The Indian Business Owner's Guides

Guide One
Developing a Marketing Plan

•

Guide Two
Performing a Preliminary Feasibility Study

•

Guide Three
Preparing a Business Plan

•

Guide Four
Securing Financing

Revised and expanded in 1993 by the North Coast Small Business Development Center in cooperation with The Seventh Generation Fund.

Revised and expanded in 2005 by ACKCO, Incorporated, under contract 233-03-0009 from the Administration for Native Americans, U.S. Department of Health and Human Services, Washington, D.C.

The Indian Business Owner's Guides

By Suzanne M. Burcell

Guide One
Developing a Marketing Plan

•

Guide Two
Performing a Preliminary Feasibility Study

•

Guide Three
Preparing a Business Plan

•

Guide Four
Securing Financing

Revised and expanded in 1993 by the North Coast Small Business Development Center in cooperation with The Seventh Generation Fund.

Revised and expanded in 2005 by ACKCO, Incorporated, under contract 233-03-0009 from the Administration for Native Americans, U.S. Department of Health and Human Services, Washington, D.C.

The Third Edition of
The Indian Business Owner's Guides
is distributed on a nonprofit basis by:
ACKCO, Incorporated
1326 North Central Avenue, # 208
Phoenix, Arizona 85004
Phone: 1-800-525-2859
Fax: 1-602-253-9135
www.ackco.com

The First Edition of *The Indian Business Owner's Guides* was published in 1990 by The Seventh Generation Fund. The Second Edition was published in 1993 by the North Coast Small Business Development Center in cooperation with The Seventh Generation Fund, with support from the U.S. Small Business Administration under Cooperative Agreement Number SB-2M-00157-03. The Third Edition of *The Indian Business Owner's Guides* was published in 2006 and is based upon work supported by the Administration for Native Americans under contract 233-03-0009.

Dedication

To my clients, whose hard work, honesty and good humor have enriched and guided my professional career;

To the many American Indians whose enthusiastic participation in a variety of pre-business planning workshops has motivated me to publish these guides;

To my mother, whose daughter I truly am; and

To my daughters and grandchildren, whose love keeps me in touch with the important things in life.

Main Table of Contents

Suzanne M. Burcell, a member of the Karuk Tribe of California, has provided business, economic, and community development services to American Indians, Alaska Natives, and Tribal communities through a variety of community-based non-profit organizations, Tribal governments, and university-based programs since 1980. Her 25 years' experience includes assistance to individual Indian entrepreneurs, Tribes, and organizations in the states of Alaska, Arizona, California, Montana, Oklahoma, Oregon, and Washington. She has conducted numerous training workshops on a wide range of topics, including marketing, pre-business planning, financial packaging, community needs assessment, grant writing, strategic planning, management decision-making, and organizational development.

Suzanne received a Bachelor of Arts in Psychology, *Magna Cum Laude*, in 1978 and a Master of Business Administration in 1981, both from Humboldt State University in Arcata, California. She received a lifetime Instructor Credential in Business and Industrial Management from The California Community Colleges in 1985 and the Distinguished Alumni Award from Humboldt State University in 2000. Suzanne returned to Humboldt State University in 2001 as Director of the Indian Teacher and Educational Personnel Program and completed a Master of Arts in Education in 2004. She currently teaches upper-division courses in American Indian Education, including asynchronous online courses accessible to distant learners. Suzanne lives in Willow Creek, California, in close proximity to her grandchildren and extended family.

Main Table of Contents

The updated information and fresh new design of *The Indian Business Owner's Guides* were made possible under the leadership of the Administration for Native Americans (ANA) Commissioner Quanah Crossland Stamps, Administration for Children and Families, U.S. Department of Health and Human Services, Washington, D.C., under Contract No. 233-03-0009. Were it not for Commissioner Stamps' enthusiasm for this project, I would have been content to await the "new and improved" manual of a younger-generation Indian business developer. Our editing and production team agreed to update, rather than completely revamp, *The Indian Business Owner's Guides* so that we might increase their usefulness for a few years, without dissuading others from a more ambitious undertaking. I am grateful to members of the ANA project team for making this Third Edition of *The Indian Business Owner's Guides* as painless as possible – and I hope the *Guides* continue to make meaningful contributions to the self-sufficiency of Tribal people around the country.

Main Table of Contents

Table of Contents

Guide Two – Performing a Preliminary Feasibility Study

Guide Three - Preparing a Business Plan

Guide Four - Securing Financing

Learning Aids in These Guides

Exercises

Worksheets

Other Learning Aids

Examples

How to Use These Guides

Sequence

The Indian Business Owner's Guides are designed to facilitate your self-paced movement through four phases of business planning:

1. **Developing a marketing plan** that facilitates your advantageous use of marketing principles and research so that you can determine who needs your products or services, how much they may be willing to pay for them, how you will compete for their business and what your share of the total market might be (in sales revenues);

2. **Performing a preliminary feasibility study** that explores the startup and operating costs of your business and assists you in determining whether your realistically projected sales revenues will be sufficient to cover your business' costs, repay its debts, sustain its growth and meet your personal financial needs;

3. **Preparing a business plan** that clearly and concisely presents your strategies for meeting the financial, managerial and technical requirements of your planned business venture; and

4. **Securing business financing** that will serve the short-term and long-range needs of your business with the most favorable terms available from creditors.

Because the business planning process follows a natural progression from one phase to the next, you will benefit from using these guides in the sequence presented. A well-conceived marketing strategy will facilitate feasibility analysis, which begins with realistic market projections and culminates in a determination of profit potential. Once your feasibility study has been completed, your business plan can be written in a straightforward manner that demonstrates you have done your homework and are ready for business ownership. Then the business plan can be refined into a financing proposal by adding requests for financing from creditors whose programs meet your specific needs.

If you are already in business, *The Indian Business Owner's Guides* may assist you in reexamining the assumptions underlying your original business plan. If market conditions have changed, you may benefit from reviewing the *Guide to Developing a Marketing Plan.* If the managerial or technical requirements of your business have changed, you might wish to focus on the *Guide to Performing a Preliminary Feasibility Study.* If it is time to expand your business, you may want to

utilize the *Guides to Preparing a Business Plan* and *Securing Financing*. While each of the guides may be used independently of the others, they are considered optimally useful as a series of four.

Exercises and Worksheets

The Indian Business Owner's Guides include a number of exercises to help you explore ideas, assess business opportunities and practice new planning skills as you acquire them. The *Guides* also contain a number of worksheets to assist you in developing marketing strategies, determining your startup and operating costs, and predicting the financial performance of your business.

You might want to photocopy the exercise and worksheet pages so that you can experiment with different ideas and assumptions about your business. The completed forms will become internal records of your business planning and research efforts. Because you will be researching many different aspects of your business and gathering information from any number of sources, you might want to get in the habit of writing things down – not only your findings but also the sources of information. It may take several months to plan your business, and relying on memory alone is bound to result in unnecessary backtracking. The planning process offers a good opportunity to develop information gathering and recordkeeping skills that will serve you well as a business manager.

Variety of Business Examples

In developing *The Indian Business Owner's Guides*, the author has used a variety of fictitious examples to illustrate financial and other considerations typical of broad categories of business. In *The Indian Business Owner's Guide to Developing a Marketing Plan*, the basketmaker's example typifies handcraft businesses, the building contractor's example typifies construction companies and the professional gardener's example typifies service businesses. In *The Indian Business Owner's Guide to Performing a Preliminary Feasibility Study*, the tribal convenience store example typifies retail businesses. The alfalfa grower's example in *The Indian Business Owner's Guide to Preparing a Business Plan* typifies agricultural/field crop projects.

Sample Business Plan

If you are anxious to start your business, the information gathering and recordkeeping tasks involved in planning may test your patience, especially if you have not had the opportunity to review a well-prepared business plan. Prospective business owners sometimes become frustrated by what seems to be an endless checklist of "information needed"

Main Table of Contents

because they do not understand how the prescribed research will be incorporated into the finished business plan. The experience is a little like trying to locate parts for a printing press without ever having seen one – it is hard to maintain a high level of motivation when the goal is impossible to envision.

The Sample Business Plan at the end of the *Guide to Preparing a Business Plan* helps to illustrate how your research into the marketing, production, managerial and financial requirements of your business will be translated into a well-written plan. Due to space limitations, the Supporting Documents have been excluded. While the Sample Business Plan is fictional and for illustrative purposes only, it nevertheless makes "real" the necessity of all the research that went into it. Hopefully the prospect of developing an even better plan for your own business will help you maintain your enthusiasm throughout the information gathering and recordkeeping process.

Glossary of Terms and Subject Index

New in the second edition of *The Indian Business Owner's Guides* were the Glossary of Terms and Subject Index found at the end of the series. The Glossary serves as an abbreviated dictionary of business terms introduced in each of the four *Guides*. The Subject Index will help you locate business terms and concepts for quick review.

Main Table of Contents

Before You Begin

Take Time to Reflect

Knowing who you are, what you want and why you want it may be even more critical to your success in business than good management, careful planning and adequate financing. If you imagine that owning a business will be the most rewarding experience of your life because it will bring you a sense of accomplishment, enhance your personal image and provide you with financial security, beware. A new business may require your nearly undivided attention twelve or more hours per day, six or seven days per week, for several years before "success" is apparent. Many personal sacrifices undoubtedly will be made along the way. Before you commit your time, energy and financial resources to such an endeavor, take a moment to reflect on your own personal "meaning of life" and the often elusive notion of "happiness."

Personal attitudes, beliefs and perspectives are developed in response to cultural and family environments. As Indian people we are the embodiment of thousands of years of teachings passed from one generation to the next in the oral histories, songs and legends of our ancestors. Among many American Indians raised in multicultural environments, the dream of owning a business evokes mixed emotions – it might be an opportunity to create more choices in our lives, to become self-determined and self-reliant...or it might pull us away from the traditions and values that have nourished our spirit and sustained us as distinctly tribal people in a nation of "rugged individualists."

Before you begin constructing your business plan, build a solid foundation of personal values that will keep you in integrity with your "self" – all that you are and all that you hope to become. Remember that by honoring your true self, you honor your ancestors as well. Should there come a time when you are forced to choose between maximizing profits and preserving your cultural integrity, your spirit will be strong…your happiness, assured.

If you find it difficult to make a clear statement of your values, the following Values Clarification exercise might facilitate your personal exploration. Find a quiet place, spend some time reflecting on each question, jot down your thoughts, add input from family and friends – make it a spiritual journey. Then review the discussion of ideas and responses gathered from pre-business planning workshops held throughout the state of California.

Main Table of Contents

Exercise 1 – Values Clarification

1. What is the most important thing in your life today?

2. Why would you like to go into business? (What are your motives?)

3. What kind of business would you like to own? Why that kind?

4. How do you define "success in business"?

5. Where would you like to be (what would you like to be doing) five years from now?

6. What are your worst fears about your future?

7. What "first impressions" do you make on new acquaintances? (How would a stranger describe you following a first encounter?)

8. Complete these lines using three key words for each blank:
   How I would describe… …would describe me as…

   _____ my mother _____

   _____ my father _____

   _____ my mate _____

   _____ my kids _____

   _____ my best friend _____

   _____ my co-workers _____

   _____ my employer(s) _____

   _____ my teacher(s) _____

   _____ my tribal council _____

   _____ my spiritual leader _____

9. What is the most difficult thing you ever have done?

   _____

   _____

   _____

10. What is the most rewarding thing you ever have done?

   _____

   _____

   _____

11. What is the least rewarding thing you ever have done?

   _____

   _____

   _____

Exercise 1 – Values Clarification – continued

12. Whom do you most admire? Why?

13. Whom do you least admire? Why?

14. What are the three worst problems in your community today?

15. What are the three worst problems in the world today?

16. If you could teach your children just one "key to happiness," what would it be?

17. What principles or values must never be compromised?

18. What does it mean to you to be "an Indian business owner"?

Discussion

1. *What is the most important thing in your life today?* While many people are focused on "staying alive" – meeting their own basic needs for food, clothing, shelter and transportation – others report that the most important things in their lives include maintaining cultural traditions and spending time with their families. Young parents may be very focused on rearing and educating their children. While owning a business may facilitate meeting one's basic needs, it might also require a lot of time and attention you would rather devote to other important things in your life.

   An essential part of pre-business planning is to establish your personal priorities so that the really important things aren't overlooked. If spending a certain amount of time in cultural activities or with your family really is the most important thing in your life today, you will want to explore the feasibility of your business with that priority in mind. To avoid sacrificing your personal happiness, you will need to develop strategies for success in business that honor personal as well as profit goals.

2. *Why would you like to go into business?* Unless you understand your own motives for being in business, it will be very difficult to achieve a sense of success. Many people are motivated by the challenge of business and the promise it holds – income, financial security and materially enhanced lifestyles. Others are driven by the lifelong dream of business ownership because it offers an image of independence and control of one's own destiny.

   It is important to understand your own motives – and to have an idea which are most and least essential to your happiness. If making a specific amount of money is the primary goal, your business planning effort will focus on market and financial projections. If independence is the major attraction, your feasibility analysis might focus on market conditions or regulatory requirements that could limit your control.

3. *What kind of business would you like to own? Why that kind?* Again focusing on motives, this question more specifically addresses the nature of the business you want to own. Indian people often are motivated by the freedom to express themselves in unique ways, culturally and technically. As an example, an Indian community might promote traditional lifestyles and good nutrition while developing a sustainable economy through cooperative farming of

Main Table of Contents

native corn and other vegetables. It might maximize crop yields and minimize environmental impacts by using drip irrigation methods developed for desert agricultural production. In addition to meeting its members' needs for food, the cooperative might enhance its overall economic self-sufficiency by marketing surplus crops.

4. *How do you define "success in business"?* Too often people have unrealistic expectations of their envisioned businesses. If your dream of owning a business derives from such expectations as being your own boss or making your own hours, think again! You may be trading in your old boss for a whole host of new ones – creditors, customers, employees, landlords, lawmakers, suppliers and tax agents to name a few. And you may find that "making your own hours" means trading a 40-hour week for 60 or 80 hours – without breaks, sick leaves or vacations.

   On the other hand if you define "success in business" as a slow and careful process of working hard to provide a better product or service at competitive prices in order to build and maintain a loyal clientele so that you and your family can enjoy your chosen lifestyle…you just might achieve it.

5. *Where would you like to be five years from now?* Again directed at developing realistic expectations, this question hints at the fact that it might be five years before your planned business is on sure footing. Statistics show that about 50% of all new small businesses fail in the first three years, and 75% have failed by the fifth year. If you expect to be vacationing on a remote tropical island five years from now, recognize that your business plan had better be designed to put you in the top 25% of the thousands of new small businesses that start in the same year.

6. *What are your worst fears about your future?* More often than not the "worst fear" reported is a "fear of failure." It's a realistic fear, given the statistics just cited. Starting a new small business is risky. It's important to understand that since risk is a function of uncertainty, your best bet for minimizing risk is to minimize uncertainty. Careful attention to personal assessment, market research, feasibility analysis and business planning will help to minimize the uncertainty inherent in your business startup. Hopefully you can avoid business failure by developing a successful marketing strategy and operating plan.

Main Table of Contents

It's also important to understand that "failure is as failure does" – if it is regarded as a personal defeat, it can be devastating and demoralizing. However if it is considered a lesson about "what won't work and why," it can be both instructive and motivating. Very often lessons learned "the hard way" are the most memorable and valuable. All new business owners make mistakes, and 75% go out of business within five years because of those mistakes. Chances are the 25% who remain in business learned from their mistakes, either in their current business or one that preceded it.

7. *What "first impressions" do you make on new acquaintances?* Starting a business means forming new relationships with all kinds of people – creditors, customers, employees, government agencies, suppliers and other business owners. Mindful of the old saying, "your first impression could be your last," it's important to know whether your appearance and manner convey accurate information to new acquaintances. If you are not in the habit of requesting feedback from people around you, it may be a good time to start.

   If you find that other people's perceptions of you are fairly consistent with your own – and you like your own – then you may be ready to enter new relationships with people whose cooperation will be essential to the success of your business. On the other hand, if other people's impressions of you are very different from your own – or from your desired image – ask how they formed their impressions. This will increase your awareness of how you're showing up in the world; i.e., how your appearance, behaviors and mannerisms are interpreted by those around you. Then you will be in a position to make changes that will enhance your success in business.

