

# Start Simple **BUSINESS COURSE**



**CENTER FOR  
INCLUSIVE  
ENTREPRENEURSHIP**

EMPOWERING COMMUNITIES THROUGH BUSINESS

# Welcome to CIE's Start Simple Business Course!

**IF YOU'RE LOOKING FOR HELP IN STARTING A NEW BUSINESS**, you probably have a lot of questions. Do I need a business license? Should I form a corporation? Do I need a business plan? Will I need to pay taxes? Is insurance required? Can I use my personal bank account for the business?

Although this course will help you answer some of these questions, it is not a "How to Start a Business" course. Instead, the course is designed to give you the tools you need to quickly determine whether your business goals are realistic and achievable and whether moving forward makes sense.

This course is not a business plan writing course. The course assignments will give you a good start on a business plan, but you'll need additional work, research and analysis to be ready to present it to a lender or an investor.

This course is designed to be "back of the napkin." Although there will be homework and some basic research assignments, you will mostly be working with what you already know.

## **FROM HERE, THERE ARE SEVERAL DIRECTIONS YOU CAN GO:**

- » **If you do not complete the course**, you are still welcome to register for our workshops and other events.
- » **If you attend all four parts of the course and complete all the assignments**, you qualify to meet with our Business Advisor for a two-hour consultation to assess the feasibility of your business goals.
- » **If you have business goals that are realistic and achievable**, you are eligible to continue working one-on-one with your Business Advisor who will help you launch your business and get it ready to grow.
- » **If you complete the course but discover that your business idea is not feasible**, we will help you identify the issues and discuss possible next steps.

So, let's get started!



# THE FOUNDATION

In this session you will...

Get to know your fellow participants

Get ready for anything

Know how much capital you have for your business

Know how much business profit you need to be financially self-sufficient

Be able to quickly and clearly describe your business idea or business goal



## TOPICS

- **GETTING TO KNOW EACH OTHER**  
*(DESCRIBING YOUR BUSINESS IDEA OR GOAL)*
- **GETTING TO KNOW CIE**
- **BUILDING THE FOUNDATION FOR SUCCESS**

## ASSIGNMENTS

- WORKSHEET 1.1**  
*Your Personal Net Worth Statement*
- WORKSHEET 1.2**  
*Your Household Income and Expense Statement*
- Your Self-Sufficiency Income Report*  
*(<http://www.thecalculator.org>)*
- WORKSHEET 1.3**  
*Your Business Concept Statement*

## OBJECTIVES

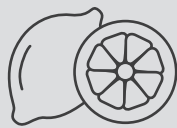
- X Understand how to get the most out of the program**
- X Know your household income and expenses**
- X Develop a "Ready for Anything" mindset**
- X Answer basic questions about your business idea or goal**
- X Know your personal net worth**

## THE READY FOR ANYTHING MINDSET

Everyone is inalienably endowed with unique gifts. Everyone desires to productively contribute their unique gifts to their family and their community. Business ownership is a strategy for doing this.

The ability to start and grow a business is not a genetic trait. It is a mindset. A mindset is nothing more than a set of beliefs and assumptions that govern decisions and actions. We are not born with a mindset. We acquire it. And we can choose to change it.

There is much recent research to define the key elements of the mindset of a person who can start and grow a business. And those elements have NOTHING to do with wealth, education, gender, race, creed, or genetic traits. They are just this:



### LEMONS TO LEMONADE

*LEVERAGE CONTINGENCIES*

Turn problems & obstacles into opportunities to learn, grow and find solutions.



### STAY IN YOUR POWER

*START WITHIN YOUR MEANS*

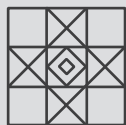
Start with what you have and who you know. Know that many things are beyond your control.



### PILOT IN THE PLANE

*CONTROL RATHER THAN TRY TO PREDICT*

Know that the future is made by your actions. Get behind the wheel.



### CRAZY QUILTER

*FORM PARTNERSHIPS*

Starting a business is a social activity. Build networks with stakeholders who will help you co-create your market.



### AFFORDABLE LOSS

*FOCUS ON THE DOWNSIDE RISKS*

Make many small bets knowing that some of the time you might bet wrong. Fail often, fail cheap, and fail forward with new information.

## \*NOTE

This mindset isn't ONLY about starting and growing a business. It can be applied to anything—getting a good job, climbing the corporate ladder, furthering your education, writing the next great American novel, curing cancer. That's why we call it the "ready for anything" mindset.



## PERSONAL FINANCES

Your personal financial information is the foundation for determining how much you can invest in the business and how much income you need to pull from the business in order to make a living. In addition, money management practices have a big impact on our sense of well-being. Studies have shown that satisfaction or happiness is more a result of being in control of your finances than having a lot of money. Knowing both the good and the bad news of your current financial situation and spending habits will set you on the path to success—in life and in business.

### 1. KNOW YOUR PERSONAL NET WORTH

A **net worth statement** is a “snapshot” of your current financial situation. It is a list of all your **assets** (the things that you own) and all your **liabilities** (money that you owe). Your **personal net worth** is essentially a grand total of all your assets minus all your liabilities.

Knowing your net worth helps you know how much of your own money you can invest in the business. In addition, if you prepare a personal net worth statement annually, it is a useful tool to measure your financial progress from year to year. If you apply for a loan for your business, your banker will need to see your personal net worth statement.



#### ACTIVITY 1.1

David plans to start a cake baking business. Study David’s net worth statement, below. Report back to the class on your observations.

#### CASE STUDY: DAVID’S NET WORTH STATEMENT (JANUARY 1, 2021)

ASSETS		LIABILITIES	
Checking Account	\$1,100	Credit Cards:	
Savings Account	\$1,000	Visa	\$1,500
IRA	\$2,000	Mastercard	\$750
Automobile	\$4,000	Automobile Loan	\$3,600
		Credit Union Loan	\$1,000
<b>TOTAL ASSETS=</b>	<b>\$8,100</b>	<b>TOTAL LIABILITIES=</b>	<b>\$6,850</b>
		<b>NET WORTH=</b>	<b>\$1,250</b>

HOME  
EXERCISE 1.1

Use **Worksheet 1.1 – Your Personal Net Worth Statement** and the following steps to start your own personal net worth statement.

**STEP 1: List your assets in the column on the left.**

Assets are anything you own that has value. Write down how much each item on your list is worth if you could sell it today. Include on your list money (e.g., checking and savings account balances), investments, vehicles, your home, valuable collections. Use your best estimate of the “fair market value” of the assets on your list, that is, the price you would get if you were to sell your assets today.

**STEP 2: List your liabilities in the column on the right.**

Liabilities are whatever you owe. Include on your list: credit cards, student loans, home loans, car loans and personal loans. Be sure to list the total amount you owe on these liabilities, not just your monthly payment.

**STEP 3: Determine your net worth.**

Net worth is the difference between what you own and what you owe, that is, how much is left over if you subtract your liabilities from your assets. This should be a positive number, but it could also be a negative number. If it is positive, ask yourself whether it is in a form that can be used without having to sell something (e.g., cash in a checking or savings account) or if you would have to sell something to use it (e.g., a home that is mortgaged).

**\*NOTE**

Some items will be both assets and liabilities—for example, if you own a car but still have a car loan with an outstanding balance, the market value of your car will be listed under your assets and the balance of the car loan will be listed under your liabilities. And remember, your personal net worth statement is a “snapshot” of your assets and liabilities at a specific time, so be sure to put a date on it.

## 2. KNOW YOUR HOUSEHOLD INCOME & EXPENSES

A *household income and expense statement* summarizes income received and expenses paid on a monthly basis, typically for a 12-month period. The statement forms the basis of a *budget* and is particularly valuable because it shows your spending patterns, helps you determine where expenses can be cut and where money can be redirected. The statement also gives you a sense of your bottom-line financial goals for your business. Your business will need to generate enough income to support your household.



### ACTIVITY 1.2

Study David's income and expense statement, below. Figure out ways for him to save money and create a budget for him. Report back to the class on your ideas.

#### CASE STUDY: DAVID'S HOUSEHOLD INCOME AND EXPENSE STATEMENT (BUDGET)

INCOME	LAST MONTH	IDEAS FOR CHANGE	BUDGET (Projected)
Take Home Salary	\$1,600		
Self-Employment			
Child Support	\$150		
Unemployment/Public Assistance			
SSI/SSDI			
Savings Withdrawals			
Other			
<b>TOTAL INCOME</b>	<b>\$1,750</b>		
EXPENSES	LAST MONTH	IDEAS FOR CHANGE	BUDGET (Projected)
Rent/Mortgage	\$800		
Insurance/Maintenance	\$20		
Phone/Internet/Cable TV	\$100		
Electricity/Gas/Oil	\$40		
Car Payments	\$150		
Credit Card Payments	\$75		
Savings	\$25		
Groceries/Eating Out	\$250		
Clothing	\$100		
Child Care	\$200		
Medical expenses	\$40		
Transportation/Gas	\$110		
Gifts/Hobbies/Pets/Other	\$55		
<b>TOTAL EXPENSES</b>	<b>\$1,965</b>		
<b>INCOME - EXPENSE</b>	<b>-\$215</b>		



HOME  
EXERCISE 1.2

Use *Worksheet 1.2 – Your Personal Income and Expense Statement* and the following steps to start your own *Income and Expense Statement*.

