing the logo and preparing the signs?
7. What colors will I be using? Are these appropriate for my target audience?
8. How will I present my product in an appealing way? (Consider everything from shelving to label and signs at this point.)
9. Will there be music playing? If so, by what medium and what will be the cost on that?
10. From the time the customers come to your store (or website), what will be the total experience? Consider everything from the welcome to the checkout process.

These are just a few of the things you need to consider regarding your product. Each product or product line is different and will need great consideration to ensure you are maximizing your potential success and profitability.

If your product is something others already sell, do some research by going to a competitor's site or store and purchase something. Find out what they are doing right and wrong. How will you differentiate your product?

After considering all these questions and many more, revisit your product and make any changes. The time to change is in the planning process, not once your product is on the shelves.

4.2 Price

You're probably thinking, "Why isn't this covered in the accounting section"? While it certainly is accounting based, it actually is a very important part of your marketing plan, as it effects every facet of your business including sales volume and profitability.

Pricing can be a very complex issue for most people. Often entrepreneurs simply guess at the price they want to charge, thinking "if I build it, they will come." Well, it is not that simple. Pricing is one of the most important decisions you will make as a new business owner. It needs to be taken seriously as it will affect your business at every level.

So, how do you price your product? Many times, pricing will be driven by your competition. You must be careful, however, that you do not allow your competition's improper pricing make you unprofitable as well. You must take into account many variables, only one of which is competition. Other variables are your industry norms (see your accounting section for more details), information from your local business association, your fixed cost and your cost of materials and labor, just to name a few.

You need to determine your cost of labor and materials to make your product. If you are buying from a supplier, this is simply the wholesale cost plus shipping. If manufacturing, this should be covered in the manufacturing section of your plan which is beyond the scope for this book.

Using the excel workbook from appendix A, you can put in the cost variables estimated and see the results on the pro-forma statements. This will give you a good idea if you are not charging enough given your cost of production/purchasing plus other costs such as rent, utilities, salaries and wages, etc.

Once you are happy with the price, compare it to your competitors. Are you competitive? If your prices are too high, can you make this work? If your prices are too low, should you increase the cost, or are you trying to be the price leader to attract customers?

4.3 Place

Placement of your product or service is undoubtedly the most difficult part of the marketing plan for most businesses. You may have a great product with a great price, but you need to remember that stores are inundated with requests to sell new products. Grocery stores are so cramped for space that in order to sell in them you often have to pay a slotting fee just for them to put your product on their shelves. This fact makes the food industry one of the toughest to penetrate. However, a great plan can help you overcome even the toughest of situations.

If selling through a retailer (in other words, someone else is selling the product you are producing), you need to consider the following:

1. What stores or other outlets will be selling your product(s)?
2. Have they agreed to sell your product? Do you have a contract or some other agreement?
3. How will you distribute this product (delivery, shipping, etc.)?
4. Will you need to pay a fee to put your product on the shelves?
5. What will you be responsible for as far as shelving, displays, advertising/presentation, or anything else that could increase your overall cost?
6. Are you responsible for promotions such as buy one get one or other promotional activities?
7. Is your production capacity able to meet the estimated needs

If you are going to sell your product directly to the consumer in a retail style space, you should consider the following:

1. How much space will you need for retail space and for storage?
2. What system/software, etc. will you be using for cash registers?
3. What will you need for displays (shelves, hangers, etc.)?
4. How will you make the interior attractive and best display your products?
5. How will you be drawing customers in? Signs, banners, etc.?
6. How will you minimize theft/loss?
7. What will be your initial and ongoing inventory needs?

If you are going to sell product via the web, the following should be considered:

1. Who will build and host your site?
2. How will you distribute/ship product?
3. How much will shipping costs be?
4. How will you attract people to your site?
5. How much inventory will you need to have on hand at any given moment?

Regardless of the way you will be selling your product, you need to give significant consideration in making these more detailed decisions, as your success will depend largely on the decision you make early on in the process.

4.4 Promotion

There are myriad ways to promote your business. They may include advertising in your local newspaper to being on a lecture circuit or advertising in trade publications. Individual businesses need individualized promotional activities. If you are a mine equipment manufacturer, advertising in a large city's newspaper is not likely your best avenue. However, for a local pet shop, it may be just the ticket. As stated earlier, this varies widely from business to business.

As the marketing budget for your product or service is limited, you want to ensure you get the most bang for your buck to assist you in deciding the best avenue for advertising and promotion, I have listed below several methods with corresponding comments.

Newspaper

The local, regional or national newspaper can be an excellent way to market some products or services, but certainly not all. Assuming, however, that you believe the newspaper is appropriate for your product or service, there are many decisions you need to make including which newspaper, your budget, what day(s), how long and placement. There are no hard and fast rules to make these decisions.

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One way to help make these decisions is to look at your competitors. Are they running ads? If so, when, how big and where are they placed in the newspaper? However, you need to be careful as your competitors may not be doing a good job regarding marketing and following them may get poor results.

A second way is to make your decision is trial and error. By experimenting and tracking the results, over time you will find out what works best for you. This, however, can be expensive, so make sure you do research for your industry first and then do your experiment.

For public relations, a newspaper can be very effective. Most newspapers are looking for good stories and often will give attention to businesses that advertise with them.

One way to get free public relations for your business is to use the announcements section. This section lets people in your area know of promotions and changes of personnel in the company. Through this you can essentially get a free advertisement while letting potential customers get to know your employees names and faces.

Another effective way to get free public relations in the newspaper is to sponsor charitable events in your area. By sponsoring the event, the newspaper, when doing a story, will mention your name prominently, many times with a picture.

With all marketing, it is important to track your results. You can do so through a variety of methods including questionnaires, simple conversations with customers, or placing promotional identification in the ad (i.e. have the customer tell they saw it in the newspaper for a 10% discount).

Television

Television advertising can be very expensive, but can also be very effective in reaching a certain audience. If your budget allows and you believe television is a good investment, you should contact several stations in your area as well as cable and satellite providers. Ask each of these providers to send you a package detailing their demographic focus and cost. You will then consider this information, along with the days of the week and times of day you wish to be seen.

Not all television commercials are created equal. I am sure you have seen both good and poor examples at both the local and national level. It is crucial that you weigh your options, relative to cost, to get the kind of advertisement you want as it is a reflection of your company.

Radio

Often radio salespersons will speak about “top of mind awareness” when selling radio ad space. What this means is when a radio listener hears an ad several times, they will think of your product or service when they have need. For example: If you are an urgent care medical facility, you want people to think of your name if and when they become ill or have an accident.

Radio can be effective, but similar to television, you must be careful that the quality of the ad is a proper reflection of your business. A “do it yourself” approach is not often best for marketing, particularly for television and radio.

Trade Publications

Trade publications and journals target a very specific audience. Therefore, if you want to attract customers in a narrow field, such as surgical equipment or software for a specific industry, trade publications and journals is likely the way to go.

In designing advertisements in this medium you should consider that your audience is likely well versed in your field and therefore a broad based appeal may not work. Instead, consider using your ad as a means of education about your product or service.



Non-Trade Magazines

Also called popular press, non-trade magazines appeal to a less narrow group of people, but still have a target audience that you need to consider. For example: If you are a plumbing contractor, advertising in a travel magazine doesn't make sense. Instead, choose the best magazine by looking at the target audience and see the advertisement through the eyes of the readers.

Internet

Direct Mail

Statistically, a direct mail campaign is going to typically see a return of 2-5%. Therefore, when using a direct mail campaign, you must look at the cost for the printing and distribution compared to the potential sales and profit margin. Although direct mail can be very effective, the cost can be significant.

Face-to-Face with Consumer

By far the most difficult way to market a product or service is through "cold calls". Cold calls are when you, as a salesperson, approach a potential customer without benefit of an appointment. Results for this type of marketing vary widely according to industry.

Trade Shows/Conventions

Similar to trade publications, a convention allows you to market directly large groups of people who may already be inclined toward your product or service. Cost for being a vendor at a convention can be anywhere from free to many thousands of dollars.

When marketing at trade shows, consideration must be given to travel costs (hotel, airfare, shipping etc.) as well as the cost of a professional booth. There are many companies on the internet that specialize in trade show/convention setups, both to rent or to buy.

Speaking Engagements

Speaking engagements are a great way to place your company as the authority or expert in your industry. If you are a gifted speaker, it is possible to be paid to speak on a subject while at the same time marketing your business.

There are many other ways in which you may promote your product and you will need to do some research to make sure your marketing dollars are spent in such a way as to maximize effectiveness.

4.4.1 Knowledge to Action

For this chapter you will go to the marketing sections of your business plan template and write your plans for the marketing of your venture. Again, get something on the page to get you started and return to it later as your plan takes better shape.

4.4.2 Critical Inquiry

Watch and/or listen to 5 separate commercials on television, radio, or computer.

Compare and contrast those commercials, indicating how effective they were in marketing to you.

What was your overall impression of the commercials? What lessons from these commercials can you apply to your own plan?

4.4.3 Ethical Application

Enron

Enron was a giant American energy corporation caught in a scandal that caused the largest bankruptcy reorganization in the United States at the time. To briefly summarize, Enron executives were trying to inflate stock prices in order to make larger returns on their stock packages. In essence, CEOs and top executives of corporations were typically able to make incredible personal gains on stock options; however, these costs were not presented in their financial reporting, which, in effect, made their quarterly and annual financial reports to investors look inflated.

When the executives of a corporation get hired, they often have benefit packages that can include hundreds, thousands, or even tens of thousands of stock options. This means when the stock goes up a few dollars, they can profit by measures in the hundreds of millions. This puts great pressure on these executives to make sure stock numbers are high and stay high. Unfortunately, guaranteeing this in a legal and ethical way is simply not possible, as there is not a perfect way to ensure ever-increasing stock prices. Therefore, Enron needed to create, for itself, greater demand and higher profits.

Enron was also a player in the risk management industry and used loose legislation to dock huge revenues in the trades it managed. In short, they were reporting not only their personal costs of brokerage and transaction fees for managing their clients' deals, but also the entire transaction costs themselves. For example, if Company A was selling Product X to Company B, Enron would serve as a risk manager and provide a medium for the trade to take place. When reporting, they would list not only their fees, but also of the products traded. This is called the "Merchant Model" and is considered unethical due to its misleading nature.

Larger problems would arise for Enron due to the deregulation of the industry caused by lobbyists and political conflicts of interest. Furthermore, the power shortages it single-handedly caused in California would create confusion and disorder across the state as Enron would redirect power and simply shut it off, citing maintenance and supply issues. It would then send the prices for energy through the roof to capitalize on the scenarios it created.

Underlining factors that supported Enron's "perfect storm" were the attempts by lobbyists and Congress to deregulate the business under the banner of job creation. Unfortunately, these shady practices proved to kill job creation and promote greed and wealth accumulation for a select few. Other factors were the systematic failures of checks and audits by professionals sworn to uphold the standards. The boom of the 90s would see the standards for business practices taken from beneath the watchful eye of strong regulators and placed in the hands of the industry itself, hardly a reliable self-regulator.

Consider the failures of the accounting firm, Arthur Andersen, and its direct involvement. How did they create unethical situations and what should they have done differently? (This information can be found online.)

Were executives at Enron solely to blame for following unethical business practices that were often legal? How much emphasis should be placed on social responsibility for large corporations, and how much emphasis should be placed on government regulation?

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List three unethical situations encountered in the Enron scandal, and explain how they could have been avoided.¹²

4.4.4 Building Leadership Skills

One of the most difficult leadership skills is the ability to delegate. A leader must delegate in order to expand their sphere of influence. However, they also must be able to measure and manage those to whom they delegate in such a way as to maximize that person's potential while ensuring the task is completed timely and to a high standard.

For this exercise, you will choose a class member (or maybe one assigned by your instructor) to whom you will delegate a task. The task you will assign must not take the fellow student less than 30 minutes or more than 1 hour to complete. The assignment should include research or the completion of a task that requires no money to be spent by the student and can all be completed via computer and/or internet.

You must report on the following:

1. Give a description of the task.
2. To whom did you assign the task?
3. How did the student react to the task?
4. Report any follow-up you have with that person.
5. How did you measure the success or failure of the task?
6. Where could you improve upon your leadership based on this assignment?

The student to whom you delegated will report the following to the instructor:

1. How well was the task explained?
2. How reasonable was the task? Too easy? Too hard?
3. Did you feel supported? How?
4. Did you feel micromanaged? Explain.
5. What overall comments regarding the leader's delegation and leadership do you have?

Turn the assignment into your instructor as advised.

The Global Stage

Choose one of the companies from chapter 1 and show how the marketing in its original country differs from the marketing in your country. How and why is it different?

5 General Management and Operations

Your goals for this general management and operations chapter are to learn about:

- *Various theories in management*
- *The daily activities of a manager*

Operating a business can be exciting and fun, but it is also a matter that you must take very seriously in order to succeed.

So, what is management? Businessdictionary.com does a great job of defining business and expanding on the definition by stating:

1. “The organization and coordination of the activities of a business in order to achieve defined objectives. Management is often included as a factor of production along with, machines, materials, and money. According to the management guru Peter Drucker (1909–2005), the basic task of management includes both marketing and innovation. Practice of modern management originates from the 16th century study of low-efficiency and failures of certain enterprises, conducted by the English statesman Sir Thomas More (1478–1535). Management consists of the interlocking functions of creating corporate policy and organizing, planning, controlling, and directing an organization’s resources in order to achieve the objectives of that policy.
2. The directors and managers who have the power and responsibility to make decisions and oversee an enterprise.

