



Enterprising Rural Families™

This newsletter is an instrument of the *Enterprising Rural Families: Making It Work* program of the University of Wyoming Cooperative Extension Service. For further information concerning the Enterprising Rural Families program or on-line course contact information@eRuralFamilies.org or go to <http://eRuralFamilies.org/>.

TIP OF THE MONTH:

To finish up Fran Rees' list of characteristics of a good facilitative leader:

- Understands that different people are motivated by different things and is willing to work hard to address these individual needs
- Shares power and authority with others
- Encourages team members to take responsibility for issues, problems, actions, and projects
- Looks for ways to help the team achieve its goals
- Finds opportunities to reward appropriate behavior; minimizes punishment for inappropriate behavior
- Is firm about goals and flexible about the process used to reach those goals
- Has belonged to and had positive work experience with heterogeneous groups (has not been solely with people who are like himself or herself)
- Is not afraid to address conflict
- Understands and acknowledges that people's individual needs (social, personal, career, lifestyle, work preference, and so on) affect teamwork and works with, not against, these needs.

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STARTING YOUR BUSINESS

by Bill Taylor, University of Wyoming Northeast Area Community Development Extension Educator



STARTING YOUR BUSINESS

Recently I heard someone make a wise statement and then share some discouraging news.

This person bought a business about two and a half years ago. He told me that their business has yet to make a profit in that time, but they are not worried because they are putting all income from the business into improvements and increasing their market share. They had a long-range plan for the business when they purchased it and that plan did not include take-home profit for the first five years. **However**, at the same time the gross revenues of the business have been increasing 15%-20% per year since their purchase, which is right on target with their plan. This person is showing a high degree of business sense.

During this same conversation this person told me another new business owner in town was closing down because they had been open for three months and had not made a profit! How sad that a new owner would go through the effort and expense of starting a business with the delusion that they should expect a take-home check within the

first two years.

Business and financial advisors state that owners should seldom expect to make a profit on a new business within the first two to three years, and often the first five years.

Unfortunately, we see this pattern repeated over and over in our communities – a new business that is open for a short time and then, suddenly, paper over the windows with a “Closed” sign.

The business world is not an easy world or a forgiving one – you must have your plans well made, your market well researched, and long-term financing in place without expectations of any near-term profit before you consider opening the doors of a business. This also goes for a business that you are buying from a previous owner – often you will need to plow all proceeds back into improvements, updates, marketing, etc. for some time before making a profit.

Here are some of the personal characteristics necessary if you are planning to go into business:

- The capacity to work long hours. Are you willing to give up evenings, weekends, and vacations? Is your family willing to give up those things?



- Are you a risk-taker? Are you willing to risk the house, your savings and retirement to make the business a success?
- You must be goal-oriented and a self-starter. If you don't have the enthusiasm and energy to get up early and work late without someone prodding you don't even consider starting.
- You must be self confident, yet not blinded to the problems and challenges of the business by a pie-in-the-sky attitude. Just because you build a better mousetrap doesn't mean anyone will care. If you can't convince them they need your product or service they aren't going to buy it.
- You must be a problem solver. Problems should appear on your radar as challenges to be solved to make your business better, not as reasons to close the doors. You need to be flexible, adaptable and innovative, willing to try new approaches, products and services until you find the combination that works best for your customers.
- You must be persistent. Don't give up – keep up the effort and give it time to grow.
- Business owners must be people oriented. Go the extra mile for your customers – they are always right. Show them that your primary concern is their need. They don't care if you are selling fertilizer; their concern is whether their lawn is green and healthy.
- Be honest and accountable. If you failed or messed up, be honest about it and do whatever it takes to make it right. One complaining customer will pass their complaint on to friends and neighbors.

Five basic skills required by business managers are: basic money management; a marketing mindset; self-management skills; time-management skills; basic office organization.

If you feel you have the characteristics and skills listed above, you may be ready to start or take over a business. However, there is much work to be done yet before you can make that decision. Next time we will talk about the preparation of a business

plan as the foundation for your decision and as a document to sell your concept to others.



WRITING A BUSINESS PLAN

One of the tasks to complete before starting or buying a business is the writing of a business plan. According to the *NxLevel Guide for Entrepreneurs*, the business plan “outlines the basics of a business concept: the business’s mission, objectives, products or services, management, and the basic marketing and financial plan. It is the document designed to reveal whether or not a business idea is workable.”

Doing the research itself to complete the business plan can be eye opening and help you make many decisions, including avoiding mistakes and pitfalls. In addition, most businesses require some amount of outside financing – either in the form of a loan or other investors or partners. A well written business plan will go a long distance in showing investors that you have done your homework, thought the process through from beginning to end, and are entering into your venture with business sense and awareness.

Here are some of the things readers of a business plan will look for:

- Is the business idea viable?
- Are its products or services new, unique, or in some way better than current offerings?
- Does the business create or cater to a new market?
- Are the cash flow and sales projections realistic?
- Can the business be profitable and service its debt?
- Does the business truly understand and place priority on customer needs?
- Is the business concept clear, focused, and intelligently presented?
- Is the business concept based on sound research and analysis?

The length of the business plan will depend on the complexity of the business and the amount of research the writer does in preparation for the document. Some plans are a few simple pages, while others may be hundreds of pages.

The executive summary contains a condensed version of all the other sections and is the opening statement that gives the reader cause to examine the rest of the document.

Following the executive summary is a listing and explanation of the mission, goals, and objectives of the business. This is where the underlying business concept is described along with the stages of development.