**STEP 1: Estimate your income and your expenses.** Refer to bank statements, pay stubs, checkbooks, and any other documents that will help you remember your income and expenses. Use categories that make sense for your household. In figuring income from your earnings, include only your take-home or net income, which is what you have left to spend after deductions. Include all sources of income, such as child support or self-employment. Be sure to include money set aside for savings in the expense section.

**STEP 2: Create a realistic budget for next month,** based upon your financial goals and your current income and expenses.

**STEP 3: Balance your budget.** Your income should equal your expenses. Don't worry if your expenses exceed your income on your first attempt, but if this is the case, try to think of ways to cut back on expenses, and/or ways

## Extra Credit!

Add your actual income and expenses for next month, compare the results to your budget and note any differences. If you want to really get a handle on your personal finances, do this exercise every month!

to increase your income. Be sure to budget for a reserve fund—a savings account for emergencies or unplanned expenses. As a general rule, you should try to keep enough in the reserve fund to pay from three to six months of your household expenses, especially if you are trying to start a new business. Make changes to your budget to bring it into balance. Note that your monthly expense figure tells you what your business needs to pay you for your business to be feasible. Are you willing to cut back expenses if necessary?

**STEP 4: Check for self-sufficiency.** Use King County's Self-Sufficiency Calculator to determine if your personal household budget has you on a path to financial self-sufficiency. Go to [www.thecalculator.org](http://www.thecalculator.org), complete the survey and see what your monthly household income needs to be in order to be financially self-sufficient. Don't worry, the survey is anonymous.



## BUSINESS CONCEPT STATEMENT

You've determined that you are ready, and you've gotten a handle on your personal financial situation and goals. Now it's time to start working on a clear description of the key aspects of the business—a business concept statement.



Review **Worksheet 1.3 – Business Concept Statement**. Work at home to answer all the questions on the worksheet. Based on your work you just completed, summarize your business concept. Remember your business concept statement should be about 1 or 2 paragraphs (about 75 words), stated in specific language and full of information.

YOU CAN USE THE SPACE BELOW FOR YOUR INITIAL DRAFT!

# WORKSHEET 1.1: YOUR PERSONAL NET WORTH STATEMENT

NET WORTH  
STATEMENT FOR:

DATE:

ASSETS	LIABILITIES
Checking Account:	Credit Cards:
Savings Account:	Visa
Retirement Accounts:	Mastercard
Investments:	Student loans:
Automobile:	Automobile loan:
Residence:	Mortgage:
Personal Property:	Medical bills:
Other:	Other:
Other:	Other:
Other:	Other:
Other:	Other:
Other:	Other:
Other:	Other:
Other:	Other:
Other:	Other:
Other:	Other:
Other:	Other:
<b>TOTAL ASSETS</b>	<b>TOTAL LIABILITIES</b>
	<b>NET WORTH</b>

# WORKSHEET 1.2: YOUR HOUSEHOLD INCOME & EXPENSE STATEMENT

MY HOUSEHOLD INCOME & EXPENSES	LAST MONTH (Actual)	MONTH 1 (Budget)	MONTH 1 (Actual)	DIFFERENCE BETWEEN BUDGET & ACTUAL
<b>INCOME</b>				
Take Home Salary				
Self-Employment				
Child Support				
Unemployment/Public Assistance				
SSI/SSDI				
Savings Withdrawals				
Other				
<b>TOTAL INCOME</b>				
<b>EXPENSES</b>				
Rent/Mortgage				
Insurance/Maintenance				
Phone/Internet/Cable TV				
Electricity/Gas/Oil				
Car Payments				
Credit Card Payments				
Savings				
Groceries/Eating Out				
Clothing				
Child Care				
Medical expenses				
Transportation/Gas				
Gifts/Hobbies/Pets/Other				
<b>TOTAL EXPENSES</b>				
<b>DIFFERENCE</b>				

## WORKSHEET 1.3: YOUR BUSINESS CONCEPT STATEMENT

1. Describe in detail your product or service:

2. Describe in detail the people or businesses who will buy your products and services:

3. Explain why people will buy your products and services instead of those offered by your competitors—what it is that makes your products and services different and unique:

4. My business will be (check the appropriate item):

- |  |  |
|--|--|
| <input type="checkbox"/> Home based business               | <input type="checkbox"/> Internet business |
| <input type="checkbox"/> Leased storefront or office space | <input type="checkbox"/> Other:            |

5. If you will plan to have a storefront or office space, where will it be located? \_\_\_\_\_

6. How many employees will you hire and what will each of them do?

7. Are there any special licenses, certificates or permits you must obtain prior to opening your business?

8. When will I begin offering service?

# THE OPPORTUNITY

In this session you will...

Appreciate the importance of understanding your market

Identify the problem creating your business opportunity

Describe your target market & customer profile

Identify & compare your competitors

Articulate your unique value proposition

Have a basic brand & marketing message for your business

Have a basic plan for marketing materials & methods

Have MVP & strategies to validate your assumptions about your market

## TOPICS

- THE OPPORTUNITY DISCOVERY CANVAS
- DEFINING THE OPPORTUNITY
- UNDERSTANDING THE MARKET
- DEFINING THE TARGET MARKET
- KNOWING THE COMPETITION
- YOUR UNIQUE VALUE PROPOSITION
- BRANDING, MESSAGING, MATERIALS & METHODS
- VALIDATING THE MARKETING PLAN

## ASSIGNMENTS

- WORKSHEET 2.1  
*Opportunity Discovery Canvas*
- WORKSHEET 2.2  
*Competitor Interviews*
- WORKSHEET 2.3  
*Competitor Matrix*

## OBJECTIVES

- X Understand the basics of primary and secondary market research
- X Understand customer profile, target market and niche market
- X Understand direct and indirect competitors and how to learn about them
- X Understand the concept & importance of a unique value proposition (UVP)
- X Understand the basics of branding and messaging
- X Understand the basics of marketing materials and methods
- X Understand the concept and importance of minimal viable product (MVP)



## WHAT IS MARKETING?

When most of us think about marketing, we think of advertising: in your mailbox, on your TV, on Facebook, or hanging off the back of an airplane flying over a crowded beach. Marketing includes these types of promotional activities, but it also includes your product, your pricing, how you differentiate your business from competitors, and so much more. Understanding your market helps you design the right products and services, identify your most likely customers, and develop effective and efficient strategies to make sure they know about you. It is essential to business success.

## THE OPPORTUNITY DISCOVERY CANVAS

The Opportunity Discovery Canvas is a way to organize information about your market. Your answers to the nine questions will be the starting point for your marketing plan. We'll take a look at each of these questions in this session.

Q1

What problem is being solved?

*The Opportunity*

Q2

Who has this problem?

*Your Target Market | Customer Profile*

Q3

How many people have this problem?

*Your Target Market*

Q4

What other solutions are currently available?

*Direct/indirect Competition  
Market Share | Competitor Matrix*

Q5

What is your solution?

*Features & Benefits*

Q6

How is your solution different from the others?

*Unique Value Proposition*

Q7

How will you brand your value proposition?

*Marketing Message*

Q8

How will you get your customers to see your brand?

*Marketing Materials & Methods*

Q9

How can you prove your concept without a lot of risk?

*Minimum Viable Product*



HOME  
EXERCISE 2.1

Use **Worksheet 2.1 – Opportunity Discovery Canvas** to develop a canvas for your own business. Continue thinking, revising and refining your Opportunity Discovery Canvas to reflect new or changing information that emerges as you work to capitalize on your opportunity.

## DEFINING THE OPPORTUNITY (ODC Q1)

You might love fixing old cars or making lovely flower arrangements. But without customers, your passion is just a hobby. Before you can open the doors of your business, you need to find people who will pay for your products or services. People will not want to pay for a product or service unless it helps them solve a real problem or meet a real need.



ACTIVITY 2.1

Describe the problem your products or services will solve?

## UNDERSTANDING YOUR MARKET (ODC Q2, Q3 AND Q4)

In order to find customers, you need to understand your market. Are there people in your market who have the problem your products and services will solve? Who are they? How many of them are there? How much do they spend on products or services like your own? How do you find them? Are there other businesses trying to solve the same problem for the same people? How do you convince people to buy your product or service instead of going to one of your competitors? Answering these questions will require a little *market research*.

**There are two types of market research:**

Learning about the market through your direct observation is called *primary market research*. One effective way to conduct primary market research is to get your family and friends together to talk about your business and get their feedback. Another idea is to call several competitors and make appointments to visit or call them to discuss their services.