The size of management can range from one person in a small organization to hundreds or thousands of managers in multinational companies. In large organizations, the board of directors defines the policy which is then carried out by the chief executive officer, or CEO. Some people agree that in order to evaluate a company’s current and future worth, the most important factors are the quality and experience of the managers.¹³ Knowing the definition is certainly important, but how does this affect you as a new business owner? In this chapter, I want us to explore what “managing” a business is really all about. In other words, what will you need to know for your plan, and then what will you be doing on a daily basis as you operate your business? However, let’s look at some basic management theory first.

5.1 Management Theory

Contingency Theory

As the word **Contingency** indicates, this theory is based on the principle that managers will make decisions according to the situation they are dealing with at the time. This approach is commonly used in cultures, like the United States, that have high levels of independence. This approach leaves managers to determine the best approach for their particular group and is often appropriate for smaller organizations and some larger ones as well.

Systems Theory

A Systems Theory approach to management is a much more regimented style of management and is often used in more autocratic organizations and cultures. Many large organizations use this style of management as it allows uniformity across many departments and/or divisions. This approach may be used for smaller organizations but may seem heavy-handed to employees who are used to a more casual, familial environment.

Chaos Theory

Chaos Theory recognizes that organizations are ever-changing as they grow and face new opportunities and challenges. This theory works well with other theories and approaches as your organization evolves.

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Theory X and Theory Y

Theory X and Theory Y assumes that workers fall into one of two categories: either they are naturally lazy and lack ambition, or they are naturally driven and will take responsibility.

In Theory X, workers are not encouraged to take any role or responsibility in management or leadership; instead, they are given structured assignments that are closely supervised.

In Theory Y, workers are encouraged to participate in decisions and are more autonomous in work schedules, workloads, etc.

Scientific Management Theory

Developed by Frederick Taylor around the turn of the 20th century, the Scientific Management Theory espoused measurement of all organizational tasks. Everything that could be standardized was, and workers were treated similar to school children as they received either reward or punishment for their activities. This was typically used (and sometimes still is) in assembly line or other manufacturing facilities.

Bureaucratic Management Theory

In the 1930s and 1940s, Max Weber expanded on the scientific approach, adding hierarchies and strict lines of authority and control. Today we call this the **Bureaucratic Management Theory**. Weber espoused the belief in standard operation procedures throughout an organization.

Human Relations Movement

Human Relations Management is the approach most used in industrialized countries today. This approach looks at the individual, their needs, and what they can offer the company. This approach also looks at how to maximize one's potential and therefore see increased profitability through worker retention and satisfaction.

Management and Your Business Plan

Theory can be important as you consider how you, as a business owner, want to manage your company. However, for your business plan you will want to detail more of how you are structured and less of your management theory. The average financier does not care about theory but wants to know you have a structure in place that will be adequate in meeting your business needs.

One way to best express your structure is through an organization chart. Illustration 5.1 shows how you may design your organization. Keep in mind how information will flow through your company as it grows as well as what employees will be needed and supervised.

Two functions to consider are:

1. **Line Function:** The function or position involved in daily decision making
2. **Staff Function:** Non-decision or advisory positions such as accounting (non-management level), production employees, etc.

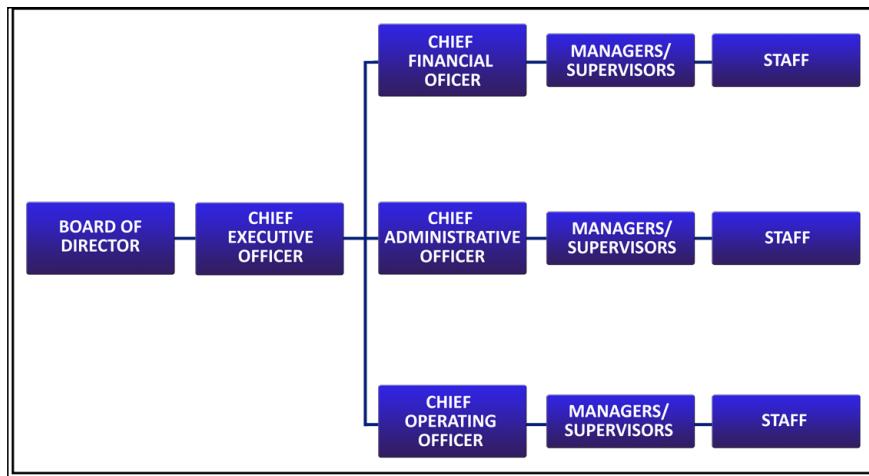


Illustration 5.1

In your plan, you should refer to your organization chart and talk about key employees, hiring strategies, managerial approach, etc. You may include short biographies of key players, but place resumes at the end under attachments.

5.2 The Daily Activities of a Manager

Now that you know some theory and what you need to put in your plan, let's take a look at what a manager often does on a day to day basis. For this book we, of course, assume the manager is also the owner.

As an owner/manager, you are in a position to lead your company into great places. You will be involved in everything from hiring, firing, supervision, goal setting and myriad other activities. In short, you are responsible for just about everything in the business. That doesn't mean you have to actually do everything, but, ultimately, you are responsible.

Let's look at a few specific tasks for which you, as a manager, will be responsible.

Hiring

One of the most difficult roles of a manager is that of human resource management. Hiring is a critical part of human resource management and ultimately sets the stage for a business' and employees' success or failure.

In *Good to Great*, Jim Collins uses an analogy wherein your business is a bus. You have many seats on a bus, but each one has a specific function and is best designed for a person with a specific set of skills or gifting. The key is to get the right people on your bus (in your organization) and then get those people in the right seats on your bus (the right position).

Although there are many ways to interview potential employees, as well as methods of testing for personalities or skills (such as Myers Briggs MBIT® or others), the important thing for you as a small business owner is to check references thoroughly and spend time developing your own skills as an interviewer. There are many ways to interview and an unlimited number of questions you may ask, but the more skilled you are as an interviewer, the more time will be saved in training, turnover, etc. The World Wide Web has literally millions of sites that you can access to learn how to be a great interviewer, and you should take advantage of this information before you start the hiring process.

Firing

Firing is quite simply one of the most difficult things for a manager to do. It is traumatic for the employee and stressful for all concerned, including other employees. That is why the hiring process should be your focus. Although you will most likely have to fire employees, you want to minimize this activity by investing time up-front.



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It is important to understand the legal implications behind firing an employee. Each jurisdiction has different rules, such as what documentation is needed, when the last paycheck must be given, etc. You should consult your attorney before you hire your first employee to ensure you are meeting all legal requirements for both hiring and potentially firing.

Organization and Departmental Objectives

A much less stressful, but equally important role of the manager is to set organizational and departmental objectives. In order for employees to all be marching in the same direction, you, as a leader, must determine objectives that are understandable and achievable for the organization, departments, and individual employees.

It is important that you involve all managers when setting your organization objectives. If your managers have “buy-in” to your objectives, they will most likely then become everyone’s objectives throughout the company, and they are more likely to succeed. Furthermore, if your managers are involved during this process, they can assist you in heading off potential problem areas or give you a “check” if you are being too aggressive. However, it is also important to lead your managers in a balanced way that allows for feedback but does not deter you from achieving your ultimate goals.

Planning

Once objectives have been established, the planning process can begin. Essentially, the planning process takes the established objectives and puts into place a plan of action to achieve those goals. Planning is a more exhaustive and detailed process than the setting of objectives and may include such details as human resource requirements, budgeting, processes, and equipment needs, just to name a few.

According to the complexity of the plan, software may be needed to forecast and track the process over time. Many industries have specific software to assist in this process, but there are many programs already developed and readily available on the open market.

Directing

A large amount of your time as a manager will be spent directing subordinates in daily activities. This time can be mitigated by delegating some activities to your managers/supervisors, but ultimately you will be tasked with staff direction, either firstly or indirectly.

Many days a manager may feel like a firefighter, putting out little fires all day long. Other days may be spent planning or talking to staff to ensure morale is high, but each day will be different, requiring agility and flexibility in your schedule.

Controlling

The old adage, “you can’t manage what you can’t measure,” is important to remember. It is impossible to determine how a particular objective is being met if there is no plan. Furthermore, if you cannot objectively measure the progress of a plan, how will you determine success and failure on a daily basis?

Reflection and Adjustment

It is important that you, as a manager, take time to reflect on your decisions and how your company is performing. It is easy to get caught up in the daily whirlwind of activities, leaving you exhausted at the end of each day with hardly a minute just to think.

Take time, each day, to reflect on your work. Even if it is only a few minutes, write down your thoughts, how you can do better, and what your tasks are before the end of each day. As you come to work each morning, you can then look at your list and plan your day accordingly, being better prepared for whatever may come your way.

Another way you should reflect is either as a group (all managers) or as an organization. Allowing employees to vent frustration is a great way for you to keep your hand on the pulse of your operation. It is also a great opportunity for you and others to assist one another in problem solving.

5.3 Summary

Managing a company can be exhilarating and a great deal of fun, but it can also feel, at times, like an anchor tied around your neck. It is important to plan your time wisely and reflect on your days to keep everything balanced and in the right perspective. Through balance you can find a place of satisfaction as you manage your business.

5.3.1 Knowledge to Action

For this chapter, you will go to the section General Management and Operations and write at least 2–3 pages on management structure, qualifications, and your personal qualifications. If you do not have extensive business experience or training, you can either draw from your life experiences or incorporate the resume of a CEO who you will hire and who will give strength to your plan. Once again, the section can be revisited at any point, so try not to get bogged down into concerns you are having. Instead, get something on the page to get you started and return to it later as your plan takes better shape.

5.3.2 Critical Inquiry

Research the “Hedgehog Concept” Jim Collins postulates in *Good to Great* and answer these questions:

1. Do you agree or disagree with this concept? Explain.

2. Can your plan be strengthened by this concept? Explain.

5.3.3 Ethical Application

In previous chapters, we have looked at some of the ethical cases business can present. In this chapter and following chapters, you will be tasked with looking at your own individual integrity, your ethical response to situations, and how you can prepare for challenging decisions in your future.

For this assignment, you will answer the following question and reflect on your answer.

If you were presented with an opportunity to rob a large, seemingly faceless bank, and you were certain you would never be discovered by the bank, the law, or anyone close to you, would you do it? How about if the amount in the bank was only \$100? How about a million? How about a *billion*?

Now, answer honestly. Do you have a price? How does that make you feel? How do you think your classmates will answer? Does everyone have a price?

Share your findings with your professor who will aggregate the class information and facilitate a reflection on the findings.

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5.3.4 Building Leadership Skills

One of the most important traits of a good leader is the ability to stay positive. For this exercise, your instructor will assign four students to rate you on the following questions:

On a scale of 0-10, with zero being strongly disagree and 10 being strongly agree, rate the student for whom you have been assigned.

1. This student is positive in most aspects of life.
2. This student is positive and encouraging in the way they interact with other students.
3. This student remains positive under pressure.

This rating has no bearing on your grade and is only to be used as a tool from which you may learn how to be a more positive leader.

Upon receiving the aggregated information (you will not know what students were assigned this task for you), you should read, reflect, and journal on how you may improve in this area.

5.3.5 The Global Stage

Given the cultural differences between your country and the country of origin in any two of the three multinational companies, name three (for each of the two) challenges managers may have. Explain how managers may overcome these challenges.

6 Accounting and Finance

Your goals for this accounting and finance chapter are to learn about:

- *The importance of accounting*
- *The accounting cycle*
- *Financial statements*

The idea of accounting strikes fear into the average entrepreneur. The principles seem so foreign to the average person that the subject is compared to that of nuclear physics or some other topic that seems impossible for us to comprehend. However, accounting is one of the most important subjects for an entrepreneur. By mastering its basic concepts, an entrepreneur has a powerful tool to measure past success and predict, within reason, the future of the company. So, don't glaze over on this chapter, but instead learn these basics and prepare yourself for success. Even if you are going to have a CPA do your accounting, you still must know these basic principles. Trust me on this. Take the time to learn these principles and save yourself many headaches later.

6.1 Accounting Basics

Step One

The most basic accounting principle is called the accounting equation. It is very simply this: Assets = Liabilities + owners' equity. You're probably going, "OK, I am already lost". Well, you're not. This is an elementary concept which you will learn very quickly.

Let's think of your personal finances. You have a house, a car, some furniture. You also may have some cash, bonds, stocks etc. These are all assets that you possess. Now, let's look at what you owe. Your loans, credit cards etc. are all your liabilities. For your equity (net worth), you simply take the assets minus the liabilities and the remaining is your equity.

Illustrations 6 1 Personal Financial Statement

Assets

Cash	2,500
Home	200,000
Car	25,000
Furniture	22,500
Total Assets :	250,000

Liabilities And Equity

Please Change	175,000
Car Loan	20,000
Credit Cards	5,000
Total Liabilities	200,000
Equity	50,000
Total :	250,000

Assets (250,000) = Liability (200,000) + Owners Equity (Please Change)
250,000 = 200,000 + 50,000

So, why does the equation say A=L+OE instead. Well, it is simply basic algebra where you subtract it on the left side as well as on the right side get A-L=OE. Fairly simple. If it has been a while since algebra class, just take my word for it. The understanding will come later.