8. *How I would describe…[significant others]…would describe me as….* This two-way exercise can provide many personal insights. To some extent people are products of their environment. Because our attitudes, beliefs, character, knowledge, skills, values and overall personalities are shaped by our environment, one way to explore "who we are" is by observing significant other people in our lives. Are we like them or unlike them? In what ways?

   We also can ask significant others how they perceive us, as an extension of the exploration done in Question 7. Although the impressions reported by people close to us might be more subjective than those reported by new acquaintances, they also might be easier to get. Remember that the purpose of this exercise is self-discovery. If the shoe fits, wear it…if not, leave it for its rightful owner to reclaim it.

Main Table of Contents

9-11. *What is the most difficult/most rewarding/least-rewarding thing you ever have done?* People find it easy to remember the most difficult things they ever have done – popular responses include graduating from college, getting married, raising children, starting a business and becoming fluent in a native language. Working through this series of three questions, many people find that the most difficult things they've done also were the most rewarding – hence the discovery that by accepting challenges, facing risks and overcoming obstacles we often achieve our greatest fulfillment. This realization helps to put our "worst fears" – especially the fear of failure – in proper perspective. If we really want a fulfilling life, "the only thing to fear is fear itself."

12-13. *Who do you most admire/least admire? Why?* While it may be difficult to explore what we most admire and least admire about ourselves, we all have our hero(ine)s and villains. What kind of people are they? What makes them good or evil? How are they motivated, how do they show up in the world – and how do you feel when you think about them? Let the people you admire be your inspiration to conduct yourself and your business in an equally admirable fashion. Let the people you least admire teach you about the self-restraint that is essential to your happiness.

14. *What are the three worst problems in your community today?* As you plan your business you will want to take into consideration the community within which you will operate. Since all communities have problems, it's important to determine whether your business will be "part of the problems or part of the solutions." For example, if your impoverished and highly unemployed reservation community is struggling to overcome compulsive behavior disorders such as alcoholism or other addictions, a new bar, liquor store or gambling casino might help the income and employment problems while worsening the addictive behavior problems. By clarifying our personal values and maintaining our spiritual strength, we can create income and employment solutions that do not exacerbate other problems in our communities.

Main Table of Contents

15. *What are the three worst problems in the world today?* In times of "global economies," it also is important to take into consideration the world around you – with its hungry and homeless multitudes, contamination by toxic waste, diminishing natural resources and ongoing wars. Again, if your business will not be part of the world's solutions, will it at least not contribute to the world's worst problems? Make an effort to heighten your awareness of all the potential impacts of your business – community-wide, nationwide and worldwide.

16. *If you could teach your children just one "key to happiness," what would it be?* Although the notion of "happiness" may elude us at times, we usually can recall the teachings of our elders and we generally have an idea what to share with our own children. Many of us were taught that good things come to people whose lives are characterized by integrity, hard work and patience. The answers you develop for your children will be equally instructive for you – and your children will learn by your example.

17. *What principles or values must never be compromised?* Closely related to Question 16, this question moves beyond identifying our values to making very real commitments to uphold them. It is interesting that prospective business owners sometimes express the fear that it might be difficult to compete successfully without compromising their honesty, particularly in promotional messages, financial recordkeeping, tax reporting and other entrepreneurial activities. Through the popular media and in our personal experiences, most of us have been exposed to business owners who are less than scrupulously honest and forthright. Is it possible to "run an honest business"? Yes indeed. Is it a "formula for success"? Absolutely!

18. *What does it mean to you to be an Indian business owner?* There are as many answers to this question as there are past, present and future Indian business owners. Your investment of time and energy in the Values Clarification exercise will facilitate your own unique answer to this most important pre-business planning question.

Main Table of Contents

Guide One

Developing a Marketing Plan

Table of Contents

Guide One – Developing a Market Plan

Main Table of Contents

Main Table of Contents

The Indian Business Owner's Guide to Developing a Marketing Plan is the first in a series of four guides. It provides an overview of the basic marketing concepts essential to successful small business management.

It is designed to help you:

- Enhance your product or service description,
- Target your most profitable market segments,
- Identify reliable sources of market information,
- Formulate effective pricing strategies,
- Calculate your break-even sales volume,
- Generate sales through effective promotions,
- Evaluate critical factors in site selection and
- Develop a comprehensive marketing plan.

Completion of a preliminary marketing plan is the critical first step in determining the feasibility of a planned business venture. Because it is the marketing effort that produces sales, marketing also is considered the single most important function of business management. Whether you are already in business or still in the "idea" stage, *The Indian Business Owner's Guide to Developing a Marketing Plan* will provide many useful planning tools.

The remaining guides in this series – *The Indian Business Owner's Guides to Performing a Preliminary Feasibility Study, to Preparing a Business Plan and to Securing Financing* – are designed to continue the step-by-step process of self-guided business planning. While each of the guides may be used independently of the others, they are considered optimally useful as a series of four.

The financial projections used in this guide are based upon an actual business and reflect the prevailing costs at that time. They are provided solely for the purpose of demonstrating the step-by-step process used in developing financial projections. To get the most from this guide, readers must research and utilize current prices and costs specific to their own tribe, geographic location, and potential (or current) businesses when developing their own financial projections.

Main Table of Contents

Section Table of Contents

Developing a Marketing Plan

Who…

Will sell what…

To whom…

Where…

At what cost…

For what price?

What Market Factors Determine Business Feasibility?

Business feasibility may be defined as "the ability of a business to sell products or services at competitive prices and realize sufficient revenues to cover its operating costs, repay its debts, sustain its growth and support its owner(s)." Inherent in that definition are a number of market-related questions:

- What products or services will you sell?
- To whom will you sell what quantity?
- Where and how will you deliver?
- What will be the costs to produce, sell and deliver?
- How much will you charge?

All of these questions are essential to the process of determining your market.

Main Table of Contents

Section Table of Contents

What is Your Market?

"Market" refers to the total *demand* of potential buyers for your product or service. It is sometimes called "market demand." In a world of scarce resources, the only justification for manufacturing a product or providing a service is *to satisfy the needs or wants of consumers.* Therefore, the potential customer's unsatisfied needs or wants are basic determinants of what will be produced and in what quantity – as well as where, when and at what prices those products will be sold.

Your "market," then, is best defined as:[1]

People with unsatisfied needs or wants . . . . . potential buyers

+ Money to spend . . . . . purchasing power

+ A Willingness to Spend . . . . . motivation to buy

= Market Demand for Your Product or Service

What Determines Your Ultimate Sales Potential?

The key questions in determining ultimate sales potential are:

WHO
will be your customers? . . . . . PEOPLE with needs

WHAT
are you offering them? . . . . . PRODUCT

HOW MUCH
will it cost them? . . . . . PRICE

WHERE
will your product be sold? . . . . . PLACE

WHEN
will you "connect" with customers? . . . . . PROMOTION

The **"5 P's of Marketing"** – People, Product, Price, Place and Promotion – interact to determine your "market demand," or the number of customers you can expect to attract to your business and, ultimately, to purchase from you.

Main Table of Contents

Section Table of Contents

How Should You Define Your "Product"?

Sometimes people go into business because an "obvious opportunity" seems to present itself – for example, a gravel processing plant may be built because the *raw resource, gravel, is readily available,* or a service business might be started because *an individual has specific skills.* While these "opportunities" might motivate someone to want to sell a product or service, they will not motivate anyone to buy it unless a human need will be satisfied.

In other words, if gravel not only is readily available, but also is fairly clean and uniform in size, trying to sell processed gravel may be somewhat like trying to sell pillows in a feather factory! Similarly, if a specific skill is one that is shared by many people, the market demand for services related to that skill may be minimal.

It is true that some consumers can be influenced by promotional campaigns, but the most successful businesses are those that define their products in terms of the human needs they satisfy. The basic human needs that motivate consumers to buy have been grouped by one psychologist, A.H. Maslow, as follows:[2]

Physical and Biological

- *Physiological Needs* (for food, drink, sex and shelter).
- *Safety Needs* (for security, order and protection).

Social

- *Belongingness and Love Needs* (for acceptance and affection).
- *Esteem Needs* (for prestige, respect, reputation and status).

Self-involvement

- *Self-actualization Needs* (for fulfillment and happiness).
- *Cognitive Needs* (for knowledge, understanding and aesthetic satisfaction or beauty).

Main Table of Contents

Section Table of Contents

To illustrate the difference between simply selling a product and marketing consumer benefits of a product, consider alternate responses to the question, "What kind of business are you in?"

Selling/Producing		**Marketing**
"We teach karate."	vs.	"We teach self-defense, fitness and serenity."
"We sell hair care products."	vs.	"We offer beautiful, healthy hair."
"We sell furnaces and air conditioners."	vs.	We provide a controlled climate, for comfort at home or at work."
"We make trail mix."	vs.	"We offer a nutritious, high-energy, convenient snack."

Consumers can see, hear and even feel the difference between sales- or production-oriented product definitions and marketing-oriented product descriptions. While the former leave consumers wondering– "So what? Do I need that?" –the latter motivate consumers to buy in order to satisfy specific needs: safety, health, peace of mind, self-esteem, comfort, nutrition, energy and convenience.

In addition to defining your product in terms of consumers' needs, it is important to *distinguish your product from your competitors' products.* Any advantage, improvement, innovation or other beneficial difference you can identify in your product or service will give you what is known as "**a competitive edge.**" For example, your product or service might be:

- easier to use,
- more economical,
- more attractive,
- more dependable,
- of superior quality,
- a status symbol,
- guaranteed, or
- available on credit.

Main Table of Contents

Section Table of Contents

It quickly becomes apparent that, *in addition to knowing your market*, you also must know your competitors. Find out *what they're doing – and NOT doing – to satisfy consumers' needs*. Then you will be able to market your own products and services so they offer a uniqueness that appeals to your target markets.

If your product is an expression of your Native American culture, its inherent uniqueness may distinguish it from similar products in highly appealing and advantageous ways. For example, worldwide there are many producers of smoked fish products. Their marketing strategies may target populations known to eat a specific kind of fish because of its availability, nutritional value, shelf life and price. On the other hand, consider the appeal of the following uniquely American Indian product description.

Example: Uncle Eddy's Smoked Salmon

Uncle Eddy's Smoked Salmon is a special treat, prepared with love, using the plumpest fish from the Klamath River's spring run of salmon.

Uncle Eddy cuts the fresh fish into finger-sized strips – just the RIGHT size for perfect smoking over alder wood. He soaks the salmon in any one of his secretly-spiced brines and then hangs it, piece by piece, in the smokehouse he built with hand-split wood.

Uncle Eddy tends the smokehouse day and night to make sure there is just enough heat and just enough smoke to produce wonderfully moist, yet firm, deliciously flavored smoked salmon.

This is the way the Yurok elders taught Uncle Eddy to prepare salmon for us, his family. We know how lucky we are, and we like to share our bounty with friends. They always come back and tell us they've gotten "spoiled" – they just aren't satisfied with any other kind of smoked salmon.

Now Uncle Eddy has us all cutting fish and tending the smokehouse so our friends won't have to be disappointed. We know you'll enjoy Uncle Eddy's smoked salmon, too – and you'll be back for more. Our advice is:

Don't stay too long, or Uncle Eddy might put you to work!

Main Table of Contents

Section Table of Contents

The uniqueness of Uncle Eddy's Smoked Salmon stems from its visual imagery – its portrayal of a cultural lifestyle based upon traditional values, nature's bounty, love of family, painstaking attention to detail, hard work, friendship, sharing and good humor. While veteran smoke-house operators might protest that *it's not all that glamorous*, the product description nevertheless is heartfelt and truthful. Hence the lesson:

When creating an image,
the TRUTH is better than creativity.

Several years ago an Indian-owned multi-media production company competed for a contract to produce a documentary film about Native American artists. The challenge of the marketing effort was to distinguish the Indian film producer as someone who has unusual insights about the subject, in addition to a well-equipped production studio and extensive experience in documentary filmmaking. After talking with a number of Native American artists about their work, it was decided the filmmaker's proposal would begin with the following message from the artists' perspective.

Living Forever

Just as the newborn baby is a manifestation of our procreative spirit,

Its color, form, and sound all that we are because they come from within us,

Its beauty, the inspiration that drives us to continue in our procreativity, so that our people live forever…

So, too, is our art a manifestation of our creative spirit,

Its color, form and sound all that we are because they come from within us,

Deeply rooted in our culture, portraying the richness of our heritage,

Giving such pleasure that we are inspired, again and again, to give expression to the spirit,

Which is our essence, so compelling that we endure,

Living forever in our art.

SMB, 1985

Main Table of Contents

Section Table of Contents

When the documentary film contract was awarded to the Indian film producer, the proposal was distinguished as “the one with the poem.” The filmmaker was confident the marketing approach had provided a unique competitive advantage.

Main Table of Contents

Section Table of Contents

Exercise 2 – Defining Your Product

The Item or Service	Consumers' Needs Met	Competitive Edge(s)	Marketing-Oriented Product Definition
American Indian Arts & Crafts:			
Baskets			
Blankets			
Jewelry			
Paintings			
Pottery			
Energy Saving Log Homes:			
Fresh Produce:			
Beans			
Blackberries			
Blue Corn			
Squash			
Wild Rice			
Resort Hotels:			
Fishing Lodge			
Golf Resort			
Health Spa			
Ski Lodge			
Youth Resort			

Why Should You "Target" Specific "Market Segments"?

"Targeting" specific "market segments" means *determining whose needs your product is designed to meet* – specifically. Very few small businesses can afford to sell to everyone. Generally they are limited financially, geographically or by the nature of the product itself to *some portion of the total market.*

A successful marketing strategy is one that directs your efforts to those "segments" of the market whose needs you can satisfy. By segmenting your market, you can:[3]

- design products or services to match consumers' needs most precisely,
- channel resources to those market segments with the highest profit potential, and
- determine what promotional messages and media will be most effective.

While some businesses, such as grocery stores and gas stations, might include virtually every household in their "target markets"…

- a corner deli would target the immediate neighborhood, offering maximum convenience and personalized service;
- a children's clothing store would target market segments of child-bearing age;
- a retailer of fine jewelry or artwork would target the high-income market segments;
- an audio equipment and music store might target youths, college students and young adults; and
- a sporting goods store might target athletic clubs and recreation centers.

Main Table of Contents

Section Table of Contents

What Are the Bases for "Market Segmentation"?

In addition to geographic territory, age, income and special interests, people's buying needs can be influenced by fads, fashion trends and the opinions of family, friends and experts in the popular media. Market segmentation can be based on any combination of factors related to consumers' needs, spendable income and motivation to buy.

Because "markets" are PEOPLE with needs and wants, they can be segmented according to **demographic bases** such as:[4]

- population distribution – worldwide, national, regional, urban, suburban and rural,
- age,
- sex,
- stage in family life cycle,
- education,
- occupation,
- ethnic group,
- religion and
- special needs (e.g., needs related to diet or other health and physical limitations).

Because "markets" are people with MONEY to spend, they can be segmented according to **distribution of disposable income.**

Because "markets" are people with a WILLINGNESS to spend, they can be segmented into **buyer behaviors** related to:[5]

- sociological groupings, such as culture, social class, family size or orientation; and
- psychological factors, such as personality, attitude or desired benefits.

Main Table of Contents

Section Table of Contents

Notice the variety of ways in which the following women's clothing stores have segmented their markets.