Learning about the market by reading information compiled by others is called *secondary market research*. Your public library is a good source of secondary market

research. Go to the library and ask for information on trends in your industry. Also ask about census data to find out how many families live in your area and what the demographic information tells you about them. Try to identify at least three sources of information on your market that will help you with your market research. Include specific trade journals or websites or databases.

## DEFINING YOUR TARGET MARKET (ODC Q2, Q3 AND Q4)

How you find customers depends on who your customers are. No matter what your product or service is, don't assume that anyone and everyone will need or want it. You need to figure out, with as much detail as possible, the profile of the person who will most likely want or need your product or service. This is called a **customer profile**. Some things to consider include:

**Geographic Information:** Where does your ideal customer live? Are you starting a coffee shop and trying to reach people within walking distance of your location? Or are you selling something on the Internet to a global market?

**Demographic Information:** How would you describe your ideal customer in terms of characteristics like age, gender, education level, income level, marital status, number of children, living status (homeowner or renter), religion, and ethnicity?

**Psychographic Information:** What motivates your ideal customer? What influences their decision to buy something? Is it status? Practicality? Price?

It is also important to know how big the opportunity is. How many people in your market have the problem your products and services will solve? What percentage of them are already getting what they need from one of your competitors? How much do they spend for products and services like yours? How often do they buy them? Do they only buy them at certain times of the year? Answering these questions is often challenging and might require some good old fashioned secondary market research.



### ACTIVITY 2.2

Review the case study below. Can you think of other things that would help Sylvia define her target market? For example, where do her customers live, and how much do they spend on soap and bath products?

#### CASE STUDY: SYLVIA'S SOAP CUSTOMER PROFILE

*Sylvia is starting a business selling homemade natural soap and bath products. Most of Sylvia's customers are women, 25-75 years old, moderate to higher income, working in a variety of environments. They are homeowners, drive fuel efficient or expensive cars, and take nice vacations. They like to pamper themselves, give soap as gifts, or have skin conditions that require high-quality natural ingredients. They shop at boutiques, community events, and online.*



**ACTIVITY 2.3**

*Think about who would be most likely to want your products and services, then circle the words and phrases below that may apply to your target market. Write in other words and phrases that come to mind. Share with the class. Add the information to your **Opportunity Discovery Canvas**.*

Work regular hours	Single Parent	Shops at discount stores	Pet owner
Works non-traditional hours	Two or more children	Shops at high-end stores	Married
Male	English as a second language	Rents an apartment	Single
Female	Low to moderate income	Owens a home	Age range: _____
Works in the service industry	Above median income	Involved in community	Education: _____
Works for a corporation	Attends church	Concerned about environment	Hobbies: _____
Travels a lot			Location: _____

## KNOW YOUR COMPETITION (ODC Q4)

It is essential to know what other similar products or services are offered in your market. This will help you know what is needed and what is not, how you can position your business within the community, what prices to charge, how to market your services, and who will give you referrals.



**HOME EXERCISE 2.2**

*As we mentioned above, one effective way to conduct primary market research is to talk to competitors. Use the following steps to get started:*

**Step 1: List the competitors in your area.** Look in the yellow pages and newspapers, online, drive around the neighborhood, and attend community events. If you can't find a competitor in your area, explore nearby communities and websites for similar businesses located in other areas.

**Step 2: Call several competitors** and make appointments to visit or call them to discuss their business.

**Step 3:** Use **Worksheet 2.2 – Competitor Interview Questions** as a guide and to take notes (after several interviews you'll begin to mix them up if you don't write things down).

Try to interview at least one competitor. Don't be discouraged if someone declines to speak with you—many small business owners are very willing to share information but are very busy. So, keep trying—you will find competitors (especially ones located outside your own community) willing to talk with you! If a competitor cannot talk with you, find out as much as you can by observing them—go to their store, or website, etc. When interviewing or observing a competitor, pay special attention to how your products and services will be different—and better—than theirs.

## YOUR UNIQUE VALUE PROPOSITION (ODC Q5 AND Q6)

How do you convince people to buy your product or service instead of going to one of your competitors? You not only need to solve a problem or meet a need, but you need to do this in a way that provides the benefits your customers want that are better than those offered by your competitors. This is known as a **unique value proposition** or **UVP**. It is fundamental to the success of your business. It will shape how you brand your offerings and where and how you connect with your customers.

### \*NOTE

Your unique value isn't necessarily the highest or most expensive value. If you have a competitor that provides top-of-the-line solutions for top dollar and you have a way to provide 80% of the value for 50% of the cost, you can satisfy the unmet need of customers in the middle of the market. Pay-as-you-go phone services are an excellent example of business models that provide strong value to a segment of the market that is unable or unwilling to make a long-term financial commitment to expensive phones and plans.





HOME  
EXERCISE 2.3

Use **Worksheet 2.3 – Competitor Matrix** to list your top three competitors and compare them with your business using criteria that would be considered important to your customers (e.g., price, quality, location, etc.). Knowing what your competitors are doing and what they have or haven't tried will help you make decisions about your own business. You will find unmet needs, or marketing techniques you haven't thought of. From this information, you can begin to identify your unique value proposition that will help you develop a **market niche**—that is, customers looking for your unique benefits.

Use your **Opportunity Discovery Canvas (ODC Q6)** to summarize your unique value proposition.

## YOUR BRAND AND MARKET MESSAGE (ODC Q7)

What do you want your target market to know about your business? What message are you going to send to them that will convince them that they should buy your product or service instead of someone else's? To answer these questions, we need to think about your **brand**.

Your **brand** is how your business is perceived in the marketplace. It should communicate your unique value proposition to the marketplace. Developing a strong brand that elicits a positive emotional response with your customers is important to the success of your business.

How do you go about creating a brand that is compelling to your customers? A useful place to start is to identify your **brand personality**. If your business were a person, what would it be like? Carefree and playful? Innovative and cutting edge? A bit of a rebel? Solid and reliable? Clean cut and strait-laced? Rugged and tough? Grandmotherly and warm? Think about your solution, your customers and your unique value proposition to decide what your brand personality ought to be. You may know immediately what your brand personality should be, or you may want to “try on” a few to see what is most likely to appeal to your customers.

Your **marketing message** is an element of your brand. There's an old adage in marketing: **“Features tell. Benefits sell.”** If you've invented an electric bicycle, your message shouldn't focus on the details of how it works (gears, pedaling resistance, etc.), but instead should communicate how it makes your customer's life better—easier pedaling and more comfortable ride. We humans connect with stories, so use them to communicate your unique value proposition.



Review and discuss the *Sylvia's Soap* case study below.

**CASE STUDY: SYLVIA'S SOAP SHOPPE BENEFITS**

- *Your skin will feel healthier, softer, and more smooth*
- *You'll feel relaxed as you enjoy the wonderful scents*
- *You'll feel cared for and special with our great service and high-quality products*

**Use your Opportunity Discovery Canvas (ODC Q7) to summarize your brand, brand personality and marketing message.** You might also want to review the Business Concept Statement you started in the last session (see *Worksheet 1.3 – Business Concept Statement*) and update the sections describing your products and services to include not only the features but also the unique benefits of your products and services that emerge from your competitor interviews and competitor matrix.

## YOUR MARKET MATERIALS (ODC Q8)

With your brand personality in hand, you are prepared to create your brand identity: colors, fonts, imagery, shapes, language, even the clothes you or your employees wear and how you interact with customers.

Your brand identity includes the materials you will use to convey your brand and marketing messaging to your potential customers. Before you decide **what** marketing materials you should create, you should first think about **where** you are most likely to connect with your potential customers. Once you know where you're most likely to connect with your customers, then you'll know what materials you need to create.

**Are your customers primarily local?** Think about the most cost-effective ways to reach local customers, such as flyers, posts in a local Facebook group, or a classified ad. If you can, try to reach out to your local newspaper with a compelling story idea.

**Are you selling to a larger geographic area?** Identify your particular interest area, whether that's basket weavers or scuba divers, and find websites, publications, or social media groups that focus on your niche.

At a minimum, your marketing materials should include your business name, a tag line and/or logo, and your contact information. Some of your materials, such as flyers or newsletters, should also include your benefits and any other information you want to share.

**Business Name** – Your business name should be descriptive and memorable. It’s OK to use your own name as part of your business name. If you haven’t thought of a business name already, have your classmates help you come up with some ideas.

**Logo** – A logo is a picture that you put on your marketing materials that helps create an image of your business. It makes your marketing materials unique and recognizable, and they should tie into your business name. You can find many examples to use from your own pictures or through clip art on your computer or the internet.

**Tag Line** – A tag line is a phrase that appears on your marketing materials, often underneath your business name, that is catchy and descriptive. A good tag line will help customers remember what is special about your business.

You should have several different types of marketing materials that you use regularly and distribute as often as possible. The materials that you present to your clients and your community in general should have a professional and consistent look (they should all look very similar so they can all be recognized right away as your business).