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Stay with me now. This step is where you may want to throw your hands up and quit. Once you get this concept, however, you are 75% of the way there.

Step Two

In today's economy, almost all of us have a debit card as well as a credit card. You probably have never stopped to think why they are called that. (Note: Debits and Credits for our purposes are exactly opposite of that on the bank side of the transaction) In this section, you are going to learn the basic principle of debits (DR) and credits (CR).

So, what does Debit mean for accounting. It simply means left. Yes, that's correct. Now guess what credit means. You got it, right. So how does this fit in with step one. To show you in the simplest terms, we have what are called T accounts. These T accounts allow us to illustrate the principles of accounting in a way that makes sense. For ex: if we take the figures in table one for your personal finances, it would look like this on T accounts.

Illustrations 6.2

Assets	=	Liability	+	O/E
Cash (2,500)		Home Mortgage		Equity (50,000)
Home (200,000)		(175,000)		
Furniture (22,500)		Car Loan (20,000)		
Car (25,000)		Credit Card (5,000)		

As you can see, there are the same amounts on the left, or debit side of the T's as there are on the right or credit side of the T's. This is called the matching principle. The matching principle simply says that whenever you put a number on the left (DR) side of a T, there has to be a corresponding equal amount on the right (CR) side. To illustrate how each of these numbers are recorded on the T accounts, we have the following example;

Example 1.1

Jane opens a pizza shop in January. Jane puts \$10,000 in the company personally, borrows \$25,000 from the bank at 10% interest annually.

- ✓ Jane starts company by depositing \$20,000 of her own money. (a)
- ✓ Jane buys \$5,000 of furniture on credit. (b)
- ✓ Jane buys an oven for \$10,000 cash. (c)
- ✓ Jane buys mixers etc on credit costing \$2,000. (d)
- ✓ Jane pays rent deposit of \$1,000. €

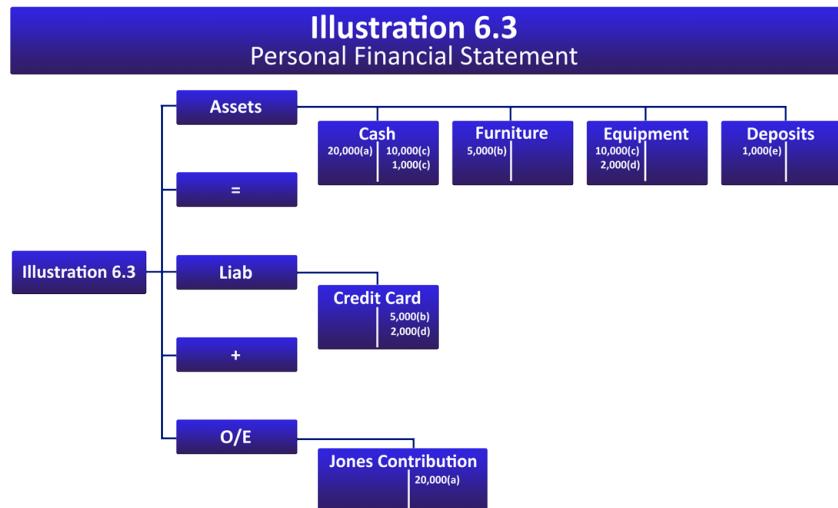


Illustration 6.4
Personal Financial Statement

$$\text{Debit } (\$38,000) = \text{Credit } (\$38,000)$$

These expenses above are all balance sheet items as they are either assets (such as the mixer or furniture or even the deposit) or they are a liability, such as buying the mixer on credit.

Once operations begin, however, we are going to be using the profit and loss in addition to the balance sheet. Therefore, let us look a little bit closer at the equation $A=L+OE$.

We know now what assets and liabilities are and even know in the broadest sense what the equity section is. However, there is one important part of the equity that needs some explanation before we can proceed.

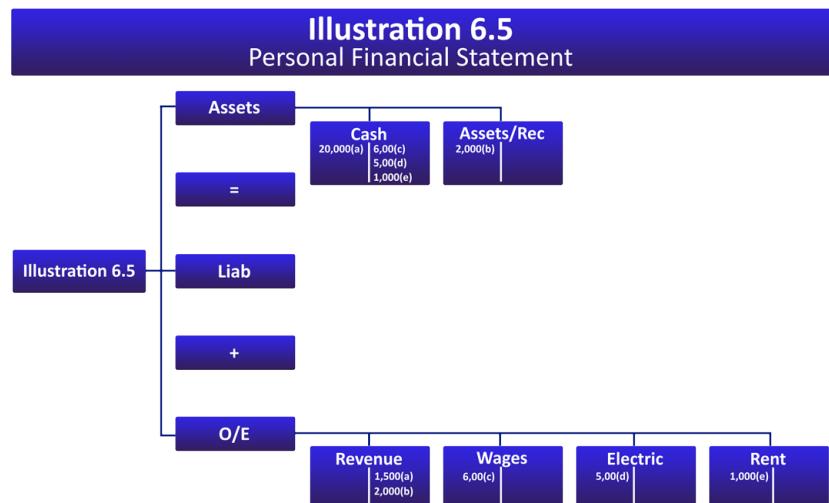
Although the equity is simply the difference between the assets and liabilities on the balance sheet, this doesn't really help us to determine if we are making or losing money. Therefore, we have the profit and loss statement. This statement is simply the income and expenses for a given period of time which we will explain later. For now, simply know that the accounts in the P and L (Such as revenue and expenses) are all part of the equity section of your balance sheet. They are simply debits and credits just like with other accounts, but are parts of the equity section. Where assets are broken into accounts like Cars, furniture, cash etc; equity is broken into equity accounts including revenues and expenses over time.

For now, simply understand that revenues are on the right (credit) and expenses are on the left (debits) and are underneath the equity section.

Given this information, let's look at how some T accounts are affected with certain transactions.

Operation begins:

- ✓ Cash Sales for the first week are \$1500. (a)
- ✓ Credit Sales for the second week are \$2,000. (b)
- ✓ Wages paid for week one at the end of week two are:
 - ✓ 2 people, 30 hours each at \$10 (do not consider taxes at this stage). (c)
- ✓ Jane pays electricity bill for \$500. (d)
- ✓ Jane pays rent for second month of \$1,000. (e)



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So, what do these numbers mean? Simply put, if you look on the left side of the equation $A=L+OE$, debits increase and credits decrease. Conversely, on the right side of the equation, debits decrease and credit increase. If you take the example of cash, whenever you write something on the left side of the T, you are increasing your total cash. When you put a number on the right side of a liability, like a car loan, you are increasing the liability.

To simplify the recording of these amounts, let's look at how the purchase of the equipment from illustration 2.2 would look a down payment of \$5,000 and borrowing the remainder. Instead of using T accounts, the general journal entry would actually be as follows:

Item	Debit	Credit
Equipment (c)	\$10,000	
Cash		\$10,000

For the purchase of equipment

Item	Debit	Credit
Equipment (d)	\$2,000	
Credit Card		\$2,000

For the purchase of mixer.

To record purchase of automobile and corresponding payment and loan.

Step Three

Stay with me just a little bit longer. Here is where the rubber meets the road. The main reason we have all of these debits and credits is to record transactions so we can have financial statements. These statements will be at the very center of your decision making if you want to have a successful business. I cannot overstate just how important these statements are. Whatever it takes, you must come to an understanding of these statements and what they mean to you and your business.

There are three main statements; the profit and loss (P and L), Balance Sheet and Statement of Cash Flows. For simplification, we are only going to address the first two, as they are the most important to you at this stage.

The P and L shows your income, expenses and the outcome of those. If you have more income than expense, you have Net Income. If you have more expenses then income you have a net loss. The P and L is your score card for a period of time such as a month, quarter, year etc. In order to get to the statements, however, we must write all our balances down on one “report” called the Trial Balance. The Trial Balance for Jane's Pizza as of the end of the second month of operation is as follows:

Illustration 6.6
Personal Financial Statement

Trial Balance		
	Debit	Credit
Cash	8,400	
Account Receivable	2,000	
Furniture	5,000	
Equipment	12,000	
Deposits	1,000	
Credit Card		7,000
Jones Contribution		20,000
Revenue		3,500
Wages	600	
Electric	1,000	
Rent	500	
Total =	30,500	30,500

Now, from that we can take the P and L accounts (Revenues and Expenses) and place them on the P and L Statement. Below is an example of a P and L for the first two months of Jane's Pizza.

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Illustration 6.7
ABC Company Profit / Loss Statement
For The Period July 1,2014 to July 31,2014

Debit			
Sales	3,500		<u>3,500</u>
Credit			
Wages	600		
Rent	500		
Utilities	1,000		<u>2,100</u>
		Net Profit	\$1,400

The second statement is the Balance Sheet. This statement is the accumulation of everything that has happened in your business since the first day. This statement shows the balances of your accounts on a specific date, such as the end of the year. Below is an example of a Balance sheet from example 1.1 at the end of the second month.

Illustration 6.8
ABC Company Balance Sheet
For The Period Ending July 31,2014

Assets:			
Current Assets:			
Sales	8,400		
Account Receivable	2,000		<u>10,400</u>
Total Current Assets:			
Fixed Assets:			
Furniture	5,000		
Equipment	12,000		<u>17,000</u>
Total Fixed Assets:			
Other Assets:			
Deposits	1,000		<u>1,000</u>
Total Other Assets:			
Total Assets:			
			<u><u>28,400</u></u>
Liabilities:			
Current Liabilities:			
Credit Card	7,000		
Total Current Liabilities:			
Long Term Liabilities	0		<u>0</u>
Total Liabilities:			
			<u><u>7,000</u></u>
Equity:			
Owners Contribution			
Net Income	20,000		
Total Equity:			
			<u><u>1,400</u></u>
Total Liabilities And Equity:			
			<u><u>21,400</u></u>
Assets 28,400 = Liab (7,000) + O/E (21,400)			

6.1 How to use the Statements

Whether you generate statements from your computer or receive them from your CPA, your financial statements are only useful if you know how to read them. It amazes me how many people pay to have their statements prepared monthly, yet have no idea, other than what the net income or loss line says, what information they have for the business owner.

The financial statements are your scorecard. Just like a sport, each period, or in business the operating period, you have performed to a certain level. This information tells you how well you did, in revenue, against your opponent, your expenses as well as the accumulation of those periods since the start of your business. Table 6.7 shows a more detailed, but still simple Profit and Loss and corresponding balance Sheet for XYZ Company. Although your company's financial statements may have different names on the revenues, expenses, assets, liabilities and equity, the premise is still the same. With that in mind, let's look at each statement.

6.2 The Profit and Loss Statement

By reading the accounting principles section, you now know that the P and L is simply the score for your business for a certain period of time. It shows what income you have had and what expenses you have had. However, to really get to the point where you can use the P and L, we need to break it down a bit further. This will assist you immensely in the operation of your business. (Refer to Illustration 6.7)

The P and L is broken up into sections; the top, middle and bottom. The top section is the part that reflects the production side of your business. The middle section shows you your operational side and the bottom a mix of extraordinary items that you will not often see.

Let's look at the top section first. The top section has your revenues (income) as well as what is called the Cost of Goods Sold (COGS). COGS is simply the direct materials and labor that it takes to produce a unit of product. If you produce bottles, the glass is part of COGS and the labor that forms those bottles is part of COGS. We use COGS to get to a very important part of the P and L, the Gross Profit.

If you do not have a profit at this point in your P and L, you are not charging nearly enough for your product and you are on your way to being out of business. We will go into this subject much further in the pricing section of this chapter.

The middle portion of the P and L reflects the administrative and selling expenses of your business. These include office wages, advertisements, telephone, office supplies etc. These expenses are often referred to as your fixed expenses, as they stay the same regardless of whether you produce a product or not. Again, we will go into this more deeply in the pricing section of this chapter.

The bottom portion of the P and L is usually just the amount left when you take the gross product and subtract the admin expenses. However, at time you will see items in this section such as interest, taxes, loses and gains on the sale of equipment etc. The reason these are separated is so your normal operating income and expenses are reflected without non-operating items coming into play. This becomes important if you are looking at trends for your business, or are comparing it to other businesses in your field.

6.3 The Balance Sheet

As stated earlier, the balance sheet is simply the accumulated balances for a business at a specific time. It looks very much like the equation, $A=L+OE$. A simple balance sheet looks like Illustration 6.8.

As you can see, the assets like your checking accounts, automobiles etc are all listed. They are divided into Current Assets, which include AR, cash etc, LT assets such as automobiles, furniture, equipment etc, and other assets, which would include items such as patents etc. Short term items are assets you will “use up” in the next 12 months., Long term are those assets useful for longer than 12 months. Furthermore, you can see there are other items such as Accounts Receivable, which we delve into later in this chapter, as well as an item called accumulated depreciation. Accumulated depreciation is simply how accountants record the expense of an asset over its estimated life. There are a variety of ways to record depreciation, but for our purposes, we are going to assume a straight-line depreciation. Straight-line depreciation takes total cost of an asset and divides it by its useful life. The IRS shows us their method and that is what we will use in this book as our guideline. Therefore, if you buy a car for \$30,000 and the useful life for IRS purposes is 5 years, your depreciation expenses is \$6,000 per year. The expense is recorded on the P and L in the middle section and the accumulated depreciation is recorded as an offset to the asset on the balance sheet. For example, if you take the same auto and depreciation, in the third year, the P and L would reflect a \$6,000 expense and the Balance Sheet would reflect \$18,000 accumulated depreciation. (3 years at \$6,000).