Store	Type of Clothing	Basis for Segmentation
Talbots	Women's Apparel	Sex
Nike	Sportswear	Specific Activities
Bridal Boutique	Formals & Gowns	Special Occasions
T.J. Maxx	Teens' Tops & Jeans	Age
Nordstrom	High-fashion Apparel	Income
Victoria's Secret	Lingerie	Attitude/Taste
Native Traditions	Indian-inspired Clothing	Culture/Ethnicity
Lane Bryant	Large & Petite Sizes	Physical Size
Waiting Room	Maternity Clothes	Life Cycle Stage
Uniforms & More	Professional Wardrobe	Occupation

Main Table of Contents
Section Table of Contents

Exercise 3 – Market Segmentation

The Item or Service	Specifically Whose Needs Will Be Met	Possible Bases for Market Segmentation
American Indian Arts & Crafts:		
Baskets		
Blankets		
Jewelry		
Paintings		
Pottery		
Energy Saving Log Homes:		
Fresh Produce:		
Beans		
Blackberries		
Blue Corn		
Squash		
Wild Rice		
Resort Hotels:		
Fishing Lodge		
Golf Resort		
Health Spa		
Ski Lodge		
Youth Resort		

Where Can You Get Information About Specific Markets?

"Market research" methods may be very informal or very formal, done by prospective business owners themselves or by professional consultants, and based on two different types of data:

- *Primary Data* – information gathered specifically for your market study, or
- *Secondary Data* – information gathered by others for a different purpose.

As examples, when a prospective business owner actually designs a questionnaire to find out about potential consumers' needs and then interviews or *surveys* them by visiting, calling or corresponding with them, (s)he is gathering *primary data*. When (s)he relies on *data published* by the U.S. Census Bureau, a local planning department, private economists, or some other public or private source, (s)he is gathering *secondary data*.

Sometimes people go to great expense to gather primary data without first determining whether reliable secondary data is available. Ordinarily, secondary data can be gathered much more quickly and far less expensively than primary data. Published information frequently is available from chambers of commerce, marketing and trade associations, city and county planning departments and licensing bureaus. The U.S. Small Business Administration publishes hundreds of booklets and pamphlets for small business owners, and many are free. Other reference materials are available in public libraries – including the *U.S. Industrial Outlook*, an especially readable summary of information about the current status and probable future trends of major industries throughout the country.

Secondary information about market conditions in a specifically targeted market area can be solicited from local accountants, attorneys, bankers, business consultants, economists, insurance agents, real estate brokers and wholesale suppliers. Don't overlook the opportunity to get

Main Table of Contents

Section Table of Contents

information from others in the same kind of business. Many people like to talk about their business experiences. If those in your local area regard you as potential competition and won't talk, go to a neighboring area or one that is demographically similar and ask such questions as:

- How do you describe or present your product to customers?
- Who are your best customers in terms of age, sex, income, occupation, location and other distinguishing traits?
- What do your customers like most and least about your product?
- Who are your biggest competitors? What advantages do they have?
- How do you compete – on the basis of price, quality, service or something else?

Main Table of Contents

Section Table of Contents

How Is Market Research Used to Estimate Potential Sales?

Because so many sources of data are readily available, you will have to decide which are most reliable for purposes of estimating sales – considering the methods used to gather the information, how current it is and how relevant it is to your business plan. To maximize reliability, you may want to use a combination of market research methods as a basis for sales forecasting. The following is an example of how primary and secondary market data might be used to estimate potential sales.

Suppose the prospective owners of a reservation-based office supplies store needed to know whether their "targeted market" of small businesses located within a 15-mile radius of the reservation would support an office supplies business. They might perform the following research:

- Personal interviews with the owners of the 20 largest businesses within the targeted market area regarding their total annual expenditures for office supplies and their specific needs for products and services (including free delivery and credit terms).
- Consultation with business developers in the targeted market area regarding the annual office supplies expenditures of 50 other (unnamed) businesses on, and within a 15-mile radius of, the reservation.
- Search of the local telephone directory in order to count the total number of businesses in the targeted market area (excluding the 20 initially surveyed).

Based upon the primary and secondary research data gathered, the prospective business owners might make the following *assumptions:*

- If the total annual office supplies expenditures of 50 small businesses within the targeted market area were averaged – for example, $100,000 ÷ 50 = $2,000/each; and
- If the average annual office supplies expenditures of those 50 small businesses were multiplied by the total number of small businesses within the targeted market area (excluding the 20 initially surveyed), the resulting figure would represent the approximate market demand of the area (excluding the 20 largest businesses) – for example, $2,000 each x 200 = $400,000; and

Main Table of Contents
Section Table of Contents

- If the total annual office supplies expenditures of the excluded 20 largest businesses were added to the previously estimated market demand, the sum would be the total market demand of the targeted market area – for example, $400,000 + $100,000 = $500,000; and
- If the total market demand of the targeted market area were divided by the total number of office supplies outlets in the area (including the proposed new business), the resulting figure would be the unadjusted estimate of annual sales for the proposed new business – for example, $500,000 ÷ 2 = $250,000.

The above research is based upon *primary market data* gathered in personal interviews and file surveys, as well as *secondary market data* provided by the published telephone directory. The result of that research – a projection of $250,000 in annual sales for the proposed new business – would be adjusted to allow for competitive advantages related to quality and variety of products offered, pricing strategy, promotional methods and location. If 60% of the targeted customers were located closer to the proposed new business – and competition otherwise were considered equal – the ultimate sales potential of the new business would be estimated at $300,000 per year ($500,000 x .6 = $300,000).

Main Table of Contents

Section Table of Contents

What Should You Consider in Pricing a Product or Service?

Your decisions regarding pricing should be based on three primary considerations:

1. YOUR COST
2. YOUR COMPETITORS
3. YOUR CUSTOMERS

Whether or not you can sell your products or services *at prices high enough to be profitable* depends upon both *your competitors' prices* and *your customers' reactions to all the prices offered.*

Remember that most customers relate price to *the value, or perceived quality,* of a product. If your product has advantages that justify a higher price – and your customers are made *aware of those advantages* – you may be able to "beat the competition" with a higher price. A pricing strategy that emphasizes sales to a select group of customers who *willingly pay more for higher value* is called **"cream skimming."**

On the other hand, a **maximum market penetration** strategy is aimed at achieving the *highest possible volume of sales* by offering the same products or services as competitors, but *at lower prices.* The real trick to penetration pricing is to determine *how much of a price reduction is necessary to attract customers away from the competition* – without giving away profits. Related questions are:

- Will the increased volume of sales bring enough additional profits to justify the price-cutting?
- How much will it cost to make the market aware that your prices are lower?
- What if your lower prices give customers the impression that your products are of inferior quality?

To illustrate pricing strategies and perceived relationships between price and quality, consider the mental images inspired by various offerings of chocolate chip cookies:

1. "Chocolate Chippers," $1.99 per pound in a colorful package that lists the ingredients as: Enriched wheat flour (wheat flour, niacin, reduced iron, thiamine mononitrate, riboflavin), sugar, partially hydrogenated vegetable shortening (containing one or more of the

Main Table of Contents
Section Table of Contents

following: palm oil, soybean oil, cottonseed oil), semi-sweet chocolate (with added lecithin as an emulsifier and vanillin, an artificial flavor), extract of malted barley and corn, eggs, salt, natural and artificial flavor, baking soda, corn syrup, ammonium bicarbonate and artificial flavor.

2. "Bakery Fresh Chocolate Chip Cookies," $2.79 per dozen, displayed in a glass case at your supermarket.

3. The "Cookie Connoisseur," $99 cents each, individually wrapped with a label that reads, "Semi-sweet chocolate chunks, unbleached flour, brown sugar, granulated sugar, fresh creamery butter, walnuts, eggs, vanilla, salt and baking soda" – arranged neatly on a large silver platter.

The "Chocolate Chippers" likely will appeal to the bargain hunter for whom nutrition and taste are secondary considerations. The "Bakery Fresh" cookie might appeal to those who value freshness and "homemade" taste and are willing to pay more for these qualities. The "Cookie Connoisseur" will draw the gourmet cookie lover who prefers to pay a premium price for a superior product – the "discriminating taste" of the connoisseur demands high quality.

Main Table of Contents

Section Table of Contents

Exercise 4 – Pricing Strategy

The Item or Service	Consumers' Needs Met	Competitive Edge(s)	Marketing-Oriented Product Definition
American Indian Arts & Crafts:			
Baskets			
Blankets			
Jewelry			
Paintings			
Pottery			
Energy Saving Log Homes:			
Fresh Produce:			
Beans			
Blackberries			
Blue Corn			
Squash			
Wild Rice			
Resort Hotels:			
Fishing Lodge			
Golf Resort			
Health Spa			
Ski Lodge			
Youth Resort			

How Is Break-Even Analysis Used in Price-Setting?

One of the most popular tools used in price-setting is called "break-even analysis," which is aimed at deciding what volume of sales will allow a business to exactly cover its costs and, therefore, *"break even."* The volume of sales can be calculated in terms of the number of units of a product to be sold or the dollar amount of sales needed to cover all the costs of doing business.

The first step in break-even analysis is to differentiate between *"fixed"* costs and *"variable"* costs:

- **Fixed Costs do not vary**, no matter what your sales volume is. Examples of fixed costs include administrative salaries, depreciation, insurance and rent.
- **Variable Costs go up and down with sales**. They include the direct costs of making or buying products to sell (e.g., labor and materials, or wholesale costs of retail products), commissions on sales, freight costs and the costs of delivery to customers.

The process of classifying costs as "fixed" or "variable" requires some judgment on your part. Ask yourself the question, "If I had no sales, would I have this cost?" If the answer is "yes," you have identified a fixed cost. When in doubt about the correct classification of a cost, call it *"fixed"* – that way, your calculated break-even sales volume will be a higher, safer figure for use in planning a business and determining its feasibility.

As a simple example of break-even analysis, assume you weave baskets that you wish to sell for an average price of $150. If your materials cost $40 to gather or purchase and you pay a local gift shop a $10 commission to sell your finished basket, these "variable costs" will add up to $50. The difference between the sale price of $150 and the variable costs of $50 is $100. That remaining $100 is the amount from each basket sale that can be used to cover your "fixed costs." It is called your **"unit contribution"** toward fixed costs. Now you can determine by simple division that, if your fixed costs for bookkeeping supplies, insurance, license, travel and utilities totaled $4,000 per year, you would have to sell 40 baskets per year ($4,000 ÷ $100 = 40) to "break even" with your fixed and variable costs.

Main Table of Contents

Section Table of Contents

Basket Maker's Break-even Analysis

Step 1. Classify Costs as "Fixed" or "Variable."

Fixed Costs		Variable Costs	
Bookkeeping	$ 600	Basket Materials	$40
Insurance	400	Sales Commissions	10
Licenses	100		
Travel	1,100		
Utilities	1,800		
TOTAL:	$4,000	TOTAL:	$50

Step 2. Determine "Unit Contribution":

Unit Selling Price	$150
- Unit Variable Cost	- 50
= Unit Contribution	$100

Step 3. Calculate Break-even Sales:

Fixed Costs ÷ Unit Contribution
$4,000 ÷ $100 = 40 baskets

You can determine the number of baskets that would have to be sold to meet a profit goal by adding your desired profit to the fixed costs and recalculating the break-even point. For example, suppose you want to make a profit of $500 per month or $6,000 per year from basket sales. The $6,000 in profit and $4,000 in fixed costs total $10,000, and $10,000 divided by the $100 unit contribution equals 100 baskets – the number you will need to make and sell in order to achieve a $6,000 profit.

Notice that in order to determine the unit contribution *you first must set a tentative price* for your product. While this is the principal drawback in using break-even analysis for price-setting, it remains a useful tool nonetheless. By experimenting with alternate sales prices and unit contributions, you can arrive at a break-even sales volume that is realistically attainable, *given a certain sale price.*

Main Table of Contents
Section Table of Contents

For example, if you decided after the first calculation that you could not make 100 baskets in a year, you might consider a 10% or $15 increase in your average basket price. At the new price of $165, your unit contribution to fixed costs would be $115. If your fixed costs remained at $4,000, your break-even sales point would drop from 40 to 35. If your profit goal remained at $6,000, your profit-based break-even sales point would drop from 100 to 87.

On the other hand, suppose you were considering a 10% or $15 discount on your basket price for a special promotional sale. At the new price of $135, your unit contribution to fixed costs would be $85. If your fixed costs remained at $4,000, your break-even sales point would jump from 40 baskets to 47. If your profit goal remained at $6,000 your break-even sales point would jump from 100 to 118. (Would you believe that a "mere" 20% discount would increase your profit-based break-even point to 143 baskets – 43 more than the original number?)

You can see how risky it is to offer discounts without first determining with reasonable confidence that the resulting increase in sales will be enough to offset the per-unit loss. Remember also that drastic price reductions sometimes "backfire" by creating the suspicion that you have somehow reduced the quality of your product, as well. You actually could end up selling *fewer* units at the *reduced* price!

If you are in a retail business, you likely will set your prices according to the "suggested retail price" lists of wholesale suppliers. These lists offer a range of high, medium and low prices to be used by retail outlets that do low, medium and high volumes of business, respectively. The price that corresponds to your business volume is a good place to begin a break-even analysis in order to determine whether you need to adjust prices and sales goals upward or downward in order to be competitive, or whether you're going to need to compete on the basis of something other than price.

Now let's try using break-even analysis to determine the average selling price and total number of houses a residential building contractor would have to complete in one year in order to cover all costs. Assume the contractor's past experience reveals that:

Main Table of Contents

Section Table of Contents

- The average new home in the targeted market area is about 1,500 square feet of space (including kitchen, dining room, living room, three bedrooms and two bathrooms), and the average selling price is $100,000.
- The labor required to construct the average new home costs about $32,000, including payroll insurance and taxes.
- The materials required to construct the average new home costs about $36,000, including freight.
- The permits and selling costs associated with the average new home cost about $2,000.
- Other operating costs and their average amounts for the past two years have been:

• Advertising	$ 1,200
• Bank Services	600
• Depreciation of Equipment	24,000
• Equipment Rent	6,000
• Hand Tools	3,000
• Insurance (liability, life, property and vehicles)	18,000
• Interest on Loans	12,000
• Licenses	600
• Maintenance and Repairs	6,000
• Office Supplies	300
• Professional Services (legal and accounting)	1,200
• Space Rent (office and equipment yard)	6,000
• Telephone and Utilities	3,000
• Transportation	6,000
• Wages (office staff, including payroll taxes)	18,000

- Other costs of doing business include $12,000 per year for principal payments on loans and $30,000 for owner's draws.

Main Table of Contents
Section Table of Contents

It is apparent that the costs of labor, materials, permits and selling would be considered "variable" because they would not occur if the contractor were not hired to build any homes. For sake of simplicity, these will be considered the only "variable costs." All other operating costs will be considered "fixed" so that the calculated break-even sales volume will be the highest figure required to cover all variable and fixed costs.

It should be noted that since depreciation is a non-cash expense, or an expense that does not have to be covered by sales, it could be omitted from consideration in calculating break-even sales. On the other hand, if depreciation is considered an allowance for eventual equipment replacement costs, it should be included in the calculation. In addition, the principal payments on loans and owner's draws – not properly classified as "operating costs" at all – should be taken into consideration because the survival of the business is contingent upon the owner's prompt debt payment and personal sustenance.

If the building contractor wishes to determine how many new homes (s)he must build and sell at an average price of $100,000, (s)he will calculate the break-even volume of units as follows:

Main Table of Contents

Section Table of Contents

Contractor's Break-even Analysis

Step 1. Classify Costs as "Fixed" or "Variable."

Fixed Costs		Variable Costs	
Advertising	$1,200	Labor/Unit	$32,000
Bank Services	600	Materials/Unit	36,000
Depreciation	24,000	Permits & Selling Costs/Unit	2,000
Equipment Rent	6,000		
Hand Tools	3,000		
Insurance	18,000		
Interest	12,000		
Licenses	600		
Maintenance & Repairs	6,000		
Office Supplies	300		
Professional Services	1,200		
Space Rent	6,000		
Telephone & Utilities	3,000		
Transportation	6,000		
Wages	18,000		
Principal Payments	12,000		
Owner's Draws	30,000		
TOTAL:	$147,900	TOTAL:	$70,000

Step 2. Determine your "unit contribution" toward fixed costs (as a dollar amount or as a percentage of the unit selling price).

Unit Selling Price	$100,000	or	100.00%
- Unit Variable Cost	- 70,000	or	70.00%
= Unit Contribution	$30,000	or	30.00%

Step 3. Calculate the Break-even Sales Point (as units or dollar volume).