*Use your Opportunity Discovery Canvas (ODC Q7) to summarize the marketing materials you plan to use.*

## **YOUR MARKETING METHODS (ODC Q8)**

You will need to come up with a plan to reach potential clients with your message and materials—what marketing methods will you try?

The methods you use to get your message to your potential customers are often called **marketing channels**. The difference between marketing materials and marketing channels can sometimes be confusing: Is a website considered marketing materials or a marketing channel? It can be both! While marketing materials are what you create to hold your marketing message (such as business cards, flyers, newsletters, advertisements, videos, websites or blog posts), marketing channels are the strategies you use to get those marketing materials and the message they carry in front of potential customers (such as on a coffee shop window, in an email, in the newspaper, on YouTube or Instagram, or on your website).

The trick is to get the most out of your marketing budget and reach the right people. That's why it's so important to narrow down your target market – you want to make sure your message and materials are reaching real potential clients, not just anybody.

*Use your Opportunity Discovery Canvas (ODC Q8) to summarize your marketing methods.*

## VALIDATING YOUR MARKETING PLAN (ODC Q9)

At this point, your marketing plan has not yet been tested and validated. Testing your marketing strategies out in the real world is where the rubber meets the road. Are the assumptions about the market from your primary and secondary research correct? Will your marketing strategies work to connect to potential customers? Will your value proposition be sufficient to convert leads into paying customers and sales?

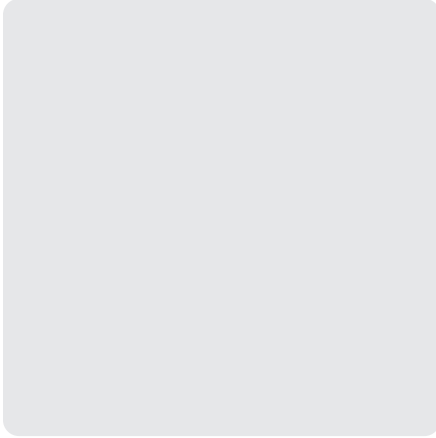
The ninth and final question in the Opportunity Discovery Canvas challenges you to try small tests to see where you get the best responses before investing much, if any, money. Think of no-cost or low-cost strategies for getting a prototype or very simple version of your business idea out into your market—what is often referred to as a **minimum viable product (MVP)**—to gather feedback and input on all aspects of your business model, from the design of your product or service, to the price, to the customer profile and the branding and messaging, the marketing materials and channels, and the promotional strategies that build a strong “product-customer” fit.

Your Business Advisor and other experienced mentors can be especially useful with this “lean startup” validation process. Design and implement small, inexpensive experiments out in your market and then assess the results, pivot, improve, and repeat. This will help you build a viable business that will generate repeatable, predictable and sustainable revenue and profit.

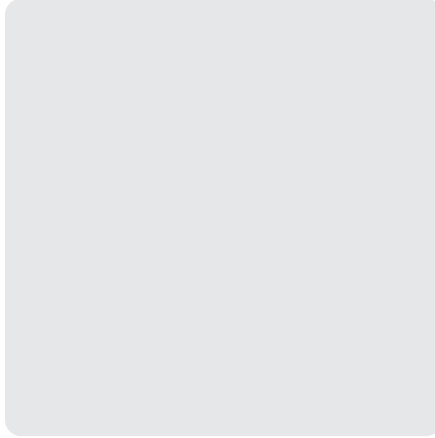
*Use your Opportunity Discovery Canvas (ODC Q9) to summarize your minimal viable product/service.*

## WORKSHEET 2.1: OPPORTUNITY DISCOVERY CANVAS

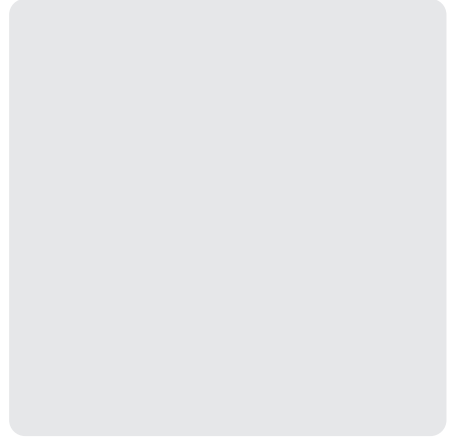
What problem is being solved?



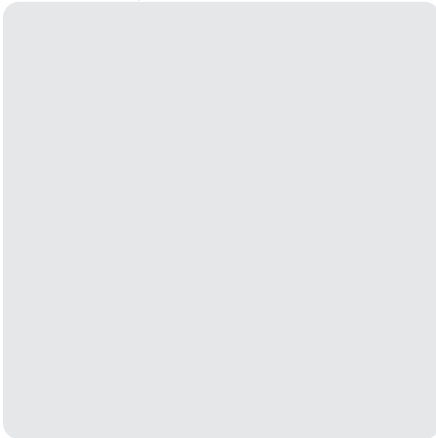
Who has this problem?



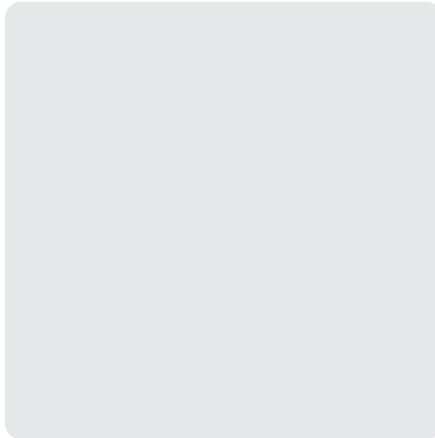
How many people have this problem?



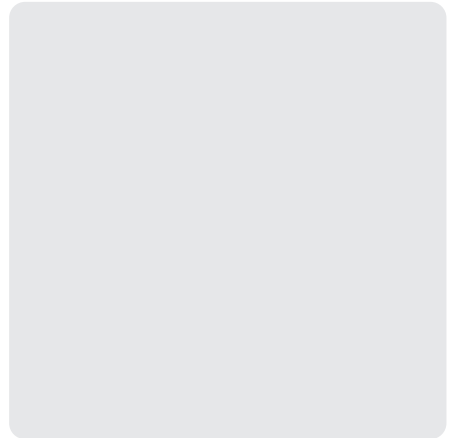
What other solutions are currently available?



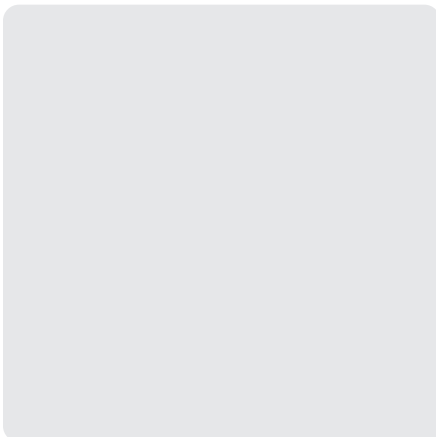
What is your solution?



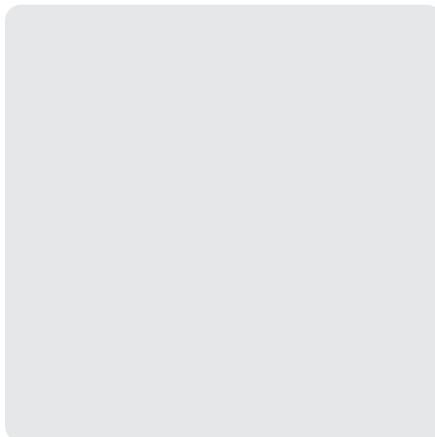
How is your solution different from the others?



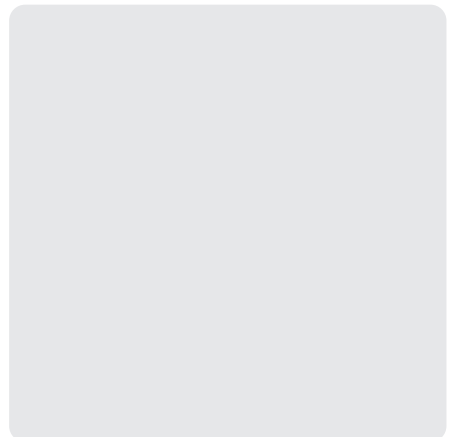
How will you brand your value proposition?



How will you get your customers to see your brand?



How can you prove your concept without a lot of risk?





# WORKSHEET 2.2: COMPETITOR INTERVIEW QUESTIONS

BUSINESS NAME & LOCATION

DATE:

1. How long have you been in business?

2. What services/products do you offer? (include sales location(s))

3. Who are your typical customers?

4. What prices do you charge?

5. How do you market your business?

6. Who are your main competitors?

7. What do you think your clients like best about your service?

8. What do you like and dislike about being a business owner?

9. Is your business self-supporting? How long did it take you to break-even?

## WORKSHEET 2.3: COMPETITOR MATRIX

BUSINESS NAME	UNIQUENESS	QUALITY	PRICE	CUSTOMER SERVICE	LOCATION	MARKETING STRATEGIES
Your Business						
1.						
2.						
3.						