The third section contains background information, explaining the specifics of the industry and its past and present trends. Where was this industry five years ago and where will it be five years from now?

Fourth, the document describes the legal form of ownership and the organizational structure management will use to run day-to-day operations. The people and positions involved are described, as well as bookkeeping and financial procedures.

The marketing section is one of the most important parts of the document and will show whether you have really researched and defined your market and what you have to offer. Who are your target clients? What is the demographic and psychographic data that supports your plan? What is your competitive analysis and market strategy?

The financial plan includes such items as salaries, wages, and benefits; outside services; insurance; advertising; occupancy expense; sales forecasts; costs of goods sold; fixed assets; growth expenses; and miscellaneous expenses. It also includes cash flow projections, a balance sheet, and other financial statements.

The last section is an appendix section and it includes numerous supporting documents such as a timetable for action, market research, resumes, specifications, testimonials, etc.

DO A MARKET STUDY BEFORE YOU START

One of the most important parts of the business plan is the marketing section. Without sufficient research and planning for your market, your new

business may be headed for hard times or even defeat, which will mean a big loss to you in time and money.

Many of us think that, because a business sounds interesting and challenging to us, that the public will feel the same way and beat a path to our door. Nothing is further from the truth. Building a better mouse trap assures us of nothing. Unless the public has too many mice and your product is of better quality, cheaper, or easier to obtain, they will largely ignore you.

So how do you determine if there is a market for your product or service? First, you need to do some extensive research. Here are some of the questions that you need to answer:

Industry background



- ▶ What industry are you in and how has the industry developed? What have been the industry's growth patterns?
- ▶ How do firms operate within the industry? What is their normal way of doing business?
- ▶ What is the average size of a business in your industry in gross sales, number of employees, capital investment, sales costs, and profit margin?
- ▶ What is the average size of the community where your type of business is located?
- ▶ What are the current trends of the industry that your business is in? What is the size of the market?
- ▶ What industry trends are predicted for the future? How will technology impact the industry? What about government regulations?
- ▶ How do your products and services fit into the industry?

Your product and/or service

- What specific products and services will my business offer?
- What is my customer profile? Without customers your business is a failure - you **must**

Determine what the characteristics of a typical customer are for your type of business. This will profoundly affect the development of your marketing plan later on. Characteristics you need to know are things like: gender, age, income bracket, occupation, location, family status, children, education, and ethnic origin.

Competitive Analysis

Lastly you need to compare your business to the competition. Unless you have some reason or “edge” that brings people to your business rather than the competition, your business will be lackluster.

You need to compare your proposed business with your major competitors in several areas: products, price, quality, selection, customer service, product service, reliability, expertise, image and reputation, location, store layout, appearance, sales method, credit policy, availability, management, stability, and advertising.

After gathering this information you need to answer some hard questions like:

- ◆ Who are your strongest competitors and where are they located? Is their location a strength or a weakness?
- ◆ Summarize the key features and benefits of your strongest competitors. How do their products and services meet the needs of the consumer? What do they do well? How do you know this? How do their prices compare to yours?
- ◆ How will your products and services better meet the needs and wants of your customers? How are your products/services unique and different from those of the competition? What can you do better than your competitors – how do you know this?
- ◆ What are your key competitive advantages?

MARKETING PLAN

First, what **is** marketing? Marketing is **everything** you do to promote your business, from the moment you conceive of it to the point at which customers buy your product or service and begin to patronize your business on a regular basis. Advertising is only one component of a complete marketing plan.

Previously we talked about researching your clien-

tele. Your marketing plan should spell out specifically who your customers are. Are they teenagers interested in music, families wanting recreation, or workers buying footwear? Determine **who** you are selling to.

Next, determine your market area. What are the logical geographical boundaries you can expect to reach with a business of your size and type? Are you going to depend on walk-in traffic or will you provide websites, catalogs, and shipping?

Third, what is your potential market size? Once you have determined the size of your market area, estimate how many potential customers there are within that area. Now ask yourself how many of them you can convince to trade with you. 10%? 20%? 50%? How much will each spend per year for your product or service? These numbers can give you an estimate of your potential gross sales for the business.



There are five “P”s of a market plan:

1. Products or Services: you need to be able to answer questions like:
 - What do your products or services do?
 - What makes yours unique or special?
- Who will buy them?
- When will they buy them?
- How much will you charge?
-
2. Packaging: this is the way your business is presented to the marketplace. It includes things like the image of your business and the consistency of your presentation in **all** communications. If you see golden arches you always know what to expect.
3. Place
 - Where do you do business?
 - The location can impact customer availability and service.
 - The location needs to “fit” the customer expectations.
 - What is your position in the distribution chain? Retail outlets don’t do well in the industrial section.
4. Pricing
 - This is determined by things like cost of production, demand, what the market will support, and perceived value. Pricing is also influenced by factors such as re-

placement cost of equipment, waste of raw materials and damage, annual inflation, advertising costs, and wages and salaries.

5. Promotion

Promotion includes personal selling, word of mouth, public relations, sales promotions, and advertising.

A business without a marketing plan is like a ship without a sail. It has good stuff on board but it isn't going anywhere. Good market planning is essential to the success of your business.



Beware of the “pie-in-the sky” attitude, be realistic when starting your business, you must be:

Able to work long hours

Willing to take risks

Goal-oriented and a self-starter

Self confident

A problem solver

Persistent

People oriented

Honest and accountable



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