Fixed Costs ÷ Unit Contribution = Break-even Sales Point
$147,900 ÷ $30,000 = 4.93 units or $147,900 ÷ .3 = $493,000

Main Table of Contents
Section Table of Contents

The foregoing calculation indicates that the contractor will have to complete five housing units and sell them for a total of $493,000 in order to break even with all costs, including principal payments on loans and owner's draws. The contractor will need to determine whether the existing labor crew and equipment are adequate to build five units in one year or construction season, and whether it is reasonable to assume, based on market conditions, that five units will sell in one year.

If, for example, the crew were capable of building only four units per year, a revised calculation could be used to determine the higher selling price at which the business could break even with only four units completed and sold – or how much the selling price would have to be increased in order to cover the cost of the additional labor required to complete five units.

Example 1: The usual $30,000 unit contribution from each of four houses would provide $120,000 in total contributions toward $147,900 in fixed costs. Then:

$147,900	-	$120,000	=	$27,900 in uncovered costs
$ 27,900	÷	4 units	=	$ 6,975 added contribution
				and
$100,000	+	$ 6,975	=	$106,975 unit selling price.

Example 2: If completion of five units would require another $12,000 in subcontracted labor (treated as an additional fixed cost), then:

$147,900	+	$12,000	=	$159,900 new fixed costs,
$159,900	÷	.3	=	$ 533,000 break-even sales
				and
$533,000	÷	5 units	=	$106,600 unit selling price.

After comparing Examples 1 and 2, the contractor might opt to build four units to sell at $106,975 each rather than five units to sell at $106,600 each.

On the other hand, if the crew were capable of building more than five units of housing per year, the break-even calculation could be revised to determine whether a reduced selling price might bring higher profits on a larger volume of units completed and sold. It also could be revised to determine how many additional units would have to be sold at the established price in order to accumulate excess profits needed for new equipment or debt retirement.

Main Table of Contents

Section Table of Contents

Example 3. Assume the crew can build at least six units and the contractor believes a selling price of $95,000 would ensure that all units sold; then:

$ 95,000 - $70,000 in variable costs =
$ 25,000 new unit contribution and
$147,900 ÷ $25,000 = 5.92 units.

The calculation demonstrates that a selling price of $95,000 is feasible if six units can be sold.

Example 4. Assume the contractor needs to accumulate an extra $60,000 to cover a debt due at the end of the year. If the unit selling price remains at $100,000 and the unit contribution remains at $30,000, then:

$147,900 + $60,000 = $207,900 adjusted fixed costs
and
$207,900 ÷ $30,000 = 6.93 units.

The calculation shows that the contractor will need to build seven housing units and sell them at $100,000 each in order to cover the debt due at the end of the year.

Main Table of Contents

Section Table of Contents

How Are Prices Set In a Service Business?

The operator of a service business can charge by the hour or by the job. In either case, *the full cost of an hour of service must be determined.* Assume you are a professional gardener and need to establish an hourly rate for your services.

Step 1. Determine the number of "billable days" in a year.

Begin with a year equal to . . . . . 365 days

Subtract the number of days you want to take off for:

Weekends . . . . . (104)
Holidays . . . . . (10)
Vacation . . . . . (10)
Sickness . . . . . (12)

Subtract the number of days you expect to spend in

Administrative duties . . . . . (26)
Marketing activities . . . . . (52)
Training sessions . . . . . (6)

The billable remainder is . . . . . .145 days in a year

Step 2. Estimate the operating costs to be covered by the hourly rate for services.

Advertising . . . . . $ 1,200

Bank Services 600

Dues and Publications 1,200

Gardening Supplies and Tools 3,000

Insurance 5,000

Licenses 100

Maintenance and Repairs 500

Professional Services 1,200

Telephone 1,200

Transportation (to job site) 2,400

Travel (marketing and training) 600

TOTAL ESTIMATED COSTS: $17,000

Main Table of Contents

Section Table of Contents

Step 3. Add the desired owner's draws to be covered by the hourly rate for services.

By using a monthly income and expense worksheet like the one on the next page, you can estimate the amount you will need to draw from your business in order to support yourself. In most cases, you will not be happy if your business does not allow you to maintain the lifestyle you could enjoy if you "worked for wages." In fact, many people expect the extra "trials and tribulations" of business ownership to be rewarded by a better lifestyle.

If you are trying to decide whether or not to go into a service business, calculate your hourly rate first with the owner's draws *you'd like to earn* and then with the owner's draws *you absolutely need* in order to meet personal obligations. This will help you decide whether your business goals are realistically attainable.

Let's assume you'd like to draw $20,000 from your gardening business: $20,000 plus estimated operating costs of $17,000 equals $37,000 to be covered by the hourly rate for services.

Step 4. Calculate your Hourly Rate

a. Total Billable Days 145
b. Total Estimated Costs $37,000
c. Daily Rate (b. ÷ a.) $255.17
d. Hourly Rate (c. ÷ 8 hours/day) $31.90

The calculation shows that you would have to charge about $32 per hour for gardening services in order to cover your $17,000 in operating costs and achieve the desired owner's draws of $20,000.

What if you compared your hourly rate to those of other gardeners and found that they were charging only $30? If you could not identify a good reason why customers should pay more for your services, you would need to find ways to reduce your hourly rate in order to be competitive. If you could not reduce your operating costs or owner's draws, you would need to increase your billable days or hours. For example, in Step 4.d., the number of hours used to determine the hourly rate of $31.90 was 8. However, if you increased your workday by .5 hour and recalculated the hourly rate, the result would be $30 ($255.17 ÷ 8.5 = $30.02).

Main Table of Contents
Section Table of Contents

Worksheet 1 – Personal Income and Expense Statement

MONTHLY INCOME

Gross Salary/Wages	$ _____
Minus Deductions	– _____
Take-home Pay	$ _____
Spouse Salary/Wages	$ _____
Minus Deductions	– _____
Take-home Pay	$ _____
Bonuses, Commissions, Tips	$ _____
Net Profit/Withdrawals from Business, Farm or Trade	$ _____
Interest or Dividends	$ _____
Income from Rental Property	$ _____
Other Income:	
Alimony/Child Support	$ _____
Disability Benefits	$ _____
Income from Trusts	$ _____
Life Insurance Benefits	$ _____
Retirement Pensions	$ _____
Social Security Benefits	$ _____
Unemployment Benefits	$ _____
Veterans Benefits	$ _____
Other	$ _____
Other	$ _____
Other	$ _____
TOTAL INCOME:	**$ _____**

MONTHLY EXPENSES

Alimony/Child Support	$ _____
Car Payments	$ _____
Child Care	$ _____
Credit Card Payments	$ _____
Donations	$ _____
Dues	$ _____
Education	$ _____
Food/Household Supplies	$ _____
Furniture/Appliance Payments	$ _____
Income/Property Taxes	$ _____
Insurance Payments	$ _____
Household Repairs	$ _____
Lease Payments	$ _____
Medical/Dental/Optical	$ _____
Mortgage/Rent Payments	$ _____
Personal Maintenance (clothing, dry cleaning laundry, hair & fitness)	$ _____
Recreation/Entertainment	$ _____
Telephone	$ _____
Transportation (including car operating expenses)	$ _____
Utilities (cable TV, electricity, garbage, gas and water)	$ _____
TOTAL EXPENSES:	**$ _____**
INCOME EXCEEDING EXPENSES:	**$ _____**

How Do Promotional Activities Enhance Sales?

Advertising is essential to success in business for many reasons, including the following:

1. **To reach new customers.** Your market changes continuously because people move frequently, their spendable incomes go up and down, and their household compositions change.

2. **To maintain your market share.** Your competition is aggressively pursuing the same customers. You need to maintain the loyalty of former customers and attract new ones.

3. **To remain with customers throughout the buying process.** Because people "shop around" comparing prices, quality and service, you need to stay in their minds until they decide to buy.

4. **To promote a positive image and boost employee morale.** Upbeat, positive advertising does produce sales, even in the slowest of seasons.

5. **To realize long-term benefits.** Surveys show that when advertising is maintained or expanded over a five-year period, sales increase at twice the rate of companies that cut advertising.

In addition to advertising, **"promotional activities"** include signs, window displays, store exhibits, free samples, coupon sales, personal selling, public relations, and even stationery and business cards. While **"advertising"** is used *to attract people to your business*, displays and other **"merchandising"** techniques are used *to heighten their interest in buying* after they arrive. Finally, an in-person **"sales presentation"** may be required to make the sale.

In order to attract sales through promotional activities, you will need to decide:

- *What your product message will be*, or how to describe your product so that people want to buy it; and
- *How you will deliver your product message*, or what advertising media most likely will reach your target markets.

Main Table of Contents

Section Table of Contents

Regardless of the advertising media or merchandising techniques you use, your product message must emphasize the benefits of purchasing – what consumer needs or wants does your product satisfy, and how does it do that?

Especially when sophisticated features of your product are related to a higher price, it is important to educate your consumers about the benefits of your product. As examples:

- The "temperature control and moisture sensor" on an automatic dryer *provide protection* for delicate fabrics; and
- The "keyless entry" system on a vehicle not only is quick and convenient but also enhances safety.

Sometimes consumer benefits are obviously contrived by creative marketers, yet they relate so well to buyers' motives that they are highly appealing, anyway. As examples:

- With the slogan, *"Wouldn't you like to be a Pepper, too?"* Dr. Pepper attempts to appeal to your need to affiliate with an attractive group of youngsters.
- Olympia beer had a lot of fun by deliberately confusing the technical definition of "artesian wells" with a make-believe group of aliens – "*Artesians.*" The company used humor to relate its beer to light-hearted, good times.
- The makers of *Mighty Dog* boast their dog food "brings out the *mighty* in *your* dog." Presumably, nobody wants a wimpy dog!

Main Table of Contents

Section Table of Contents

Exercise 5 – Promotional Message and Medium

To test the effectiveness of popular promotions, match the following promotional messages to their brand or product names and identify the medium on which you first heard each.

Medium	Message	Brand/Product
_____	1. The heartbeat of America, today's…	a. Doritos
_____	2. You're in good hands with…	b. Miller Lite
_____	3. Think outside the bun…	c. Ford
_____	4. Crunch all you want, we'll make more…	d. Kmart
_____	5. …does a body good.	e. Kellogg's Frosted Flakes
_____	6. The king of beers…	f. Toyota
_____	7. Right here right now…	g. Folger's
_____	8. Oh, what a feeling…	h. Chevrolet
_____	9. When you care enough to send the very best…	i. Lay's Potato Chips
_____	10. Just for the taste of it…	j. Allstate
_____	11. It's mountain grown…	k. Sprite
_____	12. Shrink to fit…button-fly jeans.	l. Pepsi
_____	13. Less filling, tastes great…	m. Milk
_____	14. Do the Dew…	n. Budweiser
_____	15. They're grrreat!	o. Maxwell House
_____	16. The choice of a new generation…	p. Levis
_____	17. I like the…in you.	q. Mountain Dew
_____	18. Nobody can eat just one…	r. Taco Bell
_____	19. Good to the last drop…	s. Hallmark
_____	20. Have you driven a…lately?	t. Diet Coke

Now go back through the list and see if you can identify the consumer benefits promoted in each brand or product message.

Answers:
1-h, 2-j, 3-r, 4-a, 5-m, 6-n, 7-d, 8-f, 9-s, 10-t, 11-g, 12-p, 13-b, 14-q, 15-e, 16-l, 17-k, 18-i, 19-o, 20-c

What Advertising Media Should You Use?

In selecting advertising media, you will need to take into consideration the following:

- *the nature of your market* – specifically who are your customers, and what are their habits?
- *the complexity of your message* – is it short and simple or long and difficult to comprehend?
- *your advertising budget* – how much can you afford to spend?

If you are appealing to the general public, and you need audio or visual "images" to deliver a clear message about your product, and you have thousands of dollars to spend, you may decide to advertise on radio and television, which reach the largest markets. In that case, you will need to give careful consideration to the time of day or night when your ad will run and to the image of the broadcasting station you choose.

Printed media include newspapers, magazines, mailers and directory listings. Other media include telephone solicitations, outdoor signs, posters and novelty items, including buttons, pens, hats and tee shirts.

Regardless of the medium or combination of media you use, *your product message should be:*

- simple
- memorable
- informative
- persuasive

Repetition of your message is the key to *informing and persuading* people in a *memorable* way. That's why most businesses use combinations of media, such as radio, newspaper and store displays, to repeat a message. As one marketing expert puts it:

"Repeat, I repeat, repeat your ads!"

Main Table of Contents

Section Table of Contents

E-Commerce

Advertising products or services in cyberspace has grown exponentially in the last few years. Generally, businesses start by creating a web page that contains information in text and graphic forms. More elaborate web pages include audio and/or video clips of products and a variety of eye-catching images. The goal is to direct interested consumers to your products and services.

Potential consumers find your web page by two different means. First, they can find it by typing in the universal resource locator (URL) for your web page on the World Wide Web (www) followed by a period ("dot") and "com." "Com" indicates that the page is a company. This means that all of your other advertising media should include your URL so that potential consumers can find you on the web.

The second way of finding your business is through a general "search" of web pages by inputting key words, names or topics. These searches are conducted by using electronic search engines operated by companies such as America Online, Yahoo, Google, MSN (Microsoft Network), etc. Web pages are registered at these search engine sites and then indexed by key words, names or topics that describe the products or services offered. Potential consumers simply type in a key word, such as "sales training," and the search engine lists all web pages that include "sales training" as a service or product.

If you are planning to conduct business on the web, you will need to prepare a strategy for this kind of marketing – how will you display products, take orders, accept payments, and ship merchandise to customers? Lessons learned from the dot com revolution of the 1990s include the importance of customers being able to (a) communicate easily with your company to resolve problems related to their order or merchandise, and (b) return products when necessary. Unless issues like these are addressed early and re-evaluated periodically, customers may experience e-commerce as very impersonal and frustrating.

Although *The Indian Business Owner's Guides* do not provide detailed coverage of Internet marketing or sales, a list of other available resources is provided at the end of Guide One to facilitate your additional research on this subject.

Main Table of Contents

Section Table of Contents

How Does the Place of Business Impact Sales?

Personal services (such as dry cleaning and hairstyling), professional services (such as accounting and legal services) and retail businesses must pay particular attention to the image and accessibility of their shop, office or store. From a marketing perspective, the most important criteria for site selection are:

- *Accessibility* – Is the site easily accessed by well-maintained roads? Is it centrally located within the market? Is it served by a public transportation system? Is adequate parking space available?
- *Car and Foot Traffic* – Is the population density and traffic count sufficient to sustain the business? Is it likely to increase or decrease in the foreseeable future?
- *Attractiveness* – Is the facility well maintained? Is it appealing in color, design and other physical aspects? Are adjacent and neighboring facilities attractive, too?
- *Visibility* – Can the business be readily identified by people who pass by? Can directional signs be erected to guide customers to it?
- *Lighting* – Does the facility meet customers' needs for good lighting? Is it well enough lighted to attract evening shoppers? Is the parking lot well lighted for safety at night? What about the special lighting effects needed for indoor merchandising?
- *Windows and Signs* – Can the business be promoted using window displays and signs? Are any restrictions imposed by local ordinances?
- *Competition* – How close are competitors? Is their proximity or distance an advantage or disadvantage?
- *Zoning Laws* – Are marketing activities restricted in any way? Are the laws expected to change in the foreseeable future?

Manufacturers face the difficult challenge of deciding whether it's best to locate near the sources of their raw materials and labor, near the ultimate consumers, or near the intermediate distribution (delivery) channels. If the needed raw materials are at a distance from consumers, manufacturers must evaluate carefully the *transportation costs* of raw materials versus finished products.

Main Table of Contents

Section Table of Contents

For service businesses, the place of business usually is the geographic territory within which the service provider is willing to travel to customers. For example, a professional gardener would take into consideration both the number of potential customers in a defined geographic area and the number of potential competitors. The goal would be to find an area with a sufficient number of customers whose gardening needs are not being met by the competitors.

Building contractors must identify high-growth areas in which there is room for competition. Specialty contractors, like electricians and plumbers, may be in demand by general contractors in high-growth areas, or they may find markets in older communities where commercial and residential buildings are wearing out.