# FOLLOWING THE MONEY

In this session you will...

Understand the basics of business finance

Apply basic business finance to your own business ideas & goals

Estimate how much it will cost to start your business

Estimate how much it will cost to run your business

Estimate your costs of goods sold to determine gross profit



## TOPICS

- **SALES FORECASTING**

*SALES UNITS | SALES UNIT PRICING*

- **COST PROJECTIONS**

*STARTUP COSTS | OVERHEAD COSTS | COSTS OF GOODS SOLD*

- **TOTAL SALES, GROSS PROFITS, & NET PROFITS**

## ASSIGNMENTS

**WORKSHEET 3.1**  
*Your Sales Unit Pricing*

**WORKSHEET 3.2**  
*Your 12-month Sales Forecast*

**WORKSHEET 3.3**  
*Your Startup Cost Estimate*

**WORKSHEET 3.4**  
*Your Monthly Overhead Cost Estimate*

**WORKSHEET 3.5**  
*Your Costs of Goods Sold Estimate*

**WORKSHEET 3.6**  
*Your Gross Profit Calculation*

## OBJECTIVES

**X Understand the elements of a sales forecast (sales units, pricing and volume)**

**X Understand how to prepare a sales forecast**

**X Understand startup costs and how to prepare a startup cost estimate**

**X Understand overhead costs and how to prepare an overhead cost estimate**

**X Understand costs of goods sold and how to calculate them**

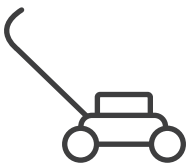
**X Understand the difference between total sales, gross profit and net profit**

## SALES FORECASTING

How much money from sales will you make in your business? To answer this question, you will need to break down your products or services into **sales units**, and then you will need to determine the **price** you will charge for each of your **sales units**. You will also need to **forecast** (make your best guess) how many of each of your sales units you will sell on a monthly basis. The total money made from all sales units sold in a month is called **total sales** or **total revenue**.

### SALES UNITS

Your **sales units** are the discrete products or services you are selling.



**Service businesses** often have only a few sales units. If you have a service business, your sales unit will generally be a certain unit of time. For example, consider Jim, who is starting a lawn care service. His sales unit is simply an hour of time, and his hourly rate is his price. Generally, he provides his customers an estimate of the price for each job based on the total number of hours it will take him to complete the job multiplied by his hourly rate.



**Product businesses** might have several sales units. For example, a Home Depot store has thousands of sales units. Even a small corner store might have hundreds of sales units. For a restaurant, each menu item has unique ingredients and is treated as a separate sales unit. Consider David, who is starting a cake baking business. His sales unit is one cake. If he decided to sell individual pieces of cake, his sales units would also include a single piece of cake.

### \*NOTE

A business can have elements of both a service business and a product business.

- › Jim might buy materials for a job, such as fertilizer or lawn seed. His estimate might include out-of-pocket costs for the materials. He might use a “**cost-plus**” approach for the materials—adding a small amount (say, for example, 5%) on top of the cost of the materials to cover his time for sourcing and purchasing the materials.
- › David might occasionally provide some wedding planning or consulting services for some of his customers. The service would be considered a separate sales unit, probably a unit of one hour of time at an hourly rate.

## PRICING

Charging the right **price** for each of your sales units is challenging but important. Initially, you should consider your costs for making each sales unit, what your competitors are charging, and what your customers are willing to pay.

You should decide what price to charge only after you have done your cost analysis and your market research. For now, use the price that you think makes the most sense. You can adjust the price as your understanding of your costs and your market increase.

Be careful not to underprice your product or service. New business owners are tempted to charge a reduced rate hoping to attract customers, but this strategy can backfire. In many customers' minds, lower prices mean lower quality—not a message you want to send!

Also, keep in mind that you need to make enough profit to pay yourself or the business will not be feasible for you. Microenterprises typically do not have a high profit margin to begin with—so don't sell yourself short!



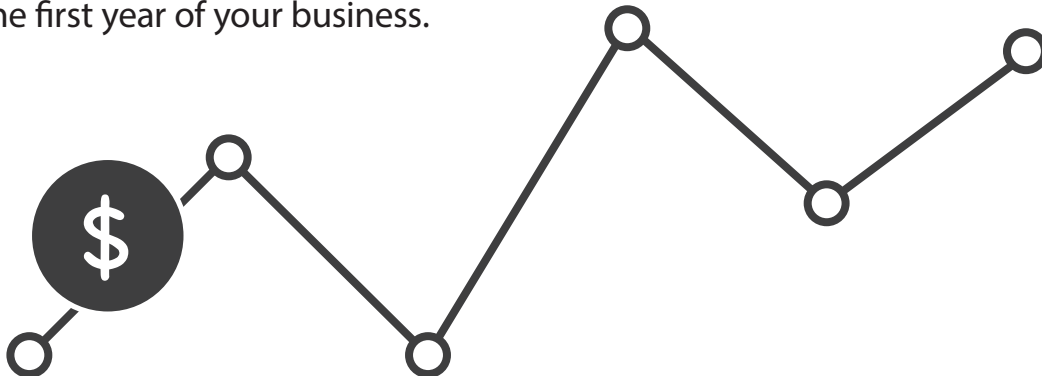
### HOME EXERCISE 3.1

Prepare a price list for each of your sales units using **Worksheet 3.1 – Your Sales Unit Pricing**. If you sell several different products, choose your top five best sellers for the purposes of this exercise.

Remember, this course is meant to be “back of the napkin.” For purposes of this course, it's okay to group together sales units into categories to make sales forecasting easier. For example, for a restaurant with hundreds of menu items, it might be easier to group them into categories such as main courses (about \$15 each), side dishes (about \$8 each), deserts (about \$5 each) and beverages (about \$3 each).

## SALES FORECAST

Now that you've identified your sales units and decided what price to charge for each, you can do a **sales forecast** to predict how much money you will make from sales each month for the first year of your business.





ACTIVITY 3.1

Review the 6-month sales forecasts for Jim and David below.

CASE STUDY: JIM'S SIX-MONTH SALES FORECAST

JIM'S SALES FORECAST	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6
<i>Notes:</i>			<i>Buy truck</i>		<i>Increase rates</i>	<i>Start Cost Plus</i>
1. Hours	50	50	80	80	100	100
2. Hourly Rate	\$25	\$25	\$25	\$30	\$30	\$30
<b>3. Total Job Hours</b>	<b>\$1,250</b>	<b>\$1,250</b>	<b>\$2,000</b>	<b>\$2,400</b>	<b>\$3,000</b>	<b>\$3,000</b>
4. Other Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>5. Total Sales</b>	<b>\$1,250</b>	<b>\$1,250</b>	<b>\$2,000</b>	<b>\$2,400</b>	<b>\$3,000</b>	<b>\$3,000</b>

CASE STUDY: DAVID'S SIX-MONTH SALES FORECAST

DAVID'S SALES FORECAST	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6
<i>Notes:</i>	<i>Have customers</i>	<i>Holiday month</i>		<i>Adding stores</i>	<i>Holiday month</i>	
1. Whole Cakes (# OF UNITS SOLD)	40	50	40	60	80	80
2. Sales Unit Price	\$18.50	\$18.50	\$18.50	\$18.50	\$18.50	\$18.50
<b>3. Total Whole Cake Sales</b>	<b>\$740</b>	<b>\$925</b>	<b>\$740</b>	<b>\$1,100</b>	<b>\$1,480</b>	<b>\$1,480</b>
4. Single Servings (# OF UNITS SOLD)	0	0	0	0	0	0
5. Sales Unit Price	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50
<b>6. Total Single Serving Sales</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
7. Other Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>8. Total Income</b>	<b>\$740</b>	<b>\$925</b>	<b>\$740</b>	<b>\$1,100</b>	<b>\$1,480</b>	<b>\$1,480</b>



HOME EXERCISE 3.2

Use **Worksheet 3.2 – Your Sales Forecast** to determine your own sales forecast. If you have not yet started your business, you may find it difficult to estimate sales. It's OK to guess! At this point, use your judgment, then refine based on your projected costs, financial goals and market research. Be sure to factor in some time for your marketing efforts to start building up your customer base.



## AN OVERVIEW OF COSTS

Knowing your costs is important. Having plenty of customers does not necessarily guarantee profits. To figure what it will cost you to open and operate your business, we'll look at three cost categories: **Startup Costs, Overhead Costs, and Costs of Goods Sold.**

### STARTUP COSTS

**Startup costs** are what you will need to spend in order to get ready to make your first sale. The following activity will help you figure out how much money you need in order to “open your doors.” These costs will be different for each business, but will include things like rent, equipment, insurance, licensing fees, marketing materials, and supplies. You will want to include only those items that are essential for making your first sale. And be sure to look for ways to reduce startup costs by buying used or discounted items.