Other than the Accumulated Depreciation, the assets section is fairly straight forward, simply reflecting the historical (actual) cost of your assets.

The Liabilities section of the Balance Sheet is divided into two sections; Long-term and Short-term Liabilities. Simply put, ST liabilities are liabilities that you need to pay in the next 12 months and LT liabilities are those you need to pay after the 12 months. Your accountant will divide your LT liabilities in such a way to reflect a ST portion of the liability such as the payment on a LT loan that you need to pay over the next 12 months.

The last section is your equity section. This reflects your initial investment into the business, the income or loss for this year as well as the income or loss accumulation over the total time you have been in business. There will be a subsection of the equity section which will reflect not only your initial investment, but subsequent investments as well as withdrawals of cash from the business for the owner that is not reflected in the payroll.

Overall, the balance sheet is useful to you to show you what you own, what you owe and the success of your business since you first went into business. It is also useful for comparing it to other businesses as well as indicating trends. Banks and other financial institutions use it for ratios that show them the strength and weaknesses in your company. For a more in-depth discussion of this subject, go to appendix A, Basic Financial Statement Analysis.

6.4 Budgeting

I cannot emphasize enough the need for budgeting. In this chapter I will just touch on a few concepts regarding budgeting. Budgeting is then covered in more depth in another chapter.

The old adage “Those who fail to plan, plan to fail” is not only true in your personal life, but your business as well. I remember when I opened my first business all the advertisers coming in to sell me their products. Everyone from the local TV stations to the local elementary school cheerleaders had just the thing I needed to get the word out about my business. It never occurred to me that by not budgeting, I was nickel and dimeing myself into bankruptcy by overspending on advertising (and everything else as well). Had I a budget to look to, I would have consulted my marketing plan and spent the limited dollars wisely.

A circular graphic titled "WHILE YOU WERE SLEEPING..." featuring a collage of international business news snippets. The segments include: "INDIAN NUCLEAR POWER CORP", "RUSSIAN ENTREPRENEUR", "LUXURY GOODS MARKET LONDON", "CHINA PAYS PREMIUM FOR TROUBLED COMPANIES", "TROUBLE IN LONDON", "AFRICA HELPS FINANCIAL FIRMS OUTSOURCE", and "INDIA'S FIRM TO BUY RIVER CORPORATION". Below the graphic is the URL www.fuqua.duke.edu/whileyouweresleeping. To the right is the Duke Fuqua School of Business logo.

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It is imperative that you take the time to spend on your budget, both up front and as the year progresses. The problem for most entrepreneurs is they have no idea where to start on budgeting. How much should you budget on an item? How can you know that on the front end? The answer is actually fairly simple. In your local library, you most likely have a book of Industry Norms. This book has a wealth of knowledge for you for budgeting. Your help desk will assist you in finding your businesses industry. In this book you will find each SIC code listed and with it P and L's and Balance Sheets for your industry. Now, it may be that you are just a small business and these are multi-nationals, but it is a great place to start. If you look at each item on your financials, you will see a percentage as well. This percentage relates back to another item on your financials. Usually, this item is compared to revenue. Therefore, if you look and see that advertisement is usually 1.5% of your industries sales, you now have a starting point for your advertising budget.

Another and probably more accurate way to budget is by getting information from an association for your line of business. Almost all businesses have associations of some kind and are a great resource for you. An association fee will be required, but it is well worth the expense. *I would suggest, however, that you get the most basic membership to start, as you don't know if you will need the other services.* Your association should have comparable financial statements for a business your size. Use this as a guide for your budgeting. Please note, however, that your business is not exactly like anyone else's and you will need to keep that in mind as you budget.

After you have budgeted each revenue and expense line item, you need use it to compare against your actual statements each month. Therefore, if you budgeted 2% for advertising on \$1,000,000 sales volume, your budget would be \$20,000 /year or \$1667 per month. Make sure you adjust your budget to reflect your actual sales each month. If your sales projections fall short, you should make an adjustment next month to insure you stay on track. Conversely, if you have higher sales, you may increase your budget. Always make sure, however, that you make adjustments for seasonal fluctuations in both your revenues as well as your expenses. *Note: A great way to budget your contributions is to give a certain amount to the United Way, or your local church to serve the area. This allows you a place to refer the many people at your door with their handout.*

Remember...by failing to plan and you are planning to fail.

6.5 Manual vs Computerized Accounting

So, how are you going to keep track of all this money you are earning as a successful entrepreneur? The big decision here is whether you will use a computerized program like QuickBooks or Peachtree (or a software designed specifically for your industry) or if you will use a very simplified system on paper. This is not a decision to take lightly. This will have a great impact on your productivity as well as your profitability. To simplify the decision, here are a few questions you should ask yourself in order to make a wise and informed decision:

- ✓ Will you have Inventory If yes, how much?
- ✓ Will you have employees? If yes, how many?
- ✓ Are you producing or manufacturing your product or reselling from wholesaler?
- ✓ Will you have significant accounts receivable or accounts payable?

There are no short answers for your decision, but as a guide, if you have employees and are producing or manufacturing your product or if you have significant inventory on hand or if your accounts receivable and accounts payable are going to be of medium size or larger, you should look into a computerized accounting system. However, if you have a very simple business, such as a small consulting practice, where your revenues come in from contracts and your expenses are simply travel, office supplies and the like, your need not have a computerized system.

If you decide to have computerized accounting software, and don't need one specifically designed for your industry, any of the small business programs will suffice. QuickBooks works well for most people and you can get local support readily. Peachtree, although a bit more difficult, works well for manufacturing or production line operations. No matter what you choose, however, once you get to a certain volume, you will need to look at more sophisticated programs. No matter what you use, however, you will likely have a place to enter your budgets which will allow you to easily compare your budgeted amounts to your actual at the push of a button.

If you find the idea of a computerized system a bit overwhelming, you can go to a manual system. The easiest system I have found is called "One-Write Plus". In it you have your checks and then a ledger to the right to put your expenses and revenues. If you can write a check, you can use this system. At the end of each accounting period, you simply tear out the sheet and hand it to your accountant for them to compile your financials. The negative to this is that you don't have access to detailed information at the push of a button. Additionally, if you've significant accounts receivable or accounts payable, a manual system is very cumbersome.

Either way you choose, you should speak with your accountant to make sure you know what you are doing up front and don't have to spend countless hours fixing the mess you made. A little time here will save you huge amount later.

For your assistance, an example of a very simplistic bookkeeping system is provided at the end of this chapter. Preprinted materials are available at your local office supplies store or online.

6.6 Payroll and Employment Taxes

Regardless of whether you use a computerized accounting system or a manual one, the decision of your payroll processing must be made. You have three main choices; do it in-house, contract out the payroll processing or you can have a service to actually hire your employees while you use them daily. The first option should only be considered if you really know what you are doing. If you are manufacturing or producing something, you most likely need to process your own payroll and will set it up in your computerized accounting system. However, if you don't decide with your CPA that processing in house is not important, then definitely have a service do it for you. Most CPA firms will do your accounting for you, or you can have a service such as ADP do it for you. Remember, the more complex the payroll, the more likelihood of mistakes.

The third possibility is to have a human resources company handle all your employees for you. There are no easy answers on whether or not this service is right for you. The benefits are that you can access great benefits for your employees that you would not be able to otherwise. These include great rates on medical insurance, cafeteria plans for tax savings etc. I suggest you to consult with your CPA on this decision as they will be best suited to help you.

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If you determine to process your own payroll, there are some things you need to know up front. You will be withholding taxes and incurring payroll expenses on your employees at each pay period. If you use a computerized payroll system, each of these will be detailed out as to your liabilities. However, having the liabilities and not paying them can make for problems that may be catastrophic for your business and you personally.

6.7 Federal Issues

At the federal level you have three issues. The first is the federal withholdings from your employees pay. This is determined automatically on your computerized payroll system. Second, you have Social Security. Third you have Medicare. These last two total 15.3% of the employees pay. The social security is withheld 6.2% from your employee and you match with an additional 6.2%. Medicare is similar, but only 1.45% each from you and your employee is to be paid. These items are collectively called your 941 taxes as this is the quarterly form you will complete to record these taxes. According to your total payroll amount, you will be required to send these 941 deposits to the IRS on either weekly, bi-monthly or monthly payments. This will be determined for you by the IRS.

Remember, you are personally responsible for the withholding taxes for your employees. If you do not make the necessary deposits for your employees, you may be personally liable to pay these, even if your business fails. So, no matter what, don't use your payroll tax money for anything but your deposits. I strongly suggest you open up an account that these withholding are deposited into, safeguarding you from spending when times get tough. Remember, the IRS does not make loans. This money does not belong to you.

6.8 State and Local

The state issues are a little less intimidating, but often more cumbersome. If you are in a state that has a state income tax, you will have to withhold for this as well. These amounts are determined by your state tax authority and are usually automatically calculated by your computerized system.

In addition to the withholding tax, which is paid solely by the employee, you also may have an unemployment tax as well as Workers Compensation. These are usually paid either quarterly or semi-annually, according to your state. Your CPA will assist you with these issues including the application process.

You may also have local taxes which may include a local income tax as well as school taxes. Again, consult your CPA for assistance with these issues.

6.8.1 Knowledge to Action

For this assignment, you will use Appendix A and/or the Microsoft Excel Workbook entitled *Pro-Forma Workbook*.

With the skills you have developed in previous chapters, you are now ready to start working on the financial spreadsheets provided with this book. The following instructions assume you have some working knowledge of Microsoft Excel and have access to the file *Pro-Forma Workbook*. You do not have to have more than a basic knowledge of Microsoft Excel to complete this and subsequent financial assignments.

Step 1: Open workbook and enable editing (if required).

Step 2: Place the name of your business in the appropriate cell. You can change this later as needed.

Step 3: From the marketing chapters, you should have a fairly good idea of what you will be selling and what the price(s) will be. Don't stress too much over this, as all of the data you input here can be revisited later.

Step 4: Put into the following cells what your direct cost and direct labor will be. This is often referred to as variable costs, since it varies according to each unit produced, i.e. when you produce one unit it cost you x for labor and y for material. As you get further into developing your plan you will have a better idea of the actual direct cost and direct labor. This number is important, however, as it helps determine the viability of your business.

Step 5: How much inventory will you have on hand at any given point? This is an average over a 12 month period. This may fluctuate, but you need to make your best estimate at this point. Likely you will have at least a few weeks on-hand, but many larger companies have what is called Just in Time inventory, which means they produce what they estimate they will sell just as needed. For smaller companies, however, this is more difficult as you need to ensure you have enough on hand to sell, but not so much that it ages on your shelves.

Step 6: Next we look at your fixed costs. These are costs that, regardless of the number of items you sell, you will have these expenses. These costs may include management salaries, rent, insurance etc. (These costs may increase once certain sales volumes are reached and you may adjust these on a yearly basis for this workbook)

Step 7: Semi variable costs are costs not directly associated with the production of your product, but increase or decrease according to the amounts produced. One example of this might be administrative office utilities. Although there is a base rate for utilities, the more people you have working on computers etc will require more electricity.

Step 8: How much money do you realistically want to make for each year you are in business. Do not include money already included in your salaries section.

Step 9: What will be your overall tax rate? This includes any local, state, federal taxes (or whatever your particular country considers business income tax). Do not include sales or payroll taxes here.

Step 10: Financing is a very important part of your business. Borrow too much and you may misuse funds and pay too much for financing charges. Borrow too little and you may not be able to operate, or will operate under such duress that growth is impossible.

Some important factors to consider in financing are:

1. What equipment, vehicles, land, buildings etc will I need to run the business and when will I need them?
2. How long does it take me to get paid for what I sell?
3. How quickly do I need to pay for direct materials and labor to make my product?
4. How much do I need to borrow and for how long? You will want to match your borrowing closely with what it will be used for. For short-term cash needs, you will want to borrow short-term. However, for equipment and other long-term assets you will want to borrow over an extended amount of time, likely matching the number of years you will be using that asset.

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Step 11: How much money and assets (things like a car, equipment, computers etc) can you put into the business? Lenders will want to see that you have put something in the company at risk.

Step 12: If you will have any amortization, you will put it in the cells on the actual statements. It is unlikely that you will have any amortization, so don't worry if this is left blank.

Step 13: Now go to the other worksheets and look at the results produced from the information you provided. You may need to make adjustments to the data on the initial sheet which is fine. You should look at the cash balance on the balance sheet to make sure it is positive and is enough for your operations. If it is negative, you will need to increase the short-term capital you are borrowing or put more money in personally. It is not unusual for your cash needs to increase as you grow your business. Lenders will understand your need for this and will appreciate your consideration on this matter.

Step 14: You may now use the information provided to review your goals and to insert into your business plan.

6.8.2 Ethical Application

The financial collapse of 2008 had many causes of which one major cause was the way financial institutions measured risk. One of the reasons for lowering standards for lending was to temporarily enhance the financial statements and therefore increase executive bonuses.