If the owners of service and construction businesses are determined to live in a geographic area of personal preference – and it is a slow-growth area or highly competitive area – they must also take into consideration the transportation and subsistence costs they will bear in order to "go where the work is."

The chart entitled "Choosing a Location" (page 44) will help you define a market region, target an area within the region and choose a specific business site within the targeted area. Too often, business sites are chosen hastily in order to meet a less critical objective, such as a hoped-for opening date or low rent. While a few months' delay may be a minor setback, opening a business in a bad location could be disastrous. Heed the warning of marketing experts:

"If you locate in haste, you can repent at leisure!"

Main Table of Contents

Section Table of Contents

Choosing a Location

To select a general geographic region, consider the:

- Overall geographic size of the trading area.
- Present and projected population of the trading area.
- Purchasing power and distribution of purchasing power.
- Total market potential for a specific product or service.

To target an area within the geographic region, evaluate the:

- Customer-attracting power of the shopping district.
- Number, size and quality of competitors.
- Availability of access roads and transportation systems.
- Zoning and other restrictions.
- General appearance and image of the area.

To decide on a specific business site, inquire about:

- Car and foot traffic passing the site.
- Potential of the site to stop flow-through traffic.
- Complementary qualities of neighboring businesses.
- Adequacy and security of parking facilities.
- Cost of the site.

Main Table of Contents

Section Table of Contents

What Else Affects Your "Market Demand"?

It's a good idea to research trends in your industry and related industries to see whether they are growing or declining. *U.S. Industrial Outlook* and *Standard and Poor's Industry Surveys* are references available in most public libraries, and they can be very instructive about industry trends and specific geographic considerations.

Product "diversification" and product "mix" are marketing considerations aimed at ensuring that you *don't put all your eggs in one basket* and that you *offer a complement of products or services that consumers normally purchase together*. Returning to our earlier example of an office supplies business, the store owners might diversify in two ways in order to maximize sales:

1. By adding a broad line of commercial and industrial paper products, including bags, napkins, towels and toilet tissue.

2. By setting aside a portion of their retail outlet as a "gift-shop," featuring arts and crafts, children's books and games, and novelty items, as well as greeting cards, bows and gift wrap.

By now you can appreciate how the "5P's of Marketing" – People, Product, Price, Place and Promotion – interact in the formation of a winning marketing strategy. While no amount of marketing effort can compensate for poor products or services, the perceived value of products and services can be enhanced greatly by effective pricing, promotion, and site selection.

Having developed your own expertise in marketing, it's time to begin drafting a Marketing Plan for *your business.* The following format will guide you through the step-by-step process.

Main Table of Contents

Section Table of Contents

Worksheet 2 – Marketing Plan

A. Initial Marketing Objectives

1. Briefly describe your overall marketing objectives.

_____

_____

_____

B. Product/Service Description

2. What products and/or services are you offering?

_____

_____

_____

3. What consumer needs or wants do your products/services satisfy?

_____

_____

_____

4. Are your products/services used at a constant rate all year, or is the market demand seasonal in nature?

_____

_____

_____

5. How often do customers purchase your products/services?

_____

_____

_____

6. Are your products/services usually purchased one at a time or in multiple numbers? What is the average number bought at one time?

_____

_____

_____

C. Competitive Environment

7. In what industry are you competing?

8. Has the industry grown or declined in the past five years, and what has caused the growth or decline?

9. What is the industry outlook for the next five years, and what market conditions are expected to affect it?

10. Do you compete on a local, regional, national or international basis?

11. With whom do you compete directly? What are their competitive strengths and weaknesses?

Competitor	Strengths	Weaknesses

12. With whom do you compete indirectly? What are their competitive strengths and weaknesses?

Competitor	Strengths	Weaknesses

13. What are your competitive strengths and weaknesses? Do you have a "competitive edge"?

_____

_____

_____

C. Market Description

14. Describe your typical customers in terms of the following:

a. age	f. marital status
b. sex	g. household size
c. education	h. age/number of children
d. occupation	i. geographic region
e. income	j. rural or urban residence

_____

_____

_____

15. Do your typical customers differ from your competitors' in terms of any of the demographic factors above? Explain.

_____

_____

_____

16. Do your typical customers differ culturally, physically, psychologically or socially from your competitors'? How?

_____

_____

_____

E. Targeted Market

17. What market segments represent the largest numbers of potential consumers of your products/services?

_____

_____

_____

_____

18. What market segments represent the most profitable groups of potential consumers of your products/services?

_____

_____

_____

_____

19. Which market segments can be reached most efficiently considering potential promotional opportunities?

_____

_____

_____

_____

20. Which market segments can be reached most efficiently considering available methods of product/service delivery?

_____

_____

_____

_____

21. Which market segments will you target, and why?

_____

_____

_____

_____

F. Marketing Strategy

22. Considering your targeted market, what are your strategies for:

a. Defining Your Product/Service – What needs will be met?

_____

_____

_____

b. Pricing Your Product/Service – Relationship to quality?

_____

_____

_____

c. Promoting Your Product/Service – Message and media?

_____

_____

_____

d. Placement of Your Product/Service – Location or method of delivery?

_____

_____

_____

23. What will be the likely reactions of your competitors to each component of your marketing strategy? Will you have to respond to those reactions? How?

a. Production Definition.

_____

_____

_____

b. Pricing.

_____

_____

_____

_____

c. Promotion.

_____

_____

_____

d. Placement.

_____

_____

_____

G. Revised Marketing Objectives

24. After reconsidering your initial marketing objectives in light of your marketing strategy, your competitors' probable reactions and general trends in the industry, have you revised your initial marketing objectives? In what ways?

_____

_____

_____

H. Preliminary Marketing Plan.

25. What volume of products/services (in units or dollars) will you need in order to meet your profit goal? How have you determined that it is realistically attainable?

26. What will be the prices of your products/services in the first year? Will they be stable throughout the year? Will you have special sales? When will they occur?

27. What terms of sale will you offer? Will there be discounts or credit terms for some customers? What percentage of your sales will be discounted and/or on credit, and what will be the impact on projected sales volume?

28. How much have you budgeted for promotional expenditures, and how did you determine that amount?

_____

_____

_____

29. How will your promotional budget be allocated among the following media?

a. Advertising – Specify media, frequency of ads per month or year and calculated cost.

_____

_____

_____

b. Merchandising – Specify techniques and estimated costs.

_____

_____

_____

c. Personal Selling – Specify methods and estimated costs.

_____

_____

_____

d. Other Promotions and Publicity – Specify.

_____

_____

_____

30. Have you developed promotional messages that are simple, informative, memorable and persuasive? What are they? How will they be combined in various media for best results?

31. How will you deliver your products/services to customers? What were the primary considerations in choosing the method of delivery or selecting your business site?

32. Should any new delivery methods or business sites be added? What would it cost to do that, and what would be the impact on sales?

33. What plans do you have for improving your products or services? How will you do that, and when?

34. What plans do you have for expanding or diversifying your products or services? How will you do that, and when?

_____

_____

_____

_____

_____

35. What kind of monthly or annual information will you need in order to evaluate the effectiveness of your marketing plan? What sources of information will you use?

_____

_____

_____

_____

_____

Supplemental Electronic Resources
Advertising and Selling on the Internet

Small Business Administration
"Online Advertising"
If you're thinking about advertising on the Internet, remember that many of the same rules that apply to other forms of advertising apply to electronic marketing. These rules and guidelines protect businesses and consumers – and help maintain the credibility of the Internet as an advertising medium. This website provides information as well as links to other valuable resources, including definitions of "deceptive" marketing and the Children's Online Privacy Protection Act.
http://www.sba.gov/managing/technology/onlinead.html

eMarketing
E-mail marketing is one of the most effective ways to keep in touch with customers. It is generally cost-effective, and if done properly, can help build brand awareness and loyalty. At a typical cost of only a few cents per message, it's a bargain compared to traditional direct mail at $1 or more per piece. This site explains the basics of getting started on the Internet, from types of text to use to establishing a web presence. Additional links include: The Internet Economy, Internet Basics, E-Business Basics, E-Commerce Basics and Marketing Your Business.
http://www.sba.gov/starting_business/marketing/emarketing.html

"Understanding the Internet"
This brief tutorial offers an introduction to setting up an Internet service provider, getting on the Internet, e-mail, and website hosting.
http://www.sba.gov/managing/technology/understandinter.html

"Getting on the Web"
The Internet levels the playing field between small business and big business. Therefore, getting your business on the web could provide you with access to customers you may not be able to reach any other way. Find out how to get started at:
http://www.sba.gov/managing/technology/getweb.html

Main Table of Contents

Section Table of Contents

Small Business Development Center
National Information Clearinghouse
"eCommerce Guide"
If you have not decided whether the fanfare over conducting business online is hype or reality and you are holding off developing a website for your enterprise, you could be missing out on a powerful business tool. This comprehensive tutorial discusses registering a domain name, finding a web host and developers, and much, much more. *Plan on spending some time on this site*; it is filled with useful information from creating your eCommerce business plan to methods of payment and even international taxes.
http://sbdcnet.utsa.edu/SBIC/e-com.htm

SBA/CISCO Systems
"On Line eCommerce Tutorial"
The Small Business Administration has partnered with Cisco Systems in this on-line tutorial that plainly explains the basics of eCommerce. This tutorial works best with a high-speed Internet connection such as DSL or a cable connection. Each tutorial is between 15 and 25 minutes, and runs like a classroom presentation. The support given by the U.S. Small Business Administration to this activity does not constitute an express or implied endorsement of any co-sponsor's or participant's opinions, products, or services.
http://tools.cisco.com/cmn/jsp/index.jsp?id=22308&redir=YES&userid=(none)

Main Table of Contents

Section Table of Contents

SBA Tech Net
Tech-Net is an Internet database of information for businesses interested in doing business on the World Wide Web. It is a free service for those seeking small business partners, small business contractors and subcontractors, leading edge technology research, research partners (small businesses, universities, federal labs and non-profit organizations), manufacturing centers and investment opportunities.

In addition to searching for technology partnerships, licensing and investment opportunities in Tech-Net, SBA's Pro-Net allows searches for small business procurement opportunities. Pro-Net is an electronic gateway of procurement information for and about small businesses. It is a search engine for contracting officers, a marketing tool for small firms and a "link" to procurement opportunities for small businesses seeking federal, state and private contracts.
http://tech-net.sba.gov/

Service Corps of Retired Executives (SCORE)
"E-business Reading Room"
SCORE is a non-profit association providing free counseling and low-cost workshops to small businesses throughout the United States. SCORE provides entrepreneurs with free, confidential face-to-face and email business counseling. Counseling and workshops are offered at 389 chapter offices nationwide by volunteers who are experienced entrepreneurs or corporate managers/executives. Go straight to SCORE's Reading Room for strategies and ideas to start, grow and run your e-business more effectively and successfully.
http://www.score.org/readingroom.html#a_3

Main Table of Contents

Section Table of Contents

Registering Your Website with Major Search Engines
The major for-profit search engine companies host these websites. You do not necessarily have to register your site with each search engine; however, the more search engines with which you register, the more people will be able to find you on the web. Some charge a fee; check each individual link for additional details.

Google
http://www.google.com/ads/index.html (fee for service)

MSN
http://www.submit-it.com (fee for service)

Yahoo
http://smallbusiness.yahoo.com/merchant/ (fee for service)

Main Table of Contents

Section Table of Contents

Electronic Resources for Small Business Marketing

Donnely Marketing Services

There is a fee to access the Donnely Marketing databases; they are available via the World Wide Web – through the Internet, FTP, in print, and via fax. However, many community colleges and universities have subscriptions to the service and allow users to access the databases.
http://www.donnelleymarketing.com/

Risk Management Association (formerly Robert Morris Associates)

RMA is a member-driven professional association whose sole purpose is to advance the use of sound risk management principles in the financial services industry. There is a fee to access the RMA products and databases, which include standard industry codes databases, Annual Statement Studies, e-mentor services, and a variety of services for the individual entrepreneur. However, many community colleges and universities have subscriptions to the service and allow users to access the database.
http://www.rmahq.org

Minority Business Development Agency

1401 Constitution Avenue, NW,
Washington, DC 20230
Toll Free: 888-324-1551
help@mbda.gov

"Getting Started"
http://www.mbda.gov/index.php?section_id=2

"Marketing"
http://www.mbda.gov/index.php?section_id=2#MARKETING

Main Table of Contents

Section Table of Contents

Small Business Administration
General Contact Information
SBA/Business Information Center
1110 Vermont Ave., NW, 9th floor
Washington, DC 2005
Telephone: 202-606-4000 ext. 279
http://www.sba.gov/asksba/addresses.html

"Marketing Basics"
http://www.sba.gov/starting_business/marketing/basics.html

"Starting Your Business – Developing a Marketing Plan"
United States Small Business Administration Marketing Plan
1-800-827-5722
http://www.sba.gov/starting_business/marketing/plan.html

"Small Disadvantaged Business (SDB) Program"
Office of Small Disadvantaged Business Certification and Eligibility
409 Third Street, S.W. - 8th Floor
Washington, D.C. 20416
Telephone: 202-619-1850
SDB@sba.gov
http://www.sba.gov/sdb/

"Expanding and Growing Your Business" (on-line workshop)
http://www.sba.gov/gopher/Business-Development/Business InitiativesEducation-Training/Marketing-Plan/

Main Table of Contents

Section Table of Contents

Standard and Poor's Industry Surveys
Call sales for quote: 1-800-523-4534 or 303-721-4802 or visit http://www2.standardandpoors.com/ for more information.

There is a fee to access the Standard and Poor's Industry Surveys databases; they are available via the World Wide Web – through the Internet, FTP, in print, and via fax. However, many community colleges and universities have subscriptions to the service and allow users to access the databases.

U.S. Industrial Outlook
Ordering Information
U.S. Global Trade Outlook, 1995-2000
Paperbound print edition, 224 pages
S/N 003-009-00650-3
U.S. Government Printing Office
Phone orders: 202-512-1800
Cost: $19.00

For more information go to :
http://www.ita.doc.gov/td/industry/otea/usio/usio95.html

Main Table of Contents

Section Table of Contents

Footnotes

1. William J. Stanton, Fundamentals of Marketing, Fifth Edition (New York: McGraw Hill Book Company), 1978, p. 18.
2. Ibid., pp. 19.
3. Ibid., p. 25
4. Ibid., p. 26.
5. Ibid., p. 26.

References

1. Joyce Freeland, C.P.A., "Is Your Hourly Rate Ripping You Off?" In Business, May-June 1984.
2. Stanley J. Garfunkel, Ph.D., Developing the Marketing Plan: A Practical Guide (New York: Random House, Inc.), 1980.
3. William J. Stanton, Fundamentals of Marketing, Fifth Edition (New York: McGraw-Hill Book Company), 1978.
4. U.S. Small Business Administration, Office of Business Development, "Choosing a Retail Location" (U.S. Government Printing Office:1988-202-411/60075).

Main Table of Contents

Section Table of Contents

Guide Two

Performing a Preliminary Feasibility Study

Table of Contents

Guide Two – Performing a Preliminary Feasibility Study

Main Table of Contents

Main Table of Contents

The Indian Business Owner's Guide to Performing a Preliminary Feasibility Study is the second in a series of four guides. It provides a basic approach to determining the economic, or financial, feasibility of a business idea.

It is designed to help you:

- Formulate your business concept in a manner that lends itself to gathering, organizing and analyzing essential information;
- Review the market factors that interact to determine your "market demand" – people, product, price, place and promotion;
- Develop "market projections," or sales forecasts, for your planned business;
- Identify the technical and managerial resources needed to start and operate your planned enterprise;
- Estimate the "capitalization requirements" of your planned business – the funds required to purchase essential assets and cover initial operating expenses;
- Prepare "forecasted financial statements" that predict the financial condition and performance of your planned business;
- Assess the relative degree of risk inherent in your business venture; and
- Determine the organizational and personnel requirements of your planned business enterprise.

Performing your own preliminary business feasibility study will increase your awareness of available informational resources and enhance your knowledge of the major factors that affect the feasibility of your business idea. Even if you already are in business, this guide can assist you in reassessing the strengths and weaknesses of your enterprise and identifying opportunities for profitable expansion.