#### ACTIVITY 3.2

Review the case study on David's startup costs below.

#### CASE STUDY: DAVID'S STARTUP COSTS

COST ITEM	COST	NOTES
Licenses (business, state and city, occupational license)	\$100	Still need to research
Printing business cards and flyers	\$100	Office Depot
Insurance	\$250	First 6 months
Equipment	\$400	Heavy duty mixer Previously purchased mixer, value \$250.00
Supplies	\$200	Apron, scale, mixing bowls, measuring cups, pans, containers, cleaners
Office equipment and supplies		Already purchased computer and printer – value \$800.00
Miscellaneous	\$100	Things I haven't thought of yet
<b>TOTAL</b>	<b>\$1,150</b>	<b>Already spent: \$1,050</b>



#### HOME EXERCISE 3.3

Use **Worksheet 3.3 – Startup Costs** to record your own startup costs. Make notes as appropriate. If you have already purchased some items, include these too but note that they have already been purchased.



## OVERHEAD COSTS

**Overhead costs**, or fixed costs, are those expenses that you must pay to keep your doors open—*whether or not you are making sales*. Most overhead costs are figured on a monthly basis. Some costs will occur once or several times a year, such as insurance payments. Examples of overhead costs include utilities, supplies, salaries, marketing costs, licenses and permit renewals, professional fees and loan payments.

It is important to make as accurate an estimate as possible of your expenses. When in doubt, err on the side of estimating too high. You can be assured that there will be unanticipated expenses at some time during that first year; you will need to plan how you will meet these unanticipated expenses, so consider establishing a separate contingency account for them.



### ACTIVITY 3.3

Review the case study on David's overhead costs below.

#### CASE STUDY: DAVID'S OVERHEAD COSTS

COST ITEM	MONTHLY OH COSTS	NON-MONTHLY OH COSTS	NOTES
Marketing	100	200	See marketing plan
Insurance		500	Liability – pay \$250 2/year
Professional services		150	Legal, tax prep (March)
Office supplies	10		
Web page	35		Friend will design
Repair/ Maintenance		100	Annual estimate
Supplies	40		
Travel	50	450	Business mileage, conference
Subscriptions			
Licenses		60	Annual
Business phone	30		
Equipment		200	New mixer, etc.
Loan Payment	45		Only interest is deductible
Kitchen rental	200		Church will rent
Miscellaneous	20		unplanned
<b>TOTAL COSTS</b>	<b>\$530</b>	<b>\$1,660</b>	

HOME  
EXERCISE 3.4

Use **Worksheet 3.4 – Your Overhead Costs Projection** to record your own overhead costs. Make notes as appropriate. Note that regular fixed monthly overhead costs (e.g., rent, loan payments) are listed in one column and periodic or non-regular overhead costs (e.g., tax accounting fees, insurance payments) are listed in a separate column. The reasons for this will become clear when we do our cash flow analysis and breakeven analysis later in the course.

Though it's true that some of these expenses may fluctuate somewhat depending on how many sales you make, it may be more efficient to estimate and track as an overhead expense than it is to try to figure out what portion of these costs to apply to each sales unit. It's OK if your total overhead costs fluctuate from month to month, as long as you plan for it.

Do not include what you plan to pay yourself in your list of costs. Remember, the profit you make is what you can afford to pay yourself, and you'll figure out what that is when you complete your cash flow statement in the next session. Also, don't figure into business expenses what you need to pay for household expenses. You already figured this number when you did the budgeting exercise, and these are bills you have to pay whether you are in business or not. Some of your household expenses may be tax-deductible, but this calculation is a tax issue. First you need to figure what it costs to run the business, and how to make a profit, before you worry about tax issues.

## COSTS OF GOODS SOLD

**Costs of Goods Sold** or **COGS** (also sometimes called **Direct Costs** or **Variable Costs**) are defined as expenses you incur only in connection with a sale to a customer.

Most service businesses have very few COGS, because they are selling their time, and use only a few or no products at all to complete the job. On the other hand, businesses that sell **products** may have several COGS for each sales unit.

If your business buys items at wholesale prices and sells them at retail prices, the wholesale cost of the item would be considered a Cost of Goods Sold. If your business takes raw materials and manufactures them into a product, the cost of the raw materials (and labor, if you hire employees to help) would be considered Costs of Goods Sold.

David is essentially a manufacturer – he buys ingredients and, following a recipe, he produces a cake. Consider, how David goes about calculating the Costs of Goods Sold for his gingerbread cake. See Activity 3.4, below.



Review the case study on David's Costs of Goods Sold below.

**CASE STUDY: DAVID'S COSTS OF GOODS SOLD**  
David's Costs of Goods Sold Calculations for Gingerbread Cake

INGREDIENTS (STEP 1)	PURCHASE SIZE (STEP 2)	PRICE	RECIPE AMOUNT	CAKES/ AMOUNT (STEP 3)	COST PER CAKE (STEP 4)
Flour	10 lbs (=40 cups)	\$6.00	2 cups	20	\$0.30
Sugar	10 lbs (=40 cups)	\$7.00	1 cup	20	\$0.35
Cinnamon	8 oz.	\$14.29	2 tsp. (=0.34 oz)	23	\$0.63
Ginger	8 oz.	\$8.00	0.5 tsp. (=0.08 oz)	100	\$0.08
Butter	1 lb.	\$2.00	.25 lbs.	4	\$0.50
Molasses	16 oz.	\$4.49	4 oz.	4	\$1.12
Eggs	18	\$2.50	2 eggs	9	\$0.28
Baking Soda	8 oz.	\$8.00	2 tsp. (=0.34 oz)	23	\$0.35
Cake Box	50	\$35.00	1	50	\$0.70
<b>Total Cost per Cake</b>					<b>\$4.30</b>



HOME  
EXERCISE 3.5

If your business manufactures its products from raw materials, use **Worksheet 3.5 – Your GOGS Calculation** and the following steps to calculate your COGS for up to three of your sales units. Note that if you only have one sales unit that's all you need to do. Once again, if you are a service business, you may not need to do this exercise at all, because you may not have Costs of Goods Sold and, therefore, you will only need to account for Overhead Costs.

**STEP 1: Make a shopping list** of all the ingredients/products that go into each sales unit identified in Home Exercise 3.1. (Again, if you have a service business, do not do these steps.)

**Example:** David's Ingredients – Sales Unit = Gingerbread Cake



**STEP 2: Figure the number of units you can make with the amount of each item or ingredient purchased.** For example, David buys flour by the 10 lb. bag, which equals 40 cups of flour. Since the recipe calls for 2 cups of flour, David can make 20 cakes with a 10 lb. bag. David repeats this calculation for each ingredient.

**STEP 3: Figure the cost per unit for each ingredient by dividing the cost of the item purchased by the number of units you can make from the item.** For example, a 10 lb. bag of flour costs \$6.00. Since David figured he can make 20 cakes with one bag, he divided the cost of the bag (\$6.00) by 20 cakes, which comes to \$.30. So, it costs David 30 cents worth of flour for every cake he bakes.

**STEP 4: Repeat this calculation for each of your ingredients and add up all the totals to come up with your total cost per unit.** In the case study, David came up with a total cost per cake of \$4.30.

## CALCULATING GROSS PROFIT

**Gross profit** is the sales price of an item minus the item's Costs of Goods Sold. To determine the gross profit of a sales unit, you will need to calculate the revenue earned after paying the COGS for that unit.

### \*NOTE

Note that service businesses may not have any COGS, so the sales price is the same as the gross profit. This is especially true for consulting businesses. Other businesses have lots of COGS with very little gross profit.



#### ACTIVITY 3.5

Compare the case studies for Carla's consulting business and David's cake baking business below. Carla's price for a consulting hour is \$75.00. Her business is a service business, so she does not have COGS, just startup and overhead costs. Her Gross Profit per Sales Unit is \$75.00 (or 100%). David's price of \$18.50 (for one cake) minus his COGS per unit of \$4.30 equals \$14.20. This number is his Gross Profit per Sales Unit (approximately 75%).