Look at two US or European based financial institutions and answer the following:

1. What standards were changed from the 1980s to the early 2000s?
2. How did those changes in standards temporarily enhance the financial statements of the companies?
3. How can you, as a business owner, be accountable to a third party and prevent delusions that could ultimately harm your company?

6.8.3 Building Leadership Skills

Leading an organization can be both challenging and rewarding. However, leadership requires leading in areas in which you may feel less comfortable. Often, accounting and finance is one of these areas.

How will you lead your accounting and finance department? If this area is a weak area, how will you develop the skills to oversee, measure, and lead this department?

6.8.4 The Global Stage

Although companies summarize all of their earnings or losses into one set of statements, they also break them down for each territory, country or some other division.

For this exercise, look at the consolidated reports for each of your companies chosen in chapter 1 and then look at the earnings or losses for your country's operation. Explore and note your findings.

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7 Budgeting and Breakeven Analysis

Your goals for this budgeting and breakeven chapter are to learn about:

- *The importance of budgeting*
- *The budgeting process*
- *What is a breakeven analysis*
- *How to calculate and use the breakeven*

Of all the duties of a business person, budgeting is probably the one that gets the least attention but can yield the most benefit.

Budgeting in business is similar to budgeting in your personal life, but it has the added dynamic of variable streams of funds and ever changing expenses. It does not, however, need to be difficult. In fact, if you spend time building a budgeting model (as will be seen in this chapter), you can have great budgets with minimal time investment.

7.1 The Budgeting Process

In accounting, there is a concept called **Cost Volume-Profit Analysis**. This is an intimidating title that simply means this: when your sales go up or down, some of your expenses will change. If you consider things like electricity, payroll, cost, etc., it makes sense that if you sell more of something you will likely have more costs. Right? Well, this takes that concept just a bit farther but is not that complicated.

7.2 Cost Volume-Profit Analysis

“Cost Volume Profit Analysis is a means of predicting the effects of changes in costs and sales levels on the income of a business” (Larson).

7.2.1 Types of Costs

Fixed Cost

Fixed costs are those costs that are the same regardless of your sales volume (See Semi-Variable and Stair Step Costs for exceptions). Rent is a good example of a fixed costs in that your rent stays the same if you have zero sales or numerous sales.

Variable Costs

Variable costs are those costs that are associated with your volume of sales. An example of a variable cost would be the parts needed to make a specific item such as computer chips in a computer or sugar in a soda bottle. The more items you produce, the more of these costs you will incur.

Semi-Variable and Stair Step Costs

Some costs do not fit the description of either a fixed or variable cost, as they are a blend of the two. A good example of this is utilities. Often with utilities you will pay a minimum amount for service plus a variable amount for kilowatts used. This makes it a semi-variable cost.

Earlier we looked at rent as a fixed cost. However, what happens when you are producing your maximum number of items in the space you are renting? You would, naturally, have to acquire more space and that would increase your rent. This is called “Stair Stepping” costs. Stair Stepping is when you have a cost that is fixed for a range of sales but takes a step up in costs at certain levels, as with what happened in the rent example.

7.3 Breakeven

So often, new business owners read the “how-to” and see things like Break Even Analysis and glaze over. Similar to Cost Volume Profit Analysis, the name is more intimidating than actually doing the analysis.

Breakeven, in simplest terms, is how many units a company must sell (in units or dollars) in order to break even, covering all fixed and variable expenses. It is important to know your breakeven as it gives you realistic estimations of how much your sales need to be to start making a profit. In fact, a breakeven analysis is one way to know whether you should go forward with a project.

Since we already know that there are different types of costs, doing the breakeven is simply putting numbers into a basic algebraic equation.

Illustration 7.1

ABC Company has The Following

Sales: \$18.00 per Item		
Fixed Costs:		
Rent	\$4,500	
Management Salaries	\$7,500	
Total fixed Costs	\$12,000	
 Variable:		
For Each item produced ABC has:		
In parts	\$3.60	
In Labor	\$2.40	
Total variable Costs	\$6.00	
To find the breakeven, We Simply use the following formula		
$\frac{\text{Fixed Cost}}{\text{Sales Price} - \text{Variable Cost}} = \text{Breakeven in units}$		

Illustration 7.2

Therefore, using the information in the example we have:

$$\frac{\$12,000}{\$18.00 (\text{Sales Price}) - \$6.00 (\text{Variable Cost})} = 1000 \text{ units}$$

To get our breakeven in dollars we can take the units (1000) and multiply times our sales price - variable cost (\$12) to get \$12,000.

Another way of getting breakeven in dollars is to use what is called the Gross Profit or Gross Profit Percentage. Take a look at the following formulas:

Illustration 7.3

Sales Price (SP)
Variable Cost (VC)
Gross Profit (Gp)
$\frac{\text{Gross Profit}}{\text{Sales Price}} = \text{gross profit percentage also called Gross Margin or Contribution Margin (CM)}$

Example:

Given the same costs structure as the previous example, the breakeven in dollars would be computed as follows:

Illustration 7.4

\$18.00
-\$6.00
\$12.00

$\$12/\$18=0.6667$ or 66.67%

Therefore:

$$\frac{\$12,000(\text{FC})}{0.6667(\text{CM})} = \$18,000(\text{Rounded})$$

Check:

$$\$18,000/\$18(\text{SP}) = 1,000 \text{ units}$$

As you can see, all these numbers match, regardless of how you approach them

As you can see, all these numbers match, regardless of how you approach them.



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7.4 Using the Break-Even Analysis

There are many uses for the breakeven analysis besides your initial need to see what your sales volume needs to be. One of the primary uses for a small business is to estimate the volume of sales needed to produce a targeted profit. This is important for two main reasons. The first reason is that you are in this to make a profit, not break even. You can stay at home and break even, so why work and take risk just to stay the same economically? The second reason is to see how much flexibility you may have in lowering or increasing sales price or to see the effect of changes in cost of materials or labor. Let's look at an example.

Given the same numbers as in the previous example, let's assume you want to make \$24,000 for the given period of sales. To determine what your sales volume needs to be to earn that amount (no consideration for taxes as this goes beyond the scope of this book), you simply add the \$24,000 to the fixed cost and use your formulas as usual:

Illustration 7.5

$$\frac{\$12,000 \text{ (FC)} + \$24,000 \text{ (Targeted Earnings)}}{0.6667 \text{ (CM\%)}} = \$53,997$$

This means that in order to earn the targeted \$24,000 you need to sell \$35,997 worth of goods or approx. 3,000 Units

Another way to check this is to use the following formula:

Sales	\$53,997 (\$53,997/\$18 = 3000units)
VC	\$18,000 (3000units*6.00 VC=\$18000)
CM	\$35,997
FC	\$12,000
Net	\$23,997 (\$24,000 rounded which is your target income)

Remember, this is just a simple algebra problem, so you can play with the numbers assuming you know all the variables but one. You may know the fixed cost and the sales volume for example and want to know the margin needed. Simply make the margin the variable X and solve for the X variable.

This formula can be used to make many decisions. If you want to give your employees a 5% wage increase but want to keep your profits the same, you can determine how much of a price increase you need in order to accomplish your goals. Simply multiply the hourly portion of the VC 1.05, and keep your units and fixed cost constant. You can then determine your new sales price.

Although intimidating, the break even analysis is a very useful tool for small and large business owners alike. Mastering the formulas takes a small investment but can pay big dividends over time.

7.5 The Flexible Budget

Another very useful tool for a business owner is the flexible budget. The flexible budget is designed to allow you to budget across various sales levels. Although fixed cost can change, the flexible budget assumes that your sales volume is within a range whereby fixed expenses stay at a fixed level, and variable costs vary as a percentage of sales.

This type of budget is very useful in projecting expenses for upcoming periods so that you can best prepare. It gives you a quick glance and is easy to change as the daily business environment changes.

The flexible budget does have some limitations though. It does not give you a good picture of cash needs nor does it give you a good accrual income statement to look at profitability. Even with this, however, it is a good tool to have at your fingertips.

To best see the flexible budget in action, take a look at the pro-forma workbook in appendix A. Although this workbook goes further and makes adjustments to give you a balance sheet and accrual-based profit and losses, the first income statement portion is very similar to a flexible budget.

Table 7.6 shows a sample flexible budget at two sales levels. Note that the percentages for variable expenses are the same even as sales volume changes. Also, note that even though the variable cost stayed the same as a parentage, they increased as a raw number. Since they stayed at the same percentage, however, more of the sales revenue was able to be kept in the company as net profit.

Illustration 7.6 ABC Company Flexible Budget				
	\$	% Of Sales	\$	% Of Sales
Sales	\$100,000.00		\$200,000.00	
Cost of Goods Sold	\$65,000.00	65%	\$130,000.00	65%
Gross Profit	\$35,000.00	35%	\$70,000.00	35%
Fixed Cost:				
Rent	\$5,000.00		\$5,000.00	
Manager Salaries	\$8,500.00		\$8,500.00	
Non-COGS Variable Costs:				
Wages	\$15,000.00	15%	\$30,000.00	15%
Office Supplies	\$3,000.00	3%	\$6,000.00	3%
Misc	\$1,000.00	1%	\$2,000.00	1%
Total Expenses (Non-COGS)	\$32,500.00	19%	\$51,500.00	
Net Income/Loss	\$2,500.00	3%	\$18,500.00	9%

Even though there is not one perfect way to project revenue and expenses, much of management is learning to consider the many variables presented and make a good guess. As you gain more experience, you will find this to be easier and more intuitive.

Regardless of your experience, however, there are certain aspects of your business for which you may not be suited. Even with many years of managerial experience, I find that cash flow management is simply not my forte. Obviously I continue to learn and attempt to do better, but because it is a weakness, I hire people who have this skill to augment my skillset. That is simply good management to do so.

7.5.1 Knowledge to Action

Using the Microsoft Excel Workbook from the previous chapter (Pro-Forma Workbook), open the tab Break Even Analysis.

From the information you provided in the initial data sheet, this sheet will be populated, giving you the break even for your company. It is important to note that this analysis uses a sales mix determined by data from the initial data sheet and will need to be adjusted if your product mix changes.

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Using this information, answer the following questions:

1. What is my breakeven in dollars (or other currency of your choice)?
2. What is the breakeven in dollars at my desired profit level?
3. Are these numbers realistic? If not, what can I do to change them?
4. How long will it take to reach my breakeven at the projected levels?

7.5.2 Critical Inquiry

The primary purpose of a business is profitability. However, there are many secondary reasons to owning a business which may include charitable giving or some other altruistic activity. For this assignment, considering your budget and potential profits, what is your responsibility to the “greater good”? Do you have one? Reflect on your answer and how you may or may not incorporate these activities in your budget and plan.

7.5.3 Ethical Application

Some industries, such as natural gas or other fossil fuels are criticized for the damage they may present to the environment. Consider the fossil fuel industry or possibly your own industry. What impact, either positive or negative, does it have on society, the environment, etc.? Do the positives outweigh the negatives? Explore.

7.5.4 Building Leadership Skills

Jack Welch was CEO of General Electric for 20 years and wrote several books on the how to of leading people. Although your business is not likely to be the size of GE, there are many leadership lessons to learn from Mr. Welch.

Research the challenges Mr. Welch faced at GE and how he was able to lead such an enormous company and change its culture. What lessons can you learn from him? What leadership traits will you attempt to foster in your employees and yourself so that you can maximize your company’s potential?

7.5.5 The Global Stage

Budgeting is a challenging endeavor for any size company. For a multi-national company, budgeting becomes extremely complex.

Find published budgets on one multi-national company. Research their budgeting process. What stands out to you as to how they maneuver the process?

8 Financial Statement Analysis

Your goals for this financial statement analysis chapter are to learn about:

- *The importance of financial statement analysis*
- *What are the various calculations and what do they tell a business owner*

The concept of analyzing financial statements may seem a bit daunting to those who barely understand the accounting process. Although the concepts are a bit sophisticated, a good entrepreneur can use the analysis to manage a company over the long haul. Additionally, banks use analysis of financial statements to determine their appetite for lending you money. If for no other reason, you need to at least understand some of the basic ratios so you can speak with authority to banks and/or investors.

On the Pro-forma template found at www.practicalbusinesplanning.com and used throughout this text, the tab Financial Statement Analysis takes the information provided on the Initial Data worksheet that populates the remainder of the workbook. Although there are many other analytical tools, these ratios are the most commonly used and ones that your bank will almost definitely use in assessing your business for a loan.

8.1 Liquidity Ratios

The Liquidity Ratio indicates a company's ability to convert short-term assets into cash. It is vital to an operation that it be "liquid" enough to stay viable. These ratios give some indication of the company's ability stay in business.