The information presented in *The Indian Business Owner's Guide to Performing a Preliminary Feasibility Study* builds upon the material provided in *The Indian Business Owner's Guide to Developing a Marketing Plan. The Indian Business Owner's Guide to Preparing a Business Plan*, third in the series, is designed to complete the step-by-step process of self-guided business planning. Finally, *The Indian*

Main Table of Contents
Section Table of Contents

Business Owner's Guide to Securing Financing will help you implement your plan. While each of the guides may be used independently of the others, they are considered optimally useful as a series of four.

The financial projections used in this guide are based upon an actual business and reflect the prevailing costs at that time. They are used in this guide solely for the purpose of demonstrating the step-by-step process used in developing financial projections. Readers must research and utilize current prices and costs specific to their own businesses when developing their own financial projections.

Main Table of Contents

Section Table of Contents

Performing a Preliminary Feasibility Study

Got a great idea for a new small business?
Are you sure it'll work?

What is a "Preliminary Feasibility Study"?

Experienced entrepreneurs know that having a business idea is a far cry from having a successful business. The idea sparks the imagination and motivates the would-be business owner to find out whether the idea is workable – if not in its original form, then perhaps in some modified form. The process of exploring the financial and human potential of a business idea is commonly referred to as a "feasibility study." It is a process characterized by concept formation, resource identification, information gathering, sales forecasting, financial analysis and risk assessment.

The success of any business venture will depend upon three interrelated aspects of feasibility:

- **Economic Feasibility** – The ability of a business to sell products or services at competitive prices and realize sufficient revenues to cover its operating costs, repay its debts, sustain its growth and support its owner(s).
- **Managerial Feasibility** – The capability of a business' owner(s) to plan, organize, direct and control the various managerial functions of a business, including accounting, finance, marketing, employee development and recordkeeping.
- **Technical Feasibility** – The capacity of a business to utilize resources and technology efficiently in order to produce goods or services cost-effectively – without adverse impact on the human or physical environment.

Most preliminary studies emphasize *economic feasibility*. Also known as *"financial"* or *"market feasibility analyses,"* these studies generally assume that the prospective business owner either has the necessary managerial capability and technical expertise, or can acquire them. If the business under study is not unique or technically complicated, such assumptions might be considered reasonable.

Main Table of Contents
Section Table of Contents

Before the findings and conclusions of such *Preliminary Feasibility Studies* can be developed into detailed *Business Plans*, any assumptions about managerial and technical feasibility must be validated. For example, the final Business Plan would include the resumes of key managerial and technical personnel whose training, experience and demonstrated abilities to operate comparable businesses would optimize the success of the planned venture.

Main Table of Contents

Section Table of Contents

Should You Do Your Own Preliminary Feasibility Study?

Absolutely! Performing a preliminary feasibility study is an educational experience you won't want to miss. Whether or not you ultimately hire a professional consultant to evaluate and refine your work, performing your own preliminary feasibility study will:

- Increase your awareness of available sources of information about specific markets;
- Strengthen your information-gathering and organizational skills;
- Enhance your knowledge of the major factors that affect the feasibility of your business idea;
- Strengthen your business planning and managerial skills;
- Enable you to appreciate the feasibility study as a tool for evaluating and comparing business opportunities; and
- Build your confidence in the ultimate decision to pursue a business venture or explore other options.

Main Table of Contents

Section Table of Contents

How Should You Formulate Your Business Idea Or "Concept"?

A business idea most often occurs when an unmet consumer need is perceived as a "market opportunity." Consider the following possibilities:

- In a community where the grocery stores close at 6 p.m. – before many people have returned from their day's work – a late-operating convenience store might seem like a good idea.
- Members of a reservation community situated along a busy highway might get frequent requests from travelers for native arts and crafts – giving rise to the idea of a cooperative retail outlet for local artists.
- Consumers in a mountain area may find the fresh produce shipped from remote locations unappetizing and decide to start a neighborhood gardening project.
- In a low- and moderate-income community where people drive older cars, there might be an unmet demand for automotive parts, supplies and repair services.
- In a community characterized by large families – especially single parent or two-working-parent families – there may be an unmet need for inexpensive childcare services.

Such unmet consumer needs and apparent market opportunities often prompt the energetic, self-reliant and "entrepreneurial" members of a community to consider starting a business. Yet the risks inherent in business ownership cannot be ignored: according to the U.S. Small Business Administration, 50% of new small businesses fail within three years – and 75% fail within five years. Before you risk your life savings, home and other personal assets (including your good reputation and credit rating), your business "idea" must be reformulated to address the important market, production, financial and managerial determinants of success.

Business feasibility has been defined as "the ability of a business to sell products or services at competitive prices and realize sufficient revenues to cover its operating costs, repay its debts, sustain its growth and support its owner(s)." The definition gives rise to a number of important questions, such as *who* will sell *what* to *whom*, *how*, at *what cost*, for *what price* and *where*? To address these questions, you will need to develop a business "concept" that lends itself to gathering, organizing and analyzing essential information. The following conceptual format is recommended.

Main Table of Contents
Section Table of Contents

Primary Question	Related Questions
WHO will sell?	Will your business be organized as a sole proprietorship, partnership or corporation? Who will be the key personnel? How well qualified are you and they to manage and operate a business? What will you name your business?
WHAT will you sell?	What products or services will you offer? Are they unique or different from your competitors'?
To **WHOM** will you sell?	Have you researched the market for your products or services? Specifically, whose needs will they meet? What is the total "market demand"?
HOW will you produce your products or services?	What are the key production and technological requirements?
At **WHAT COST** will your products or services be produced and delivered?	Have you determined the direct and indirect costs of production, operation, delivery and management?
At **WHAT PRICE** will your products or services be sold?	Is your sale price competitive? Is it high enough to meet your profit goal at a realistically attainable sales volume?
WHERE will your products or services be sold – or how will they be delivered?	Should you locate near your production resources or near your markets? Should you be near your competitors or at a distance? What will be your placement strategy or delivery method?

It is apparent that performing a preliminary feasibility study will be a time-consuming process. Bear in mind that business risks stem from uncertainty – and the amount of uncertainty associated with a business depends upon the owner's attention to planning. If you want to minimize the risks inherent in your proposed venture, make a commitment to address all the pertinent planning issues – in as much detail as possible – **before you start the business**. Heed the advice of management consultants who warn:

"If you fail to plan, you can plan to fail."

Main Table of Contents

Section Table of Contents

What Market Factors Determine Business Feasibility?

In *The Indian Business Owner's Guide to Developing a Marketing Plan*, you were introduced to the **"5 P's of Marketing"** – People, Product, Price, Place and Promotion. These market factors interact to determine your "market demand," or the number of customers you can expect to attract to your business and, ultimately, to purchase from you. Because it is the marketing effort that produces sales, the formation of a marketing strategy and completion of a marketing plan are essential first steps in determining the feasibility of a business venture. Let's review the most critical considerations in each market factor.

People.

Your "market" consists of *people* who have unsatisfied needs or wants, *money* to spend ("purchasing power") and a *willingness to spend* ("motivation to buy"). Since your capacity to meet the total need for a product or service will be limited by financial, human and other resources, you will need to *target* specific *market segments* whose needs can be met most fully and profitably. You may choose a "target market" according to such considerations as:

- age
- sex
- marital status
- life cycle stage
- education
- occupation
- religion
- geography
- attitude/tastes
- culture/ethnicity
- disposable income
- special needs

Product.

Consumers are attracted to businesses that define their products or services in terms of the human needs they satisfy. For example, "trail mix" may be described as a nutritious, high-energy, convenient snack. The human needs that motivate consumers to buy are categorized as:

- Physiological: food, drink, sex, shelter;
- Safety: security, order, protection;
- Social: love, belongingness;
- Esteem: prestige, respect, status;
- Self-actualization: fulfillment, happiness; and
- Cognitive: knowledge, understanding, beauty.

In addition to defining products or services in terms of consumers' needs, it is important *to distinguish your product from those of your competitors*. You will have a "competitive edge" if your product is

Main Table of Contents
Section Table of Contents

perceived as easier to use, more economical, more attractive, more reliable, of superior quality or a status symbol. Product warranties and special credit terms also afford competitive advantages.

Price.
In pricing your products or services, you will need to consider your *cost*, your *competitors' prices*, and your *customers' reactions to all the prices offered*. Since consumers relate price to value, or perceived quality, you may be able to "beat the competition" with a higher price. A pricing strategy that emphasizes sales to a select group of customers who *willingly pay more for higher value* is called "cream skimming." "Market penetration," on the other hand, aims at achieving the *highest possible volume of sales* by offering *comparable quality at a lower price.* Competing on the basis of price alone – for example, with discount pricing – requires careful consideration of the impact on break-even sales volume, the added cost of advertising lower prices, and customers' probable impressions of quality as it relates to lower prices.

Place.
Retail and service enterprises that draw customers to their places of business must consider a number of important criteria for site selection:

- *Accessibility* by well-maintained roads and public transportation systems, as well as the adequacy of parking space;
- *Car and Foot Traffic*, which must be adequate to sustain a business not only when it starts but also in the future;
- *Attractiveness* in terms of color, design, physical maintenance and neighboring facilities;
- *Lighting*, which must attract customers, provide for their safety at night and meet indoor merchandising needs;
- *Windows and Signs* that can be used to direct customers and promote business products or services;
- *Competition*, whose proximity or distance may be either an advantage or disadvantage, depending on the chosen competitive strategies; and
- *Zoning Laws* that may impose immediate or future restrictions on business activities.

Main Table of Contents
Section Table of Contents

Manufacturers must decide whether to locate near the sources of raw materials and labor, the ultimate consumers or the intermediate distribution channels. They must compare the cost of transporting raw materials to the cost of delivering finished products.

Contractors and others who provide services directly to customers generally define their place of business as a geographic territory within which they are willing to travel. They must take into consideration not only the demand for services within the area, but also the number of potential competitors.

Promotion.
"Promotional activities" include advertising, signs, window displays, store exhibits, free samples, coupon sales, personal selling, public relations and even stationery and business cards. While **advertising** is used *to attract people to your business*, displays and other **merchandising** techniques are used *to heighten their interest in buying* after they arrive at your place of business, and an in-person **sales presentation** may be required *to make the sale*. Promotion is essential to:

- Reach new customers and maintain the loyalty of former customers;
- Inform consumers about special product features and innovations;
- Influence the prolonged buying decisions of comparative shoppers;
- Promote a positive image and boost employee morale; and
- Realize long-term, sustained growth in sales volume.

Advertising media include radio, television, newspapers, magazines, mailers, directory listings, telephone solicitations, outdoor signs, posters and novelty items such as buttons, pens, hats and tee shirts. Important considerations in the **selection of advertising media** include:

- *The nature of your market* – Who are your customers? Where are they located? What are their habits?
- *The complexity of your message* – Is it short and simple or long and difficult to understand? Does it require an audio and visual image?
- *Your advertising budget* – How much can you afford to spend on advertising? How often can you afford it?

Main Table of Contents

Section Table of Contents

The most effective advertising is simple, informative, memorable and persuasive. *Repetition* is the key to *informing and persuading people in a memorable way.* That's why it's a good idea to use an affordable combination of media – such as radio, newspapers, and store displays – to repeat your advertising message.

Note: *If you have not completed the Marketing Plan Worksheet at the end of Guide One (pages 46 to 55), please review it now, in preparation for the material that follows.*

Main Table of Contents

Section Table of Contents

What Are "Market Projections"?

By completing a basic Marketing Plan, you will be able to formulate a marketing strategy that takes into consideration the "5P's of Marketing," general market trends and the competition within your "targeted market." Based upon that strategy, you will be able to estimate, or *project*, a realistic "market share" – the volume of sales you expect to achieve in the first few years of business operation. Thus, *"Market projections"* are your estimated sales. Because some businesses are seasonal, it is recommended that your first-year sales be projected on a month-by-month basis, reflecting the anticipated seasonal fluctuations. Second- and third-year projections may be done on an annualized basis.

Earlier in this guide, the idea of a late-operating convenience store was raised. *Suppose* a tribal community were considering starting a convenience store, and a business planning committee were formed to research its market potential. At a local bank, committee members learned that convenience stores have thrived since the late 1950's, not by competing with grocery stores but by opening earlier, closing later and providing the "fill-in" items people need between major shopping trips. They also learned that daily sales peak between 7 a.m. and 9 a.m. and again between 5 p.m. and 8 p.m. Not surprisingly, Sundays and holidays are the busiest days of the year.

On a referral by the bank, the committee contacted the National Association of Convenience Stores (a trade association) and the publishers of the *Convenience Store Journal* (a trade magazine). They gathered the following market-related information:

- The number of 24-hour convenience stores is increasing;
- It takes 500 to 1,000 people to support a convenience store in an area where there is no direct competition (from another convenience store or a 24-hour grocery store);
- The typical convenience store offers a balanced inventory that includes dairy, bakery and tobacco products, cold beverages, frozen foods, deli items, grocery items, non-food items (cosmetics non-prescription drugs, paper products and pet food) and limited produce;
- Most convenience stores make significant profits from sales of beer and wine;
- Many convenience stores feature self-serve gasoline pumps and sell limited amounts of oil and other automotive products;

Main Table of Contents
Section Table of Contents

- Because of increasingly strict Environmental Protection Agency regulations concerning underground gasoline storage tanks, the startup and operating costs of convenience stores have increased in recent years;
- Because they compete more on the basis of convenience than price, the retail markup at convenience stores is higher than the markup at grocery stores – allowing for a 25% to 30% "gross profit margin" (contribution to fixed costs) as compared to the 23% to 28% gross profit margin of grocery stores;
- Although total convenience store sales have grown each year for the past five years, the rate of growth has slowed, and the average merchandise sales per store have decreased;
- Because increases in expenses more than offset increases in industry sales, average store profits have declined in the past five years;
- Accessibility from well-traveled roads is essential to the success of a convenience store. If it is located in a residential area, most of its customers will live within a two-mile radius. The "ideal" location is "on the way to or from work or school";
- Because of the proximity to local residents, convenience stores should be designed to complement the surrounding community – aesthetic appeal is important;
- Convenience stores typically spend one percent of their gross revenues on advertising and promotion. The most commonly used advertising media are local radio stations, newspapers, shoppers' guides and mailers. Exterior signs, storefront banners and window displays also are used to attract customers; and
- In-store promotions include posters and compact floor displays. Good lighting and efficient use of space are critical to attractive store layout.

Let's assume the tribal community is situated along a state highway. The community is comprised of 750 people who live within one mile of a proposed store site just off the highway. Most of the employed members work outside the tribal community. The schools serving the membership also are outside the community. There is one small grocery store in the community, but no service station. The adjacent highway is the main route to neighboring communities approximately 10 miles to the north and 15 miles to the south.

Main Table of Contents
Section Table of Contents

Given the size of the community and the absence of direct competition, the business committee might decide to survey the tribal membership in order to determine the local market potential. The survey could be conducted door-to-door, by telephone and/or in a community meeting in order to accommodate the greatest number of potential customers. To enhance the reliability of data collected, the committee members would ask the questions and record the answers of respondents rather than asking the respondents to record their own answers on the survey form.

Main Table of Contents

Section Table of Contents

Sample Market Survey – Tribal Convenience Store

Respondent's Address: _____ **Survey No.** _____

Introduction: The tribal community is exploring the feasibility of starting a convenience store with self-serve gas pumps near the access from the highway. To determine sales potential, we are gathering information about consumers' needs and buying habits. Your cooperation in completing this survey will be appreciated.