#### CASE STUDY: CARLA'S GROSS PROFITS

CARLA'S SALES FORECAST	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6
<i>Notes:</i>	<i>First contract</i>	<i>New contract</i>		<i>New contract</i>		<i>End First Contract</i>
1. Number of Hours Billed	10	20	20	40	40	30
2. Hourly Rate	\$75	\$75	\$75	\$75	\$75	\$75
3. Minus Costs of Goods Sold	\$0	\$0	\$0	\$0	\$0	\$0
4. Gross Profit	\$750	\$1,500	\$1,500	\$3,000	\$3,000	\$2,250

CASE STUDY: DAVID'S GROSS PROFITS

DAVID'S INCOME PROJECTION	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6
<i>Notes:</i>	<i>Have some customers</i>	<i>Holiday month</i>		<i>Goal to add stores</i>	<i>Holiday month</i>	
1. Cakes (# OF UNITS SOLD)	40	50	40	60	80	80
2. Unit Price	\$18.50	\$18.50	\$18.50	\$18.50	\$18.50	\$18.50
3. Minus COGS per Unit	\$4.30	\$4.30	\$4.30	\$4.30	\$4.30	\$4.30
4. Gross Profit per Cake	\$14.20	\$14.20	\$14.20	\$14.20	\$14.20	\$14.20
5. Total Revenue	\$740	\$925	\$740	\$1,110	\$1,480	\$1,480
6. Total COGS	\$172	\$215	\$172	\$258	\$344	\$344
7. Total Gross Profit	\$568	\$710	\$568	\$852	\$1,136	\$1,136



HOME  
EXERCISE 3.6

Using **Worksheet 3.6 – Gross Profit Margin**, calculate the average gross profit and gross profit margin for your business. To calculate your average gross profits for your business, simply add up the gross profit for each sales unit and divide the number by the total number of sales units. Your average gross profit margin is expressed as a percentage. To figure out your average gross profit margin, add up the total gross profit for all sales units of your business and divide that by the total sales price for all sales units. The resulting number shows what percent of sales is gross profit, or your average gross profit margin.

## WORKSHEET 3.1: YOUR SALES UNIT PRICING

Prepare a price list for each of your sales units. If you sell several different products, choose your top five best sellers for the purposes of this exercise.

Sales Unit #1

Price

Sales Unit #2

Price

Sales Unit #3

Price

Sales Unit #4

Price

Sales Unit #5

Price



## WORKSHEET 3.2: YOUR SALES FORECAST

SALES FORECAST	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6
<i>Notes:</i>						
1. Unit 1 Sales (# OF UNITS SOLD)						
2. Unit 1 Price						
3. <b>Unit 1 Revenue</b> (UNITS SOLD X PRICE)						
4. Unit 2 Sales (# OF UNITS SOLD)						
5. Unit 2 Price						
6. <b>Unit 2 Revenue</b> (UNITS SOLD X PRICE)						
7. Unit 3 Sales (# OF UNITS SOLD)						
8. Unit 3 Price						
9. <b>Unit 3 Revenue</b> (UNITS SOLD X PRICE)						
10. <b>Other Income</b>						
11. <b>Other Income</b>						
12. <b>Total Income</b> (3+6+9+10+11)						

## WORKSHEET 3.2: YOUR SALES FORECAST, CONT'D

SALES FORECAST	MONTH 7	MONTH 8	MONTH 9	MONTH 10	MONTH 11	MONTH 12
<i>Notes:</i>						
1. Unit 1 Sales (# OF UNITS SOLD)						
2. Unit 1 Price						
3. <b>Unit 1 Revenue</b> (UNITS SOLD X PRICE)						
4. Unit 2 Sales (# OF UNITS SOLD)						
5. Unit 2 Price						
6. <b>Unit 2 Revenue</b> (UNITS SOLD X PRICE)						
7. Unit 3 Sales (# OF UNITS SOLD)						
8. Unit 3 Price						
9. <b>Unit 3 Revenue</b> (UNITS SOLD X PRICE)						
10. <b>Other Income</b>						
11. <b>Other Income</b>						
12. <b>Total Income</b> (3+6+9+10+11)						

## WORKSHEET 3.3: YOUR STARTUP COST PROJECTION

STARTUP COSTS	YOUR STARTUP COSTS	NOTES
Licenses (business, state & city, occupational license)		
Printing business cards & flyers		
Insurance		
Equipment		
Supplies		
Office equipment & supplies		
Miscellaneous		
<b>TOTAL</b>		

## WORKSHEET 3.4: YOUR OVERHEAD COST PROJECTION

OVERHEAD COSTS	YOUR MONTHLY OH COSTS	YOUR NON-MONTHLY OH COSTS	NOTES
Marketing			
Insurance			
Professional services			
Office supplies			
Web page			
Repair/ Maintenance			
Supplies			
Travel			
Subscriptions			
Licenses			
Business phone			
Equipment			
Loan Payment			
Kitchen rental			
Miscellaneous			
TOTAL COSTS			



## WORKSHEET 3.6: YOUR GROSS PROFIT MARGINS

To calculate your average gross profits, simply add up the gross profit for each sales unit and divide the number by the total number of sales units. Your average gross profit margin is expressed as a percentage. To figure out your average gross profit margin, add up the total gross profit for all sales units and divide that by the total sales price for all sales units. The resulting number shows what percent of sales is gross profit, or your average gross profit margin.

Unit #1: The Sales Price of	minus the COGS of	a Gross Profit of
\$ <input type="text"/>	- \$ <input type="text"/>	= \$ <input type="text"/>
Unit #2: The Sales Price of	minus the COGS of	a Gross Profit of
\$ <input type="text"/>	- \$ <input type="text"/>	= \$ <input type="text"/>
Unit #3: The Sales Price of	minus the COGS of	a Gross Profit of
\$ <input type="text"/>	- \$ <input type="text"/>	= \$ <input type="text"/>
Unit #4: The Sales Price of	minus the COGS of	a Gross Profit of
\$ <input type="text"/>	- \$ <input type="text"/>	= \$ <input type="text"/>
Unit #5: The Sales Price of	minus the COGS of	a Gross Profit of
\$ <input type="text"/>	- \$ <input type="text"/>	= \$ <input type="text"/>
		<hr/>
TOTAL GROSS PROFIT		\$ <input type="text"/>

**Average Gross Profit** is **Total Gross Profit** divided by the **Total Number of Sales units**, or \$ \_\_\_\_\_.

**Average Gross Profit Margin** is **Total Gross Profit** divided by **Total Sales Price**, or \_\_\_\_\_%.

# THE BOTTOM LINE

In this session you will...

Understand the basics of cash flow

Apply basic business finance to project your cash flow

Understand the concept of breakeven

Apply basic business finance to determine your breakeven point

Understand next steps

## TOPICS

- **PROJECTING CASH FLOW**
- **ASSESSING BREAKEVEN**
- **WRAP UP**

*COURSE REVIEW | NEXT STEPS*

## ASSIGNMENTS

- WORKSHEET 4.1**  
*Your Cash Flow Projection*
- WORKSHEET 4.2**  
*Your Breakeven Analysis*



## CASH FLOW PROJECTIONS

Once you have done your Cost Analysis and your Income Projection, you can do your cash flow projection. Your *cash flow projection* is a chart that shows all the money coming into your business, all the money going out of your business, and the balance at the end of the month.



### ACTIVITY 4.1

Review and discuss the case study of David's six-month cash flow below.

#### CASE STUDY: DAVID'S CASH FLOW PROJECTION

DAVID'S CASH FLOW PROJECTION	START UP	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6
1. Beginning Cash	\$ -	\$350	\$288	\$368	\$206	\$278	\$378
2. Sales/Revenue Received	\$ -	\$740	\$925	\$740	\$1,110	\$1,480	\$1,480
3. Other Cash In (LOAN, OWNER'S INVESTMENT, ETC.)	\$1,500						
4. Total Cash In (2+3)	\$1,500	\$740	\$925	\$740	\$1,110	\$1,480	\$1,480
5. Cash available (1+4)	\$1,500	\$1,090	\$1,213	\$1,108	\$1,316	\$1,758	\$1,858
<b>CASH OUT</b>							
6. COGS		\$172	\$215	\$172	\$258	\$344	\$344
7. Kitchen Rental		\$200	\$200	\$200	\$200	\$200	\$200
8. Marketing	\$100	\$100	\$100	\$100	\$100	\$100	\$100
9. Insurance	\$250						\$250
10. Professional Services				\$100			
11. Office supplies		\$10	\$10	\$10	\$10	\$10	\$10
12. Web page		\$35	\$35	\$35	\$35	\$35	\$35
13. Repair/Maint.					\$50		
14. Supplies	\$200	\$40	\$40	\$40	\$40	\$40	\$40
15. Travel		\$50	\$50	\$50	\$50	\$50	\$50
16. Subscriptions							
17. Business phone		\$30	\$30	\$30	\$30	\$30	\$30
18. Licenses	\$100						
19. Equipment	\$400					\$200	
20. Loan Payment		\$45	\$45	\$45	\$45	\$45	\$45
21. Miscellaneous	\$100	\$20	\$20	\$20	\$20	\$20	\$20
22. Taxes		\$100	\$100	\$100	\$100	\$100	\$100
23. Other (Merch. fees)						\$6	\$6
24. Other							
25. Total Cash Out	\$1,150	\$802	\$845	\$902	\$938	\$1,180	\$1,230
26. Cash Available (LINE 5 - LINE 25)	\$350	\$288	\$368	\$206	\$378	\$578	\$628
27. Owner's Draw					\$100	\$200	\$200
28. Ending Cash (LINE 26 - LINE 27)	\$350	\$288	\$368	\$206	\$278	\$378	\$428



### Consider the following questions:

1. Is David making enough to support his family?
2. How can he cut back on expenses, both personal and business?
3. How can he increase income?
4. Why is he setting aside \$100/month in taxes?
5. Why is he not taking an owner's draw for the first month?
6. How much should he have in savings in order to pay his bills while his business is getting off the ground?