Liquidity Ratios	
Current Ratio	<i>Current Assets/Current Liabilities</i>
Quick Ratio	<i>Current Assets-Inventory/Current Liabilities</i>
Leverage Ratios:	
Debt Ratio	<i>Total Liabilities/Total Assets</i>
Profitability Ratios:	
Return on Assets	<i>Net Income (Before Tax)/Total Assets</i>
Return on Equity	<i>Net Income/Total Common Equity</i>
Net Profit margin	<i>EBIT/Sales</i>
Turnover Ratio	
Asset Turnover	<i>Sales/Total Assets</i>
Inventory Turnover	<i>Sales/Inventory</i>

XYZ Company	
Profit and Loss Statement	
For the period Jan 1, 20xx to Dec 31, 20xx	
Ordinary Income/Expenses	
Income	\$ 125,000
Total Income	\$ 125,000
Cost of Goods Sold:	
Direct Labor	\$ 18,750
Direct Materials	\$ 56,250
Total Cost of Goods Sold	\$ 75,000
Gross Profit	\$ 50,000
Expenses:	
Salaries and Wages	\$ 30,000
Rent	\$ 12,000
Utilities	\$ 3,000
Misc.	\$ 1,000
Total Expenses	\$ 46,000
Net Profit/Loss:	\$ 4,000

Illustration 8.1

XYZ Company	
Balance Sheet	
For the period ending Dec 31, 20xx	
ASSETS	
Current Assets	
Checking/Savings	\$25,000
Total Checking/Savings	\$25,000
Other Current Assets	
Accounts Receivable	\$10,000
Inventory	\$7,500
Total Other Current Assets	\$17,500
Total Current Assets	\$42,500

Fixed Assets	
Automobiles	\$25,000
Furniture and Fixtures	\$85,000
Equipment	\$50,000
Real Estate	\$150,000
Accumulated Depreciation	(\$20,000)
 Total Fixed Assets	 \$290,000
 Other Assets	
Deposits	\$5,000
 Total Other Assets	 \$5,000
 Total Assets	 \$337,500
 Liabilities	
 Current Liabilities	
Accounts Payable	\$6,000
Credit Cards	\$15,000
 Total Current Liabilities	 \$21,000
 Long Term Liabilities	
Notes Payable-Auto	\$18,000
Notes Payable-Equipment	\$40,000
Notes payable-Real Estate	\$125,000
 Total Long Term Liabilities	 \$183,000
 Total Liabilities	 \$204,000
 Equity	
Owners Contribution/Draw	\$75,000
Prior Earnings	\$74,500
Current Earnings	\$5,000
 Total Equity	 \$154,500
 Total Liabilities and Equity	 \$337,500

Illustration 8.2

Current Ratio (Current Assets/Current Liabilities)

The Current Ratio shows how well a company will be able to pay its current debts. The higher the ratio the better. If the ratio is under 1, it is unlikely that a company will be able to meet its short-term obligations.

To improve your current ratio you should have more cash or highly liquid assets available on the balance sheet in relation to your current debts. In the short-term, you may need to borrow money in order to cover your expenses and debt payments. This is not necessarily a bad thing, but it needs to be factored into your plan and explained properly to help the lender be more Current Ratio (Current Assets/Current Liabilities).

The Current Ratio shows how well a company will be able to pay its current debts. The higher the ratio the better. If the ratio is under 1, it is unlikely that a company will be able to meet its short-term obligations.

To improve your current ratio you should have more cash or highly liquid assets available on the balance sheet in relation to your current debts. In the short-term you may need to borrow money in order to cover your expenses and debt payments. This is not necessarily a bad thing, but needs to be factored in to your plan and explained properly to help the lender be more comfortable with your venture.

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Quick Ratio (Current Assets-Inventory/Current Liabilities)

Using the information provided in exhibit 8.1 and 8.2, XYZ Company's quick ratio is:

$$42,500/21,000 = 2.02$$

Assuming the industry norm is 1.2, XYZ's current ratio is very good.

The Quick Ratio (also called the Acid Test Ratio) is very similar to the Current Ratio, but more conservative as it does not consider inventory as being liquid enough to use to pay current debts.

When looking at liquidity, you should consider the timing of payments to you (Accounts Receivable terms) and the terms you have with suppliers (Accounts payable terms). Although these are often 30 days for each, stretching out vendor payments can help you with your liquidity. However, you should do this with caution as your vendor relationships are critical to your business.

Using the information provided in exhibit 8.1 and 8.2, XYZ Company's quick ratio is:

$$35,000/21,000 = 1.64$$

Assuming the industry norm is 1.0, XYZ's quick ratio is in good shape.

8.2 Leverage Ratio

Leveraging is the use of borrowing funds to buy assets. When considering a company's leverage you need to look at what the industry norms are so you can compare apples to apples. Some industries require a large amount of debt, such as manufacturers, but others, such as service related companies may not.

Debt Ratio = (Short term debt + Long term debt)/Equity

Using the information provided in exhibit 8.1 and 8.2, XYZ Company's leverage ratio is:

$$21,000+183,000 / 154,500 = 132\%$$

Assuming the industry norm is 85% XYZ's debt ratio ratio is too high. This could be due to the owner not having put enough investment in, or possibly due to the high cost of equipment and other assets to get started. One other cause may be the short amount of time in business and having not seen significant profits over time.

8.3 Profitability Ratios

Obviously you need to have profitability in order for your business to succeed. However, just seeing the net income or loss) only tells you part of the story.

With the profitability ratios you may be able to focus attention on specifically where your profits or losses are coming. You will, of course, need to look at the whole picture including all three of your financial statements.

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Return on Assets (Net Income/Total Assets)

This ratio tells you how well a company using its assets to get sales. The number should be compared to the industry norms to get a clear picture on performance.

Using the information provided in exhibit 8.1 and 8.2, XYZ Company's return on assets is:

$$4,000/33,500 = .01$$

Assuming the industry norm is .07, XYZ's return on assets is too low. Management should consider price increases or expense reductions to increase net income.

Return on Equity (Net Income/Shareholders Equity)

Again, the industry norm for this ratio is important for comparison. However, in short, this ratio shows what the average shareholder should expect in regards to sales.

Using the information provided in exhibit 8.1 and 8.2, XYZ Company's profitability ratio is:

$$4,000/154,500 = .03$$

Assuming the industry norm is .06, XYZ's return on equity is too low. Similar to previous recommendations, management needs to increase profitability.

Net Profit Margin (Net Profit/Revenue)

The understanding and management of both the gross profit margin and the net margin is vital to any organization. Each industry as well as each product produced will have different gross profit margins that contribute to the overall expenses of a company, leaving either a net income or loss.

Using the information provided in exhibit 8.1 and 8.2, XYZ's net profit margin is

$$4,000/125,000 = 3\%$$

Assuming the industry norm is 12%, XYZ's net profit margin is very low. Management should increase revenue or decrease expenses to improve this margin.

Note: This % is particularly important to compare over several periods to watch for trends.

8.4 Turnover Ratio

Asset Turnover (Sales/Total Assets)

This ratio shows you how actively you are using your assets. Normally, the higher this ratio is, the better, but, as often the case with ratios, you need to look at industry norms.

Using the information provided in exhibit 8.1 and 8.2, XYZ Company's asset turnover ratio is:

$$125,000/337,500 = .37$$

Assuming the industry norm is 1 , XYZ's asset turnover is low. Management needs to increase sales in order to use assets more productively.

Inventory Turnover (Sales/Inventory)

This ratio shows you how often you are turning over your inventory. Remember, inventory is there to be sold, so turning it over more often shows more constant sales. Similar to the asset turnover ratio, the inventory turnover is better when higher.

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Using the information provided in exhibit 8.1 and 8.2, XYZ Company's inventory turnover is:

$$125,000 / 7,500 = 16.67$$

Assuming the industry norm is 4 XYZ's inventory turnover is very good. Management is doing a great job at managing inventory. However, management must be careful to have the necessary inventory in order to grow sales revenue.

8.5 Overall Analysis

It is important that you not only consider each of the ratios individually, but also together. Also, when you are completing your pro-forma worksheet, you need to play with the numbers, running scenarios at different prices, costs, volume and borrowing to ensure you have the right mix for a healthy company. This not to say you should manipulate the numbers to make it work, but instead should use this as a tool to guide your decision making.

For ABC Company, the ratios are summarized below.

Current Ratio 2.02
Quick Ratio 1.64
Debt Ratio 132%
Return on Assets .01
Return on Equity .03
Net Profit Margin 3%
Asset Turnover .37
Inventory Turnover 16.67

Considering just the information provided in the financial statements and the ratios, the following can be deduced for ABC company:

1. While management is doing a good job managing the balance sheet of the company, there appears to be significant debt considering the low sales revenue.
2. Management needs to increase sales significantly while increasing profitability. Research on the cost of goods sold for similar companies will give management a clear indication of what and where expenses may be cut. However, it is possible that an increase in gross revenue while keeping fixed cost low may result in the needed increases in net profit and subsequent improvement in balance sheet ratios.

8.5.1 Critical Inquiry

Choose a publically traded company with published financials. Complete an analysis on the company's financials, and comment as to the strengths and weaknesses for each ratio as well as the company as a whole.

8.5.2 Ethical Application

It is all too common for small (and large) business owners to manipulate financial statements to suit their purposes, such as for financing, investments etc. Having "off-balance sheet" items, or recording sales and expenses in different periods are just two of the more common ethical lines some people cross, thinking they are making a small compromise for the greater good long term.

However, ethical breaches of any type, no matter how tempting, must be avoided. One way of doing so is to have an accountability partner with whom you are able to honestly share everything, including your struggles to stay on course ethically.

For this exercise, you will find an accountability partner, either in class or outside of class. It is important that this person someone who you trust completely and who will tell you the truth, even when it hurts.

Talk to this person about your inner struggle to remain ethical in everything you do. Report back to them how you are doing on a regular basis.

Remember...facing your struggle is the first step to overcoming it. Ignore it at your own peril.

8.5.3 Building Leadership Skills

Given the strengths and weaknesses of the financial statement analysis for your company, how can you, as a leader, influence these ratios through proper leadership?

8.5.4 The Global Stage

Look up 2 competing multinational firms. Compare and contrast their financial statement analyses.

9 Bringing It All Together

Your goals for this bringing it all together chapter are to learn about:

- How to bring all the information in this book together into a comprehensive plan

At this point in the process, you should have the majority of your plan either written or outlined with comments. Now is the time to pull it all together into a cohesive, sensible plan that you will be proud to show to others.

To assist you in wrapping everything up, I'll recap each section and give you final comments and advice that I believe will result in a solid proposal.

9.1 The Overall Plan

Print a copy of your plan. Starting with the title page, review each page carefully for three things:

1. Does it have a clean, crisp, aesthetically pleasing appearance?
2. Is the information on the page accurate and complete?
3. What changes, additions need to be made on this page to have it ready?



The advertisement features a woman with dark hair, smiling and covering her eyes with her hands. To her right, the text "What do you want to do?" is displayed in a large, white, sans-serif font. Below this, a paragraph of text reads: "No matter what you want out of your future career, an employer with a broad range of operations in a load of countries will always be the ticket. Working within the Volvo Group means more than 100,000 friends and colleagues in more than 185 countries all over the world. We offer graduates great career opportunities – check out the Career section at our web site www.volvologroup.com. We look forward to getting to know you!" At the bottom right, the word "VOLVO" is printed in a bold, black, sans-serif font. Below it, smaller text reads "AB Volvo (publ)" and "www.volvologroup.com". A horizontal bar at the very bottom lists various Volvo Group entities: VOLVO TRUCKS | RENAULT TRUCKS | MACK TRUCKS | VOLVO BUSES | VOLVO CONSTRUCTION EQUIPMENT | VOLVO PENTA | VOLVO AERO | VOLVO IT | VOLVO FINANCIAL SERVICES | VOLVO 3P | VOLVO POWERTRAIN | VOLVO PARTS | VOLVO TECHNOLOGY | VOLVO LOGISTICS | BUSINESS AREA ASIA.



Click on the ad to read more

You should complete this task for each and every page in the plan including your appendices/attachments. Remember, you get one first impression. If it looks shabby or there are grammatical errors that is what will draw the most attention. If not perfect, it may not even get the first read.

9.2 The Concept

By now you should have the concept figured out. If not, you will need to revisit each section and closely look at any references to the concept that may have been changed at a later time.

For the concept, remember to explain it up front very clearly. You can always go into detail later in the chapter. Assume the reader will only look at the first paragraph or two. Is it understandable at that point?

Later in the chapter you should have details about specifications, etc. You want the reader to see you have really thought this through and know what you are doing. You are not just selling your plan, you are selling yourself.

9.3 Marketing

In addition to ensuring the plan is grammatically correct, you want to make sure everything ties together. For example, if you write in your plan that you will advertise in newspapers and on television, is that included in your budget? If not, the reader will see that you have not paid close attention to your plan and doubt your ability to pull it off successfully.

Do not get too bogged down in details in the marketing section. However, you may want to have a couple examples of advertisements you would like to place, or even ones from competitors that you want to emulate. Remember, you are trying to create a picture in the readers mind. Graphics help tremendously, but too many make the reader lose interest.

9.4 Management

This is the section where you really want to sell yourself. The reader must get comfortable with you as a manager. Showing off your skills and your team are vital in this section.

Have a friend or colleague read through this (and other sections) and give feedback as to how you might strengthen the plan.

9.5 Accounting /Finance and Budgeting

This section is often the most difficult for most people as they don't understand accounting and glaze over when numbers are presented; however, weakness in this area will almost certainly result in a rejection.

If you need to, find an accountant, or even an associate who is well versed in accounting, and have them assist you in preparing this section. The template provided with this book will get you 90% of the way, but even then there is an assumption of some understanding of accounting.