1. How many people reside in your household? _____
2. How many vehicles are operated by household members? _____
3. How far do you travel to purchase the following:
   a. "Groceries" (bread, dairy items, meat, produce, canned and frozen foods, soft drinks, snacks, household supplies and paper products)? _____ mi.
   b. Beer, wine and tobacco? _____ mi.
   c. Cosmetics and non-prescription drugs? _____ mi.
   d. Gasoline? _____ mi.
4. How much do you spend weekly on the following:
   a. "Groceries"? _____ c. Cosmetics/drugs? _____
   b. Beer/wine/tobacco? _____ d. Gasoline? _____
5. What percentage of your shopping is done on:
   a. Weekdays? _____ b. Weekends? _____
6. At what time of day or night do you usually purchase:
   a. "Groceries"? _____ c. Cosmetics/drugs? _____
   b. Beer/wine/tobacco? _____ d. Gasoline? _____
7. What percentage of your gasoline purchases are:
   a. Regular Unleaded? _____ c. Diesel? _____
   b. Premium Unleaded? _____
8. If the tribal community were to start a convenience store with self-serve gas pumps near the highway access, estimate the percentage or dollar amount of weekly purchases you would make there:
   a. "Groceries"? _____ c. Cosmetics/drugs? _____
   b. Beer/wine/tobacco? _____ d. Gasoline? _____
9. Do you think the community needs a convenience store? _____
10. Do you think the community needs self-serve gas pumps? _____
11. Do you think a convenience store should be open 24 hours/day? _____
12. If you would shop between 11 p.m. and 7 a.m.:
    a. What would you purchase then? _____
    b. How much would you spend per trip? _____
    c. How many trips would you make per week? _____

The Sample Market Survey is designed to assess the total market demand for specific products, purchasing patterns (e.g., amounts spent on specific product groups and times of day when spending occurs), the market share likely to be captured by the proposed convenience store, and the community's overall reception or attitude toward the proposed business. Assuming an unbiased sample of community households were surveyed, 50 to 100 completed surveys might provide reliable results.

From a survey of 50 households, it might be determined that:

- The average household consists of four members;
- The average household operates two vehicles;
- Half the households are purchasing outside the community;
- The average household spends $100 per week on the products identified in the survey (therefore, per capita expenditure is $25 per week);
- Half the households do most of their shopping on weekdays, after 5 p.m.;
- Few community members shop after 11 p.m.; most of those who do are purchasing beer, wine or tobacco;
- A majority of the community strongly supports the idea of a local convenience store with self-serve gas pumps, and half of the community favors a 24-hour operation;
- On the average, the half of the community spending locally might make 25% of their purchases at a convenience store that stayed open after 6 p.m. – that would be $25 per household per week, or $6.25 per capita per week; and
- On the average, the half of the community spending outside the community might make 35% of their purchases at a local convenience store – that would be $35 per household per week, or $8.75 per capita per week.

Main Table of Contents

Section Table of Contents

- If these figures were reliable, the "market projections" for the 750-member community could be calculated as follows:

> 50% of 750 spending $6.25 per week = $2,343.75 per week
> 50% of 750 spending $8.75 per week = $3,281.25 per week
> 100% of 750 spending $7.50 per week = $5,625 per week, and
>
> $5,625 per week x 52 weeks per year = $292,500 per year

Other conclusions could be drawn from the survey regarding peak shopping periods and required staffing, stocking of specific product lines and possible bases for competition with both local and non-local food and gasoline retailers.

In addition to projecting the market demand within the *immediate vicinity* of the proposed convenience store, the business planning committee might want to take into consideration the potential for sales to members of neighboring communities and to highway travelers. For example, if people living within one mile of the proposed business site were considered the *primary market*, the committee might designate as the *secondary market* everyone living closer to the proposed business site than to any direct competitor.

Suppose the nearest competing convenience stores were located in the neighboring communities 10 miles to the north and 15 miles to the south of the tribal community. The business planning committee might ask the county planning department for an estimate of the population residing between points 5 miles to the north and 7 miles to the south of the proposed site. That total population – minus the 750 persons living within the tribal community – would represent the secondary market for the proposed convenience store.

The business planning committee might assume that since the tribe's neighbors were demographically similar, they also spend an average of $25 per capita per week on items to be sold at the proposed convenience store. As a starting point, it might further assume that 5% of the business of the secondary market could be captured in the first year of convenience store operation. Suppose 1,500 persons lived within the secondary market; then:

> 5% of 1,500 spending $25 per week = $1,875 per week *and*
> $1,875 per week x 52 weeks = $97,500 per year *and*
> Primary Market + Secondary Market = Total Market
>
> $292,500 + $ 97,500 = $390,000

Main Table of Contents
Section Table of Contents

What Key Production Factors Determine Feasibility?

Different kinds of businesses require different combinations of human, physical and technological resources. As examples:

- A large agricultural enterprise may be "equipment intensive," while a small farm may be "labor intensive;"
- Construction firms may require substantial amounts of equipment and labor, and their targeted markets must offer access to building materials and supplies;
- In addition to availability of labor and raw materials, manufacturing firms might require significant land areas, large plant facilities, and special water, utility and transportation systems;
- Retail stores need access to wholesale suppliers – and if bad roads and weather are factors to consider, they need reliable suppliers who are accessible by alternate routes; and
- Service businesses may require unique "tools of the trade" – ranging from the specialized tools of auto mechanics to the high-tech data processing equipment of accountants.

One way to identify the key production factors of your planned business is to visualize the various activities or operations that will be performed there. Then, ask yourself two questions:

1. What resources will be needed to get started?
2. What resources will be needed to continue operating?

If your firsthand experience in business is limited, you can explore these questions by observing and talking to other people who are, or have been, in the same line of business. Talk to prospective customers about their preferences for certain products, prices or places of business. Call or visit chambers of commerce, marketing and trade associations, city and county planning departments, and licensing bureaus – and ask them about the key production factors in your proposed enterprise. Ask local accountants, bankers and insurance agents what kinds of problems characterize the business you envision. Talk to real estate brokers about the cost of building, buying or leasing the commercial space you would need. Explore the availability of essential suppliers. Ask them whether

Main Table of Contents
Section Table of Contents

there is "room for competition" in your targeted market area – and what terms of payment they would offer if you purchased merchandise from them.

Referring back to our convenience store example, the business planning committee might have identified the key production factors using the following format.

Key Production Factors
Tribal Convenience Store

Activity	Startup Requirements	Operational Needs
Displays and Merchandising	Building, light fixtures, shelving and refrigeration	Maintenance and repair supplies
Stocking the Store	Beginning inventory and storage space	Ongoing merchandise purchases
Product Sales and Customer Service	Management training in retail sales and customer service; cash register(s)	Employee training in sales and service
Financial Management, Recordkeeping and Reporting	Office space, desk, chair, calculator, computer, file cabinets and office supplies	Equipment maintenance and repairs; office supplies

Given these startup requirements and ongoing operational needs, the committee members might have contacted various sources of information identified earlier and learned:

- The "ideal" size of a convenience store is 2,500 square feet, and the parking lot should be adequate for 5 to 15 automobiles.
- Because convenience stores require a lot of refrigeration, the total cost of equipment and fixtures can equal 50% to 75% of building costs.
- Convenience stores carry 2,000 to 3,000 products – about one-third the total of a supermarket. Yet they can offer virtually every product found in a supermarket by limiting their selection to popular brands and small- to medium-size packages.

Main Table of Contents
Section Table of Contents

- Most convenience stores are members of group buying organizations that provide small businesses with the benefits of bulk purchasing. Some of the wholesalers that serve these groups assist store owners with merchandising, store layout, inventory control, financing and advertising.
- Merchandise orders generally are placed electronically four to five days before delivery on up-to-date forms provided by the wholesaler. Weekly deliveries are common.
- Convenience store inventories "turn over" in 15 to 37 days, with 24 days representing the average turnover period.
- Convenience store inventories have an average value of $30,000 to $60,000.
- Customer and employee pilferage – and armed robbery – are major threats to convenience stores. Security measures may include alarm systems, closed-circuit television, mirrors and one-way floor vaults for safe deposits of excess cash.
- Basic insurance coverage for a convenience store includes property, inventory and liability insurance, as well as worker's compensation insurance.
- Including one full-time manager, three to four employees are needed for 16-hour convenience store operations; and five to six employees are needed for 24-hour operations.
- Up to 75% of convenience stores are "chain" or franchise operations. In addition to assistance with business financing, franchisers offer management training in advertising, sales and merchandising, purchasing, financial recordkeeping and inventory control.
- License and permit requirements may include a business license, retail sales permit and off-sale beer and wine license.
- Depending upon the volume of sales and size of payrolls, sales and payroll tax deposits may be required.

Main Table of Contents

Section Table of Contents

Worksheet 3 – Your Key Production Factors

Activity	Startup Requirements	Operational Needs	Information Source
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

What Financial Considerations Affect Business Feasibility?

Once you have identified the startup and operational requirements of your planned business, you will need to consider their estimated costs. With regard to required equipment, facilities and fixtures, you will need to make tentative decisions about leasing or owning the assets – and whether the assets should be new or used. Depending upon the amount of "equity" (personal financial) investment you are able to make and your access to commercial or other debt financing, you may *tentatively decide* to minimize your startup costs by using the least expensive options available. If you later discover the business has high profit potential and could support more debt, you might reconsider investing in more expensive assets.

Returning to our example of a tribal convenience store, the primary costs for which you would need estimates, or quotations, from consultants, contractors, suppliers and others include:

- Organizational and planning costs, including the costs of performing a final feasibility study and preparing a business plan;
- Development costs, including product line development, site selection, environmental impact assessment and facilities design;
- Construction costs, which might be limited to "leasehold improvements" in a rented building or could include site preparation, utility development, building construction, parking facilities and access roads for new commercial property;
- Other "startup costs," including display cases and shelves, fixtures, refrigeration equipment, cash register(s) and security systems; office equipment, furniture and supplies; inventory; insurance premiums, tax deposits and utility deposits;
- Management training (including travel); licenses and permits; advertising, promotions and grand opening events; and
- "Working capital" requirements – the cash needed to cover operating costs (including advertising, insurance, interest, maintenance, professional services, rent, utilities and wages) until the cash flowing into the business exceeds the cash paid out.

Main Table of Contents

Section Table of Contents

The funds needed to purchase assets and cover operating expenses for a new business are referred to as its *"capitalization requirements."* Suppose the business planning committee decided the tribal community should contribute a proposed business site adjacent to the highway. The following format would facilitate the gathering of quotations for the remaining capitalization requirements.

Main Table of Contents

Section Table of Contents

Capitalization Requirements
Tribal Convenience Store

Startup Costs	Source	Quote
Feasibility Analysis and Business Plan	Business Futures, Inc. (Management Consultants)	$ 10,000
Facilities Design and Building Specifications	Commercial Designs, Inc. (Licensed Architects)	$ 15,000
Construction Costs		
Site Prep & Parking Lot	American Indian Builders	$ 50,000
2,500 sq. ft. Building (w/plumbing & utilities)	American Indian Builders	$ 90,000
Gasoline pumps, island and tanks (installed)	American Indian Builders	$ 60,000
Equipment Cash Registers (2)	NCR Corporation	$ 10,000
Refrigeration (beverage coolers, deli and meat cases; produce case; frozen foods, ice and ice cream cases)	Reliable Refrigeration	$ 40,000
Store Fixtures (lights, shelving and counters)	American Indian Builders	$ 10,000
Security System (alarm, mirrors, remote TV and floor vault)	Safe & Secure Systems	$ 10,000
Office Equipment and Furniture (new calculator and microcomputer; used desk, chair and files)	Budget Office Supply	$ 5,000
Inventory		
Convenience Store	American Grocers, Inc.	$ 40,000
Gasoline	United Petroleum Company	$ 20,000
Employee Training (10 days w/wages)	Today's Retailers	$ 10,000
Working Capital 3 Months' Operating Expenses (including deposits, licenses and permits)	Business Futures, Inc.	$ 30,000
TOTAL CAPITALIZATION REQUIREMENTS:		**$400,000**

Main Table of Contents
Section Table of Contents

Worksheet 4 – Your Capitalization Requirements

Startup Costs	Source	Quote

At the beginning of this guide, the economic or financial feasibility of a business was defined as its "ability to sell products or services at competitive prices and realize sufficient revenues to cover its operating costs, repay its debts, sustain its growth and support its owner(s)." Once the first-year *market demand* (or sales) and initial *capitalization requirements* of the business have been projected, the direct (variable) and indirect (fixed) operating costs can be projected as well.

A major financial consideration that affects the feasibility of any new business enterprise is the *structure of financing* – or the combination of *owner's equity* and *debt* that will be used to fund the startup costs of the business. "Equity" can include cash or property contributed to the venture by its owners or grants awarded to the owners for investment in the business. Sources of "debt" financing may include banks, credit unions, finance companies, government and tribal loan programs, local development corporations, supplier credit lines and private parties.

Most commercial lenders require that new business owners invest at least 40% of the required capital in the form of equity. If a federal loan guaranty is available, the minimum equity required for a commercial loan may be as low as 30%. Special business development loans offered by the Bureau of Indian Affairs, local development corporations and some tribes might require only 20% equity investment.

Of course, the lower the equity investment – and the higher the debt financing – the more profitable a business will have to be in order to *service its debt*, or pay the monthly interest and principal due on the loan(s). If a business has high profit potential – and likely would earn a higher *return on investment* than alternate uses of equity capital – an owner might opt to exceed the minimum equity requirements of lenders. On the other hand, if realistic market projections indicate a business will be only marginally profitable – offering employment and basic services as its principal economic benefits – the owners might opt to meet the minimum equity requirements of lenders and preserve some of their equity for alternative investments.

Before making a decision regarding the appropriate structure of financing for a new small business, it's a good idea to find out whether the business would be profitable *assuming no debt.* Such a determination can be made by developing *forecasted financial statements.*

Main Table of Contents

Section Table of Contents

What Are "Financial Statements"?

"Financial statements" are reports that summarize the financial condition and performance of a business. "*Forecasted* financial statements" *project the future* financial condition and performance of a business. They are used for planning or budgeting purposes and are prepared in formats similar to actual financial statement formats. Three types of financial statements are commonly used in planning a business:

- **Balance Sheet** – The Balance Sheet is a report of assets (what is owned), liabilities (what is owed) and owner's equity (also called "net worth" because it is the difference between the value of assets owned and liabilities owed by the business). The Balance Sheet is a *point-in-time* statement because it reports the financial condition of a business on a specific date. The format of the Balance Sheet is based upon the *fundamental accounting equation:*

  Assets = Liabilities + Owner's Equity
  (transposed from Assets – Liabilities = Owner's Equity).

The Balance Sheet is divided into two parts: a list of assets and a list of liabilities plus owner's equity. The totals of the two parts are equal, or "in balance." In some formats, assets are listed on the left-hand side of the sheet, with liabilities and owner's equity on the right-hand side. In other formats, assets are on the top half of the sheet, with liabilities and owner's equity on the bottom half. A Sample Balance Sheet is presented on page 97.

- **Statement of Operations** – Also called an "Income and Expense" or "Profit/Loss" Statement, this is a report of business income, expenses and resulting profit or loss *over a period of time*, such as a month, a calendar quarter or a year. Some Statements of Operations show two columns of income and expenses – one for the currently reported month or calendar quarter, and one for the year-to-date totals. First-year *Forecasted Statements of Operations* usually are formatted in thirteen columns so that each of the twelve months' income and expenses are shown, followed by totals in the thirteenth column. Sample formats for Statements of Operations are presented on pages 98 and 99.

Main Table of Contents
Section Table of Contents

- **Statement of Cash Flows** – Also called a "Cash Budget," this is a report or projection of all cash "inflows" (receipts) and "out-flows" (disbursements) of a business *over a period of time,* such as a month, a calendar quarter or a year. Some cash receipts (including interest income, investments and loans) are from sources other than business sales, and some cash disbursements (including capital outlays, loan principal payments and owner's withdrawals) are not classified as "expenses." Therefore, a Statement of Cash Flows is needed in order to account for all cash received and disbursed, and to determine the balance of cash on hand at any given time. Again, first-year *Forecasted Statements of Cash Flows* usually are formatted on a month-by-month basis, in thirteen columns. Sample formats for Statements of Cash Flows are presented on pages 100 and 101.