Your cash flow projection is your best planning tool, an essential part of your business plan, and a key part of any loan application. Your cash flow projection predicts what your business account will look like on a monthly basis for 12 months into the future. It allows you to plan when and how much to pay yourself (your owner's draw), helps you plan for major purchases/expenses, and shows you if and when you need a loan.



#### HOME EXERCISE 4.1

*Do your own cash flow for 12 months, using **Worksheet 4.1 – Your Cash Flow Projection**. Make copies before you start. You will need to refer to your cost projections and income projections in order to complete your cash flow projection. When doing the calculations from one month to the next, remember that just like with a checkbook register, your total cash at the end of the month is the same as your total cash at the beginning of the next month.*

## BREAKEVEN ANALYSIS

You can't operate a business without knowing how many units you need to sell in order to break even. **Breakeven** is when your total revenue equals your total costs including your desired owner's draw. Once you've reached your breakeven point, anything you sell beyond it can be used to invest back into the business or increase your owner's draw. If you fall short of breakeven, you will need to have other funding to cover your expenses.



Review David's breakeven analysis and use **Worksheet 4.2 – Your Breakeven Worksheet** to calculate the breakeven point for your business.

1. Monthly income needed.

*David's monthly income required to meet his financial goals:* **\$1,965**

2. Add 25% for taxes (10% federal tax, 15.3% self-employment tax).

*David's total revenue required from the business:* **\$2,456**

3. Add in your business Overhead Costs.

*David- Monthly Overhead Costs:* **\$539**

*Monthly average of other overhead costs (total divided by 12):* **\$1,660**

÷ 12  
**\$139**

*Add Total Monthly Overhead Costs:* **\$539**

+ \$539  
**\$669**

*Add income required:* **\$2,456**

+ \$2,456

*Total monthly income required from business:* **\$3,125**

**\$3,125**

4. Calculate average Gross Profit per unit sold (*Price minus COGS*).

*(If you are a service business with no COGS, skip this step)*

<b>David's price per cake:</b>		<b>\$18.50</b>
<b>David's Cost of Goods Sold per cake:</b>	-	<b><u>\$4.30</u></b>
<b>David's Gross Profit per cake:</b>		<b>\$14.20</b>

5. Calculate how many units or service hours you need to sell each month to pay salary and all business expenses.

*(For a service business with no COGS, use price instead of gross profit/unit.)*

<b>David's total required income (salary + taxes)</b>		<b>\$3,125</b>
<b>Divided by gross profit per unit:</b>	÷	<b><u>\$14.20</u></b>
<b>Total sales needed per month to break even:</b>		<b>220</b>

**Consider the following questions:**

1. If David has another source of household income and doesn't need to take an owner's draw, how many cakes would he need to sell each month to break even on just monthly operating costs?
2. Now that David knows that he would need to sell 220 cakes per month to cover monthly operating expenses and owner's draw, how could this information affect his planning?
  - Will the commercial kitchen he is renting be adequate?
  - Will he need employees to reach these production levels?
  - Will he be able to distribute 220 cakes a month?
  - Will this number impact how he sets up his business and his startup and/or operating costs?
3. How many cakes would he need to sell to cover annual operating costs? How many to cover annual operating costs and annual owner's draw? If he sold 300 cakes per month, in what month would he sell enough to cover all his costs and annual salary and start earning a profit? Does somewhere around the eighth month sound about right?

# WORKSHEET 4.1: YOUR CASH FLOW PROJECTION

CASH FLOW PROJECTION	START UP	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6
<b>1. Beginning Cash</b>							
2. Income (Gross) Received							
3. Other Cash In (LOAN, OWNER'S INVESTMENT, ETC.)							
4. Total Cash In (2+3)							
<b>5. Cash available (1+4)</b>							
CASH OUT							
6. COGS							
7. Kitchen Rental							
8. Marketing							
9. Insurance							
10. Professional Services							
11. Office supplies							
12. Web page							
13. Repair/Maint.							
14. Supplies							
15. Travel							
16. Subscriptions							
17. Business phone							
18. Licenses							
19. Equipment							
20. Loan Payment							
21. Miscellaneous							
22. Taxes							
23. Other							
<b>24. Total Cash Out</b>							
25. Cash Available (LINE 5 – LINE 24)							
26. Owner's Draw							
<b>27. Ending Cash (LINE 25 – LINE 26)</b>							

# WORKSHEET 4.2: YOUR BREAKEVEN ANALYSIS

1. Choose an amount of money you need to make each month meet your goals.

David:

\$1,965

You:

\$

2. Add 25% to account for taxes. (Approximately 10% federal tax plus 15.3% self-employment tax)

David:

$\$1,965 \times 1.25 = \$2,456$

(Think of this figure as your monthly salary.)

You:

\$

$\times 1.25 =$

\$

3. Add in your business Overhead Costs.

David- Monthly Overhead:

\$530

David- Other Annual Costs per Month:

\$139

$(\$1,660 \div 12 = \$139)$

David- Total Monthly Overhead Costs:

\$669

$(\$530 + \$139 = \$669)$

David- Total Monthly  
Overhead Costs + Salary:

\$3,125

$(\$669 + \$2,456 = \$3,125)$

You- Monthly Overhead:

\$

You- Other Annual Costs per Month:

\$

$(\$ \underline{\hspace{1cm}} \div 12 = \$ \underline{\hspace{1cm}})$

You- Total Monthly Overhead Costs:

\$

$(\$ \underline{\hspace{1cm}} + \$ \underline{\hspace{1cm}} = \$ \underline{\hspace{1cm}})$

You- Total Monthly Overhead  
Costs + Salary:

\$

$(\$ \underline{\hspace{1cm}} + \$ \underline{\hspace{1cm}} = \$ \underline{\hspace{1cm}})$



4. Figure your average Gross Profit per Unit (Unit Price minus Unit COGS):

*(If you are a service business with no COGS, skip this step)*

David-  
Gross Profit Per Cake:

\$14.20

$(\$18.50 - \$4.30 = \$14.20)$

You- Unit 1  
Gross Profit Per Unit:

\$

$(\$ \underline{\hspace{1cm}} - \$ \underline{\hspace{1cm}} = \$ \underline{\hspace{1cm}})$

You- Unit 2  
Gross Profit Per Unit:

\$

$(\$ \underline{\hspace{1cm}} - \$ \underline{\hspace{1cm}} = \$ \underline{\hspace{1cm}})$

You- Unit 3  
Gross Profit Per Unit:

\$

$(\$ \underline{\hspace{1cm}} - \$ \underline{\hspace{1cm}} = \$ \underline{\hspace{1cm}})$

David-  
Average Gross Profit:

\$14.20

You-  
Average Gross Profit:

\$

$(\$ \underline{\hspace{1cm}} + \$ \underline{\hspace{1cm}} + \$ \underline{\hspace{1cm}}) \div 3 = \underline{\hspace{1cm}}$

5. Divide your monthly costs + salary figure by your gross profit/unit to figure how many units you need to sell each month to make enough money to pay yourself and pay all the business expenses.

*(If you are a service business with no variable costs, use price instead of gross profit/unit.)*

David-  
Breakeven:

220 cakes

$(\$3,125 \div \$14.20 = 220 \text{ cakes})$

You-  
Breakeven:

\$

$(\$ \underline{\hspace{1cm}} \div \$ \underline{\hspace{1cm}} = \underline{\hspace{1cm}})$

# Congratulations!

**YOU'VE COME A LONG WAY.** You now have the basic information you need to determine if your business idea will work for you – and you've pulled together some of the basic building blocks for a business plan along the way!

- X You've assessed your personal readiness and your personal finance and you have an idea of how much money you can invest in the business and how much income you need the business to provide.
- X You've written a basic business concept statement describing your business.
- X You've completed an Opportunity Discovery Canvas.
- X You've started to define and describe who your target market is and how you will connect with potential customers in your target market.
- X You've done some basic market research, compared your business to your competitors, and know what makes your value proposition unique.
- X You've described your marketing materials and the methods you will use to make sure you reach potential customers to support your sales forecast.
- X You've identified your sales units, prepared a price list and completed a sales forecast to estimate your monthly sales for the first year of your business.
- X You've examined the costs of starting and operating your business, as well as the costs to produce the products you will be selling.
- X You've completed a cash flow projection to estimate how much cash you will have at the end of each month during the first year of your business.
- X You've completed a breakeven analysis showing how much you need to sell to cover your operating costs and your desired income.

**ORGANIZE YOUR WORK AND CALL US** to schedule an appointment to review it together. If your work indicates that it makes sense to move forward, your Business Advisor will help you create an action plan to successfully reach your business goals.

## Here's to your success!