When using the template, make sure you keep copies of various versions as you progress. If you make a mistake later in the process, it may be nice to be able to go back to a point where you were more confident and start again. It is not unusual to get confused when all the data is presented. You want to make sure you have copies to either explain your thought process or to give you a new starting point.

Focus most of your attention on the first sheet. Get comfortable with it so you can manipulate data as needed. If you see that your net income is too low, you may want to increase selling prices etc. Understanding the workbook will help you to tweak the numbers to get the end product you need. Be careful, however, not to manipulate numbers to make something work that is unlikely. Be realistic and honest in this section in particular.

Once complete, it is advisable to have a CPA look at your plan and particularly your financial projections to ensure you are realistic and accurate. This is not only for the financier but also for you as you decide whether or not to proceed with the project.

9.6 Financial Statement Analysis

It is best not to look at this section of your workbook until you have all the other numbers where you believe they should be. If you look at them too early, you run the chance of manipulating numbers so that they look the way you want instead of the way they will more likely be.

Once you have the numbers complete, look at the financial statement analysis worksheet and analyze your company as an uninterested third party would. If there are weaknesses, look at where those are and objectively decide if you can make any changes. If not, you will need to explain these in a footnote to your financials or in another section of your plan.

9.7 Appendices/Attachments

This section may be as small as just a couple pages or may be longer than the body of your plan depending on what you reference in the plan itself.

For this section you want things to be orderly and easily found. If you reference a resume in the management section calling in appendix A3.1, then make sure it actually has that either on the resume itself or on a cover page right before it in the plan.

In this section, more is probably and usually better. Of course there reaches a point where it is too much, but you want to ensure the reader has all the information they need.

Some things to include in your appendix (and reference in the body) include, but are not limited to:

- ✓ Resumes of all key players
- ✓ Industry information from reputable sources.
- ✓ Financial statements and other financial worksheets (Past and future).
- ✓ Samples of work (if applicable)
- ✓ Sample marketing materials.
- ✓ Any other information you think the reader may need or that strengthens your plan.
- ✓ If you are already in business, the reader will want to see past tax statements, interim financials, licenses and any other information proving your history.

9.8 Review and Editing

Once you have a completed plan, you want to do at least one more edit to ensure it is perfect. Review every page again using a new printed version. Make any notes on each page and then fix any issues. Do this over and over until you have no revisions needed.

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9.8.1 Submission

Once the plan is ready, you need to have it professionally bound or put into a binder that is attractive and professional. Most of your readers will be business people, and therefore, any flamboyant colors are to be avoided. The plan should be attractive yet understated.

If you are sending the plan to a venture capital group or other investment groups, do not overnight the plan. Venture capitalists see this as over-eagerness and often toss these plans aside. Simply mail in a professional envelope with a return receipt requested. This way you know when it has arrived.

You should not follow-up on your submission too quickly. Wait at least a week after receipt before contacting the reader. Likely your reader is very busy, and you do not want to be a pest. Nor do you want seem overly eager.

With each conversation you have with a reader, follow up with a thank you note or e-mail that outlines your discussion. This shows good business etiquette as well as ensuring you and the reader's understanding of the conversation is the same.

9.8.2 Knowledge to Action

At this point you should have the majority, if not all of your plan written, even if it may not be as fully developed as you wish it to be. To wrap up your business plan, you need to do the following:

1. Go section by section, proofreading and more fully developing ideas, graphs, etc.
2. Ensure your business plan is cohesive, well organized, and easy to read.
3. Ensure all financials and other attachments such as graphs, referenced reports, and resumes are professionally presented.
4. Have a friend or acquaintance who can be objective read your plan and give feedback. Make necessary changes. (See the Critical Inquiry section that follows).
5. Print your plan in color and have bound professionally or place in a good binder that presents well.

Congratulations! You now have a plan that hopefully will help your dreams come true.

9.8.3 Critical Inquiry

Partner with a classmate and read and critique their business plan. Have a separate classmate read and critique yours. Use this feedback to strengthen your plan.

9.8.4 Ethical Application

By this point, you should be able to reflect on the plan you have written. You now have some big decisions to make. Do you go ahead with this venture or not?

Assuming you do want to continue, how you proceed is very important. Borrowing money from banks, relatives, or using your own savings may be required. While risking your own money is certainly your decision personally, are you able to risk others' money as well?

For this last ethical exercise, you should write a reflection using the SWOT analysis (Strength, Weaknesses, Opportunities and Threats), and then rate your chance of success objectively. You will then need to answer the question, "What am I willing to risk of my own and of others?"

9.8.5 Building Leadership Skills

Present your plan to the class or a team within your class as directed by your instructor. Be professional and present it as you would to someone you hope will invest or otherwise finance your venture.

Ask your audience to give you sincere and honest feedback so that you will be well prepared when presenting to professionals. Be careful not to be defensive, but take criticism as constructive and as an opportunity for you to grow.

9.8.6 The Global Stage

Consider all of the information you have learned about multi-national companies. What company would you like to emulate? Why?

10 Wisdom from the Trenches

Your goals for this wisdom from the trenches chapter are to learn about:

- *To learn lessons from experienced entrepreneurs*
- *To consider the lessons you need to learn and apply as a new entrepreneur*

It is important for you as a new business owner to develop your management and leadership skills. One of the best ways to do this, in addition to a great deal of reading, is to hear from those who have walked a similar path to yours.

In this section, I have asked three successful business professionals to give their words of wisdom learned from years of either being in business themselves or dealing with businesses through financing, investments or consulting. Each is highly regarded in their field which you will see from their biographies.

10.1 Charles Schoen, CPA

Charles Schoen is a CPA located in Charleston WV and has decades of experience in financing and consulting with small businesses.



Charles is active in his own CPA practice as well as an investor/owner in several businesses throughout the South and Midwestern United States.

Mr. Schoen was interviewed and asked what he thinks are the biggest mistakes new entrepreneurs make?

1. Lack of capital needed to start and run the business.
2. Failure to understand their business model-to know what they have to do in regards to revenue amounts, payroll, costs etc.
3. Not staying in touch with changes in their industry such as technology and other changes, declines in revenue outlook, increases in costs or regulation.
4. Having too many eggs in one basket, i.e. having one customer represent too much of your total revenue.
5. When facing cash flow problems, the entrepreneur often does not prioritize paying the right people, but instead pays those that are yelling the loudest.
6. When problems come, an entrepreneur typically hides instead of facing creditors head-on.
7. Failure to understand they can only pay themselves according to the profitability and cash flow of the company.
8. Expanding into new territories or lines, thinking that the success they have in one area will automatically happen in another.
9. Not being realistic.
10. Not managing by objectives.

10.2 Keefe Duterte

Keefe G. Duterte is married to his beautiful wife, Sarah and has two lovely daughters, Nais and Mia. Keefe currently owns and operates one of the largest insurance agencies in the state of Texas. Faced with an economic downturn and bills piling up, he was able to resurrect a dying business into one of the most profitable businesses in Texas.

Keefe Duterte is also a highly paid motivational speaker. Keefe shares his strategies of how to overcome tough times with groups across the country. His book series, *It's Not How You Start, It's How you Finish* embodies his philosophy that it's never too late to be the person you could've been. Keefe is on a mission to encourage people to live their dreams!

What are you scared of?

By: Keefe Duterte

Picture in your mind being attacked by a large shark. Now that is a frightening picture! But should we be scared? Should we be worried about a man eating shark? Will you ever be able to go into the ocean again?

Fear is a powerful motivator. It can get us off our butts, or it can leave us paralyzed. Many times fear will hold us back from greatness. Fear can stop us from realizing our true potential. For years as an Insurance agent, fear held me back. Fear caused me to reject new ideas and “play it safe.” Fear almost destroyed my business. Don’t let it destroy yours.

The late Zig Ziglar taught me to look at fear differently. Fear is really an acronym for – False Evidence Appearing Real. Fear is in your mind. In business and in life, there is a huge difference between danger and FEAR. Your ability to determine the difference is key to your success. So how can you decipher what is an actual threat to your business, and what is a figment of your imagination?

Find a mentor. Sounds simple, but it will be critical to your success. My first three years in business were an utter disaster. I managed to lose over 1.5 million in client premiums. I was struggling. I refused to ask for help because I didn’t want to look “weak.” I was so stupid. Once I got over the *fear* of asking for help, my business skyrocketed. I found a mentor who had been in the insurance business over 25 years. He coached me and showed me how little tweaks in my business could make a *huge* difference. In the words of W. Clement Stone, “Little hinges swing big doors.”

I can’t stress how important it is to find a mentor or business coach. We become the people with whom we surround ourselves. If you want to be successful in business it is imperative that you surround yourself with successful people. Being an entrepreneur is a lonely position in life. When you are a business owner you don’t have colleagues. All the decisions are up to you. You can’t blame “upper management.” You *are* upper management. I joined a mastermind group led by my mentor in 2009. This helped me to connect with other successful, motivated and inspiring business owners that were determined to prosper. If you want to make more money, have a thriving business and avoid losing tons of money like me; surround yourself with successful people. You will be so grateful you did.

I want to encourage you to face your fears. We all have the tendency to avoid pain and suffering. However pain is unavoidable. Maybe you will avoid the short term pain by playing it safe. Unfortunately there is a pain even greater out there.... The pain of regret. Don’t look back at your life wishing you would have done it differently. Go after your dreams. Face your fears! When you do, great things will happen.

For more information on the author Keefe Duterte and how to join a successful business group, please visit his website: www.Keefespeaks.com

8.3 Richard Coleman

Mr. Coleman was born in Chicago, Illinois

And is currently a resident of Arlington Heights, Illinois and Tucson, Arizona

During a varied business career spanning over 45 years Richard owned and operated several successful businesses including two banks.

Richard is married with 3 adult children and enjoys golf, boating and fishing.

Richard's Wisdom from the Trenches

The biggest mistake new business owners make is to not have enough working capital to carry them over during slow sales periods. Remember, banks are not in the business to loan money to only those in need. They loan money to those who can pay it back.

The best way to overcome this is to budget in advance, and then do it again. Allow for the worst possible income flows and then increase your allowance by 20%. Start out raising 50% more capital than you think you need.

Another mistake a new owner can make is to try to be an expert in everything instead of picking one thing, product, service, etc. and becoming a “Master” at that task.

Be passionate about your product or service and become the most knowledgeable person in your industry or profession about how to do it better.

Finally, the third biggest mistake a new owners make is to try to do everything because they think they can do it better.

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You need to learn to delegate and hire the best people you can find who can help you with the skills you do not have or are not interested in acquiring. Surround yourself with advisors who know things that affect your industry or business and seek their help. This should include a CPA, attorney, investment professional, etc. I would go so far as to have a Board of Directors who have skills and are willing to serve in some formal fashion. At the very least, have them serve as an Advisory Board for a free lunch once in a while.

Lastly, don't tell people to do things. Teach them how to do things.

Things to think upon:

1. Nothing great was ever achieved without enthusiasm.
2. Successful people do the things they don't want to do but must in order to become successful.
3. There is no shame in asking for help.
4. Always have an exit strategy just in case. Sometimes it is more difficult to profitably get out of business than it was to get started in the first place,
5. Trust your instincts. They got you this far and are probably right.
6. Never hire someone to work for you whom you would be reluctant to invite into your home.
7. Successful people must have social mobility which is the ability to interact with people of all genders, races, and income levels.

8.4 Conclusive Remarks

My sincerest hope is that this book has helped you to develop a plan that will see your dreams come true. I do not pretend the path you have chosen is easy, but if implemented properly, being an entrepreneur can bring great joy to your life as well as provide important economic growth in your community.

A mentor of mine, Dr. Ron Crum, advises each person to ask these three important questions:

1. What do you want?
2. What will it cost?
3. Are you willing to pay the price?

Be objective in your assessment of your business and make wise, thoughtful decisions that will produce a productive and purpose driven life.

I wish you all the best and success in your endeavor.

Appendix A

Websites for Sample Business Plans and Templates:

1. <http://www.docstoc.com/docs/7951457/Sample-Comprehensive-Business-Plan-Outline>
2. <https://www.stcloudstate.edu/sbdc/documents/AWESOME%20SBA%20business%20plan%20template.pdf>
3. <http://www.sba.gov/tools/business-plan/1>
4. <http://practicalbusinessplanning.com/practical-guide-text.html>
5. <http://www.score.org/resources/business-planning-financial-statements-template-gallery>

Financial Templates:

1. <http://practicalbusinessplanning.com/business-planning-tools.html>
2. <http://www.entrepreneur.com/formnet/finance.html#>
3. <http://office.microsoft.com/en-us/templates/business-plan-financials-TC010380479.aspx>
4. <http://www.score.org/resources/business-planning-financial-statements-template-gallery>

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Appendix B: Sample Business Plan

This appendix has a business plan that uses the information provided in the book but has some variations to meet the company's particular needs.

It is important that business plans have certain items, but that does not mean the writer cannot add or change things to best present their business.

Medical Office, Inc.

**Business Plan to Invest in
Medical Office, Inc.**



Medical Office, Inc.
1234 Main Street
Anytown, USA. 11111
(800) 555-1212

Confidentiality Agreement

The undersigned reader acknowledges that the information provided by Medical Office, Inc. in this business plan is confidential; therefore, reader agrees not to disclose it without the express written permission of Medical Office, Inc.

It is acknowledged by reader that information furnished in this business plan is in all respects confidential in nature, other than information which is in the public domain through other means and that any disclosure or use of same by the reader, may cause serious harm or damage to Medical Office, Inc.

Upon request, this document is to be immediately returned to Medical Office, Inc.

Signature

Name (typed or printed)

Date

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Executive Summary

The Company

Medical Office, Inc. was started in 1985 in Anytown, USA. After nearly three years of operations, the company found itself in desperate need of new management and an overhaul in its fiscal operations. "Owner" of a consulting company in Anothertown, USA, _____, agreed to come into the company as the new Chief Financial Officer to complete a "turn-around". Having had many years of experience doing so, Mr. New Owner was confident Medical Office was a good candidate for a turn-around operation. After 14 months, Mr. New Owner has re-established the credibility of the company with vendors and customers alike, seeing an increase in sales of 30% and a net profit increase of nearly 300%. Now that the company is on solid ground for sales and profits, New Owner believes it is time to bring on a permanent CFO/Owner and refinance the debt of the company through investment/loans.

Medical Office is licensed to operate in all 50 states under Medicare Part B. Presently, Medical Office, Inc. provides durable medical equipment to individual patients, nursing homes and assisted living facilities in USA, _____, _____ and _____. The company specializes in the areas of wound care and respiratory care and has recently expanded into the disposable medical supplies market. Sales in the first full year of operation (20??) were approximately \$300,000. An increase to \$550,000 in 20?? is evidence of the significant growth this company is experiencing. Sales will reach the \$650,000–\$700,000 range in 20?? with net profits of approximately \$300,000. The company's goals are ambitious, yet achievable, with projected 20?? USA based sales of \$750,000+ and _____ based sales of over \$250,000.

The Market

The market for durable medical equipment (DME) in the U.S. alone is \$53 billion, and is expected to increase dramatically due to the aging of the baby boomer population. Over the next 18 years, 72 million people will be turning 60 years old. This increase in the market, along with the fact that Medicare has begun reducing the number of provider numbers issued, gives Medical Office a clear advantage.

The Products

The products offered by Medical Office can be categorized as wound care equipment, respiratory care equipment and disposable supplies. Within wound care, Medical Office offers Group 1 and Group 2 support surfaces (as defined by Medicare coding), bariatric support surfaces, and negative pressure wound therapy pumps. This is a diverse product line which meets the individual demands of customers. The same product diversity exists within the respiratory care product line. Medical Office carries oxygen concentrators, CPAP and BiPAP machines, as well as, disposable oxygen supplies. The third product line, disposable supplies, is an enormous market with nearly unlimited potential.

The Strategy

The growth strategy of Medical Office is to expand sales by opening new offices in major metropolitan areas under franchise operations. Each franchise location will operate somewhat independently while benefitting from a consolidated billing office and inventory acquisition operation in Anytown, USA, the corporate office. The two locations at present (USA and AZ) will become the first two franchises paying royalties to "Corporate" and will be wholly owned by Corporate. Each franchise will pay royalties of approximately 12% of revenues to Corporate. This strategy allows for quick and efficient growth while maximizing the profitability of the company.

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1 Objectives

The objective of this plan is to secure \$1.3 million dollars in investment capital to:

- a. Restructure debt to allow for “franchising” to become a reality;
- b. Bring in a new Chief Financial Officer;
- c. Grow the overall company to a multi-million dollar operation within 3 years.

1.1 Mission

The mission statement of Medical Office is to provide quality care through products and service offerings for patients throughout the U.S., benefiting our employees, community and shareholders. This mission statement extends throughout the corporation as a constant reminder of how the business will operate. The mission is more than just a statement; it is a course of action.

1.1.1 Keys to Success

Medical Office identifies three essential keys for both short-term and sustainable long-term success. These keys include:

1. Hiring staff in a manner that best meets the demands of its current clients and future growth plans.
2. Providing superior customer service to aid in building long lasting relationships.
3. Identifying expansion regions to capture the available markets with franchised and/or subsidiary locations.

1.1.2 Company Summary

Medical Office was established in July 1985 as a USA corporation. The company is licensed to operate in all 50 states under Medicare Part B. Medical Office presently provides durable medical equipment to individual patients, nursing homes and assisted living facilities in USA, _____, _____ and _____. The company specializes in the areas of wound care and respiratory care with recent expansion into the disposable medical supplies market. Sales in the first full year of operation (20??) were approximately \$300,000. An increase to \$550,000 in 20?? is evidence of the significant growth this company is experiencing. Sales are expected to level out at \$600,000 in 20?? with net profits of approximately \$300,000. Projected sales for 20?? resulting from expansion are ambitious, yet achievable, with projected 20?? USA based sales of \$750,000+ and _____ based sales of over \$250,000.

Medical Office leases a 1,500 square-foot office suite in Anytown, USA which also serves as a temporary warehouse for respiratory supplies and equipment rental inventory. Medical Office owns \$350,000 worth of medical equipment which it rents out to individual home-care patients or nursing homes. This equipment consists of hospital beds, mattresses, wound care equipment such as Negative Pressure Wound Therapy Pumps, respiratory equipment such as Oxygen Concentrators, CPAP and BiPAP Machines, Nebulizers and the supplies that go with this equipment. Medical Office is also licensed with Medicare, Medicaid, and all other major insurances. This is extremely important because in 1985, Medicare began to slow down the process of issuing provider numbers to equipment dealers. Without this number, a dealer cannot bill Medicare for any products. Therefore, the licensing is a valuable asset that allows Medical Office to accomplish expansion throughout the United States. This number also allows sales executives the opportunity to provide niche products in the industry which helps create an even greater competitive edge. We estimate the value of this license at \$500,000 and it is steadily appreciating in value. In total, the depreciable and intangible assets of Medical Office are worth approx. \$1,000,000.

1.2 Company Ownership

The USA and _____ franchises will be owned by Medical Office (Corp). Currently, Medical Office is registered as a USA corporation with ownership vested 100% in the two present owners, "Owner" and – Original Owner.

1.2.1 Products

The products offered by Medical Office can be categorized as wound care equipment, respiratory care equipment and disposable medical supplies. Within wound care, Medical Office offers Group 1 and Group 2 support surfaces (as defined by Medicare coding), Bariatric support surfaces, and negative pressure wound therapy pumps. This is a diverse product line which meets the individual demands of customers. The same product diversity exists within the respiratory care product line. Medical Office carries oxygen concentrators, CPAP and BiPAP machines as well as disposable oxygen supplies. The third area, disposable supplies, is an enormous market with nearly unlimited potential.

1.3 Wound Care Equipment

Wound care management is an integral part of the care that nursing and assisted living homes provide to their patients. These facilities cannot meet the care requirements of their patients without the necessary equipment. The Group 1 and 2 Support Surfaces that Medical Office provides to its customers aid in wound healing and are an essential product for all nursing and assisted living facilities. Individual patients with wounds also use this equipment in their homes. The varying needs of each patient allow for the introduction of niche products that will meet specialized wound care guidelines. Patients, nurses and doctors are all involved in the choices made when it comes to wound care healing. Medical Office's sales staff is specially trained to assess the needs of the patient, and the facility in order to provide the equipment that will accomplish wound healing and provide ease of use.

1.4 Respiratory Care Equipment

Respiratory therapy is a growing field that includes more than just the elderly population. Increasing use of sleep therapy to assist patients with sleep apnea and other sleep disorders necessitates the use of equipment such as CPAP Machines, BIPAP Machines and Oxygen Concentrators. All of these devices are prescribed by doctors to deliver oxygen to patients in a way that helps them breathe more easily, increases their oxygen saturation levels, and/or helps them sleep.

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2 Market Analysis Summary

Over the next 18 years, 72 million people will be turning 60 years old due to the maturation of the baby boomer generation. The prospect of growth in the overall market for durable medical goods is massive. All market segments that cater to geriatrics or to the elderly are enjoying enormous growth. Today there are 6,000 companies providing medical equipment & supplies with an annual combined revenue of approximately \$53 billion. The potential for continued immense growth is obviously a very attractive characteristic of the market.

2.1 Target Market Segment Strategy

The target market for Medical Office is based on the expected destinations of the retiring baby boomer market segment- geographical locations such as the Southwest, the South, the Midwest, and the West. To maximize the expansion efforts, Medical Office will research, locate and pursue niche markets where products can be offered with the profitable margins.

2.2 Industry Analysis

Although the durable medical goods industry is competitive, there are unique opportunities within this industry that have not been capitalized upon. Many of the medical goods companies are large national corporations that struggle to provide quality customer service. With competitive pricing, the lack of customer service being provided by large national corporations creates a marketable advantage for Medical Office. The present customer base of Mark Medical has been built on a foundation and value of providing good service. With proper funding, the franchises will be able to continue the environment of value in good service to the expanded customer base. Additionally, the sales executives have the opportunity to provide specialized products that are in high demand by customers.

2.3 Strategy and Implementation Summary

2.3.1 Competitive Edge

Medical Office builds business based on long-standing relationships with satisfied clients. These strengthened relationships provide defenses against competition. Foremost, Medical Office maximizes these opportunities to help our clients understand the value of what we provide. In addition to building relationships, Medical Office has an enormous competitive advantage through the licensure with Medicare, Medicaid, and all other major insurances. The licensure with Medicare is particularly significant since, in 1985, Medicare began to slow down the process of issuing provider numbers to equipment dealers. Without this number, a dealer cannot bill Medicare for any products. An intangible asset of this magnitude is a pivotal part of the growth strategy for Medical Office to expand throughout the United States. The Medicare supplier number also promotes the opportunity for our sales executives to specialize in niche products to create an even greater competitive edge.

2.4 Marketing Strategy

The marketing strategy is a compliment to the overall corporate strategy:

1. Growth through franchises creation in identified major markets of the U.S.
2. Emphasis on service and support.
3. Maximization of existing business relationships
4. Specialize in niche products with high profit margins in the wound care industry

2.5 Sales Strategy

A direct selling strategy is used to reach our customers. As similar products and pricing are offered by competitors, the outstanding service we will provide must be stressed. By using the direct selling method, the goal of establishing and maximizing long lasting relationships with customers is more easily attainable. As expansion into new geographical markets is realized, sales executives will establish regional markets using these same values.

2.5.1 Sales Forecast

The growth in sales can be explained by the expansion into new geographical regions. Also, assumptions include cost of goods sold remaining proportional as a percentage of sales.

2.6 Milestones

Certain milestones recognized since the reorganization of the company include realizing gross sales of \$600,000 in 20??, successfully implementing a professional accounting and finance department and improving net margins. These milestones complement one another. The growth in sales created the need for an accounting and finance department, and the additional department helped improve margins through closer evaluation of sales opportunities. The implementation of a professional accounting and finance department also helped Medical Office establish its foundation for expansion.

2.7 Management Summary

2.7.1 Personnel Plan

The current staff of Medical Office is comprised of six employees and one intern and is expected to triple in the next year due to the rapid expansion of the company. The organization chart includes a sales division and an operating and administrative division. Within the sales division the employees are categorized into territorial sales managers and sales executives.

2.8 Financial Plan

2.8.1 Projected Profit and Loss

Projected gross sales are based on the strong competitive advantages of existing Medicare licensure in all 50 states, sustainable business relationships, researched franchise locations and, specialization in niche products with favorable profit margins. Expense assumptions include remaining proportional as a percentage of sales.

2.9 Financials and Attachments

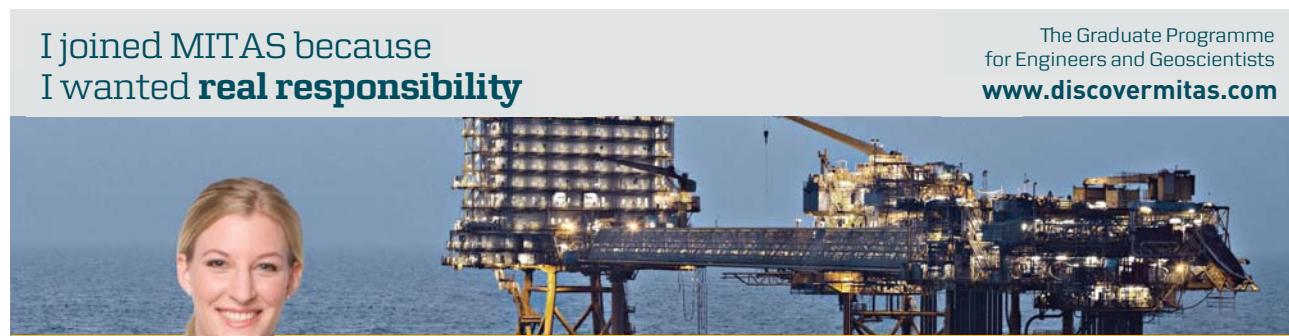
(Not on Sample)

During the 5+ years it took me to write this book, I was blessed to teach small business and entrepreneurship to students in Central America and Africa. I promised some of those students that their names would appear in the book. I wish I had a more comprehensive list. For those I may have missed I beg your forgiveness. To all of you, I appreciate so much your contribution.

- Jonathan Samuel Yanez
- Rory Kelvin Navarro Otero
- Marina Cadelaria Tobar de S.
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- Raúl de Jesús Lopez Varela
- Silvia Odaly Melgar M.
- Cristobal Alberto Martinez V.
- José Daniel Fuentes
- Daniel Menjivar

Endnotes

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