Main Table of Contents

Section Table of Contents

Sample Balance Sheet Format

Name of Business
BALANCE SHEET
(date on which financial data was current)

ASSETS		
Current Assets		
Cash		$ _____
Accounts Receivable		$ _____
Inventory		$ _____
Prepaid Expenses		$ _____
Total Current Assets		$ _____
Fixed Assets		
Land		$ _____
Buildings		$ _____
Equipment		$ _____
Furniture/Fixtures		$ _____
Vehicles		$ _____
Less Accumulated Depreciation		$ (_____)
Total Fixed Assets		$ _____
Other Assets		
List each asset		$ _____
TOTAL ASSETS		$ _____
LIABILITIES AND OWNER'S EQUITY		
Current Liabilities		
Accounts Payable (to suppliers and trade creditors)		$ _____
Short-term Notes (due within one year)		$ _____
Current Portion of Long-term Notes (portion due within one year)		$ _____
Accrued Expenses Payable (interest, payroll and taxes)		$ _____
Total Current Liabilities		$ _____
Long-term Liabilities		
Notes Payable	$ _____	
(less current portion above)	$ (_____)	
Total Long-term Liabilities		$ _____
TOTAL LIABILITIES		$ _____
OWNER'S EQUITY		$ _____
TOTAL LIABILITIES AND OWNER'S EQUITY		$ _____

Sample Format for Statement of Operations

Name of Business
STATEMENT OF OPERATIONS
For the Month and Year to Date Ended _____, 20_____

	Current Month	Year to Date
NET SALES	$ _____	$ _____
COST OF GOODS SOLD	$ _____	$ _____
GROSS PROFIT	$ _____	$ _____
OPERATING EXPENSES:		
Advertising & Promotion	$ _____	$ _____
Bad Debts	$ _____	$ _____
Bank Services	$ _____	$ _____
Depreciation	$ _____	$ _____
Insurance	$ _____	$ _____
Interest	$ _____	$ _____
Licenses & Permits	$ _____	$ _____
Maintenance & Repairs	$ _____	$ _____
Office & Other Supplies	$ _____	$ _____
Payroll	$ _____	$ _____
Payroll Taxes & Insurance	$ _____	$ _____
Professional Services	$ _____	$ _____
Telephone & Utilities	$ _____	$ _____
Travel	$ _____	$ _____
TOTAL OPERATING EXPENSES	$ _____	$ _____
NET PROFIT (before taxes)	$ _____	$ _____

Sample Format for Statements of Operations (Month-by-Month)

Name of Business
STATEMENTS OF OPERATIONS
January 1, 20_____ through December 31, 20_____

Month **% of Sales**	**Jan** **%**	**Feb** **%**	**Mar** **%**	**Apr** **%**	**May** **%**	**June** **%**	**July** **%**	**Aug** **%**	**Sep** **%**	**Oct** **%**	**Nov** **%**	**Dec** **%**	**Total** **100 %**
NET SALES													
COST OF GOODS SOLD													
GROSS PROFIT													
OPERATING EXPENSES:													
Advertising & Promotion													
Bad Debts													
Bank Services													
Depreciation													
Insurance													
Interest													
Licenses & Permits													
Maintenance & Repairs													
Office & Other Supplies													
Payroll													
Payroll Taxes & Insurance													
Professional Services													
Telephone & Utilities													
Travel													
TOTAL OPERATING EXPENSES													
NET PROFIT (before taxes)													
ACCUMULATED NET PROFIT													

Sample Format for Statement of Cash Flows

Name of Business
STATEMENT OF CASH FLOWS
For the Month and Year to Date Ended _____, 20_____

	Current Month	Year to Date
BEGINNING CASH BALANCE	$ _____	$ _____
PLUS RECEIPTS:		
Cash Sales	$ _____	$ _____
Collection of Accounts Receivable	$ _____	$ _____
Investment (Equity) Capital	$ _____	$ _____
Loan Proceeds	$ _____	$ _____
Total Receipts	$ _____	$ _____
TOTAL CASH AVAILABLE	$ _____	$ _____
LESS DISBURSEMENTS:		
Capital Outlays	$ _____	$ _____
Inventory	$ _____	$ _____
Cost of Goods Sold	$ _____	$ _____
Operating Expenses (less depreciation)	$ _____	$ _____
Loan Principal Payments	$ _____	$ _____
Owner's Withdrawals	$ _____	$ _____
Total Disbursements	$ _____	$ _____
ENDING CASH BALANCE	$ _____	$ _____

Name of Business

STATEMENTS OF CASH FLOWS

January 1, 20 _____ through December 31, 20_____

Month **% of Sales**	**Jan** **%**	**Feb** **%**	**Mar** **%**	**Apr** **%**	**May** **%**	**June** **%**	**July** **%**	**Aug** **%**	**Sep** **%**	**Oct** **%**	**Nov** **%**	**Dec** **%**	**Total** **100 %**
BEGINNING CASH BALANCE													
PLUS RECEIPTS:													
Cash Sales													
Collection of Accounts Receivable													
Investment (Equity) Capital													
Loan Proceeds													
Total Receipts													
TOTAL CASH AVAILABLE													
LESS DISBURSEMENTS:													
Capital Outlays													
Inventory													
Cost of Goods Sold													
Operating Expenses (less depreciation)													
Loan Principal Payments													
Owner's Withdrawals													
Total Disbursements													
ENDING CASH BALANCE													

How Are Forecasted Financial Statements Prepared?

Again returning to our example of a tribal convenience store, let's use the sample financial statement formats to develop forecasted financial statements for the planned business.

Forecasted Balance Sheet

In planning a new business venture, it is helpful to use a two-column format for the *Forecasted Balance Sheets* in order to show the projected financial condition of the business on the startup date and after one year of operation. This will enable the owner to assess the impact of the first year's operations on the financial condition of the business.

Assuming the tribe will contribute a 20-year lease of land for the new convenience store (i.e., no land will be purchased) – and no debt financing will be required – the information needed for the *beginning* balance sheet is contained in the capitalization requirements listed on page 92 of this guide. However, the data will have to be grouped into the asset classifications of the Forecasted Balance Sheets as follows:

Cash – The $30,000 budgeted for working capital in the capitalization requirements of the business may be considered the cash balance on the startup date.

Inventory – This will include the $40,000 required to stock the convenience store and the $20,000 required for gasoline inventory – a total of $60,000.

Buildings and Improvements – These will include the construction costs of $50,000 for site preparation and parking lot, $90,000 for the store facility and $60,000 for installation of gasoline pumps, islands and tanks – a total of $200,000.

Equipment – This will include the $10,000 for cash registers, $40,000 for refrigeration and $10,000 for the security system – a total of $60,000.

Furniture/Fixtures – These will include the $10,000 for store fixtures and the $5,000 for office equipment and furniture – a total of $15,000.

Main Table of Contents

Section Table of Contents

Other Assets – These will include the total value of capital expenditures for development of the business, which can be *amortized*, or "written off" like depreciable assets over a period of time, thereby reducing the profit and income tax liability of the business. Such "amortizable development costs" will include the $10,000 expended for a feasibility analysis and business plan, the $15,000 expended for facilities design and building specifications, and the $10,000 expended for employee training – a total of $35,000.

The financial condition of the planned tribal convenience store on the startup date is projected in the first column of the Forecasted Balance Sheets in Example 1 on page 110. The data needed to complete the second column will be available once the first-year Forecasted Statements of Operations and Cash Flows have been prepared.

Main Table of Contents

Section Table of Contents

Forecasted Statement of Operations

Earlier in this guide, the process of developing "market projections" was described. Using the tribal convenience store example, first-year sales were projected at $390,000. In projecting the costs of operating the store, it will be important to determine which costs are variable and which are fixed. "Variable costs" go up and down with sales. They include the wholesale costs of goods to be sold at retail prices, as well as expenses associated with advertising, bad debts, maintenance and supplies. It is customary to project variable costs as a percentage of sales (reflecting their direct relationship to sales) based upon published industry averages researched by accountants, business consultants and trade associations.

"Fixed costs" do not vary, no matter what volume of sales is achieved. They include insurance, interest on loans, payroll expenses and utilities. Some fixed costs (e.g., insurance) may be projected according to supplier quotations. Other fixed costs (e.g., interest) may be projected on the basis of mathematical calculations, and still other fixed costs (e.g., payroll expenses and utilities) may be estimated on the basis of costs incurred by similar businesses in comparable geographic areas.

To facilitate the preparation of a Forecasted Statement of Operations, it is especially useful to develop a set of assumptions regarding the bases for projecting costs. These assumptions can be formatted as "Notes to the Forecasted Financial Statements" and included in the documentation supporting the preliminary feasibility study. The following assumptions might be developed in support of the Forecasted Statement of Operations for the planned tribal convenience store:

Cost of Goods Sold – Projected at 70% of sales, based on published industry averages for rural convenience stores.

Gross Profit – Net sales minus cost of goods sold.

Advertising & Promotion – Projected at 1% of sales, based on published industry averages.

Bad Debts – Projected at .1% of sales, based on published industry averages.

Bank Services – Projected at $15 per month, based on quotations from local banks.

Main Table of Contents

Section Table of Contents

Depreciation & Amortization – Calculated using a straight-line method at $10,000 per year for the $200,000 building and improvements with a 20-year basis, at $12,000 per year for $60,000 in equipment with a 5-year basis, at $3,000 per year for $15,000 in furniture and fixtures with a 5-year basis, and at $5,000 per year for amortizable development costs totaling $35,000.

Insurance – Projected at $5,000 per year based on quotations from local insurance agents.

Licenses & Permits – Estimated at $50 each for beer and wine license, business license and tribal building permit.

Maintenance & Repairs – Projected at .5% of sales, based on published industry averages.

Office & Other Supplies – Projected at .5% of sales, based on published industry averages.

Payroll – The store will operate from 7 a.m. to 11 p.m., or 16 hours per day, 365 days per year, with daily coverage by 1.5 full-time employees (allowing for dual coverage during the 4-hour peak period in each 8-hour shift). It tentatively has been decided that the store manager will be paid an annual salary of $18,000 and other employees will be paid wages of $4.50 per hour based on input from the state employment office. The first-year payroll expense has been projected below.

First-Year Payroll Expense

16 hours/day x 365 days/year x 1.5 FTE	=	8,760 hours/year
Less Manager's Hours:		
40 hours/week x 52 weeks/year		-2,080 hours/year
Total Non-managerial hours/year	=	6,680 hours/year
Non-managerial Payroll:		
6,680 hours x $4.50 per hour	=	$30,060 per year
Plus Managerial Salary		+18,000 per year
Total Payroll Expense	**=**	**$48,060 per year**

Main Table of Contents

Section Table of Contents

Payroll Taxes & Insurance – Projected at 12% of payroll, based on published industry averages.

Professional Services – Accounting services estimated at $200 to set up financial reporting system and $100 per quarter for preparation of business financial statements.

Telephone & Utilities – Estimated at $1,200 per month, based on actual expenses of similar-sized businesses in comparable geographic areas.

Travel – Estimated at $100 per month for store manager.

Net Profit – Gross profit minus total operating expenses.

The financial performance of the planned tribal convenience store in its first year of operation is projected in yearly and month-by-month formats in the Forecasted Statements of Operations provided in Example 2 on page 111 and Example 4 on page 113.

Main Table of Contents

Section Table of Contents

Forecasted Statement of Cash Flows

As noted earlier, some of the cash receipts of a business (including equity investments and loans) are from sources other than sales, and some of the cash disbursements (including capital outlays and loan principal payments) are not properly classified as "operating expenses." Because these cash receipts and disbursements will not appear on the Forecasted Statement of Operations, a Forecasted Statement of Cash Flows is needed in order to monitor the balance of cash on hand at any given time.

Another difference between these two financial statements is that the Forecasted Statement of Operations is designed to determine the taxable profit of a business and, therefore, includes such non-cash expenses as depreciation and amortization. Since the Forecasted Statement of Cash Flows is designed to determine the cash balance of a business, it excludes non-cash expenses.

In preparing a Forecasted Statement of Cash Flows, it is again useful to develop a set of underlying assumptions or explanatory notes that can be included in the documentation supporting the preliminary feasibility study. The following notes might be developed in support of the Forecasted Statement of Cash Flows for the planned tribal convenience store:

Cash Sales – All sales will be for cash; i.e., no credit will be extended.

Investment (Equity) Capital – For purposes of the preliminary business feasibility analysis, it is assumed all capitalization requirements will be met with equity investments from tribal sources, including economic development grants available from governmental agencies.

Capital Outlays – This item includes all of the $400,000 in capitalization requirements except the $60,000 designated for inventory and the $30,000 designated for working capital.

Inventory – Base-level inventory is projected at $60,000, including $40,000 for the convenience store and $20,000 in gasoline, based on published industry data for similar-sized businesses in comparable geographic areas.

Main Table of Contents

Section Table of Contents

Cost of Goods Sold – Projected at 70% of sales, based on published industry averages for rural convenience stores.

Cash Operating Expenses – Total Operating Expenses projected in the Forecasted Statement of Operations, less depreciation and amortization (non-cash expenses).

The cash inflows and outflows of the planned tribal convenience store in its first year of operation are projected in yearly and month-by-month formats in the Forecasted Statements of Cash Flows in Example 3 on page 112 and in Example 5 on page 114.

Main Table of Contents

Section Table of Contents

Year-End Forecasted Balance Sheet

Once the first-year Forecasted Statements of Operations have been prepared, the second column of the Forecasted Balance Sheets in Example 1 on page 110 can be completed as follows:

Cash – According to the Forecasted Statements of Operations and Cash Flows, the cash balance at the end of the first year of convenience store operation will be $63,553, an increase of $33,553 from the $30,000 designated as working capital on the startup date. (Although the business earned a profit of only $3,553, the $30,000 expensed as "depreciation and amortization" does not flow out of the business.)

Inventory – Since there were no increases in the base levels of convenience store or gasoline inventory, this item remains at $60,000.

Fixed Assets – Amounts recorded as "depreciation expenses" on the Forecasted Statements of Operations are shown on the year-end balance sheet so that the $25,000 decrease in recorded "book values" of the fixed assets is recognized.

Other Assets – Amounts recorded as "amortization expenses" on the Forecasted Statements of Operations are shown on the year-end balance sheet so that the $5,000 decrease in recorded "book values" of other assets is recognized.

Total Assets – The year-end value of total assets is $403,553, an increase of $3,553 from the startup date of the business. The increase is exactly equal to the profit earned in the first year because the $30,000 increase in the cash balance is exactly equal to the $30,000 decrease in the book values of fixed and other assets.

Main Table of Contents

Section Table of Contents

Example 1 – Forecasted Balance Sheets

Tribal Convenience Store

FORECASTED BALANCE SHEETS

	Jan 1, 1994	Jan. 1, 1995
ASSETS		
Current Assets		
Cash	$ 30,000	$ 63,553
Inventory	60,000	60,000
Total Current Assets	$ 90,000	$ 123,553
Fixed Assets		
Buildings & Improvements	$ 200,000	$ 200,000
(less accumulated depreciation)	0	(10,000)
Equipment	60,000	60,000
(less accumulated depreciation)	0	(12,000)
Furniture/Fixtures	15,000	15,000
(less accumulated depreciation)	0	(3,000)
Total Fixed Assets	$ 275,000	$ 250,000
Other Assets		
Amortizable Development Costs	$ 35,000	$ 35,000
(less accumulated amortization)	0	(5,000)
Total Other Assets	$ 35,000	$ 30,000
TOTAL ASSETS	$ 400,000	$ 403,553
LIABILITIES AND OWNER'S EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable	$ 0	$ 0
Short-term Notes	0	0
Current Portion of Long-term Notes	0	0
Total Current Liabilities	$ 0	$ 0
Long-Term Liabilities		
Notes Payable (less current portion)	0	0
Total Long-Term Liabilities	0	0
TOTAL LIABILITIES	$ 0	$ 0
OWNER'S EQUITY	$ 400,000	$ 403,553
TOTAL LIABILITIES AND OWNER'S EQUITY	$ 400,000	$ 403,553

Example 2 – Forecasted Statement of Operations

Tribal Convenience Store

FORECASTED STATEMENT OF OPERATIONS

For the Year Ended December 31, 1994

NET SALES	$390,000
COST OF GOODS SOLD	273,000
GROSS PROFIT	$117,000
OPERATING EXPENSES:	
Advertising	$ 3,900
Bad Debts	390
Bank Services	180
Depreciation & Amortization	30,000
Insurance	5,000
Interest	0
Licenses & Permits	150
Maintenance & Repairs	1,950
Office & Other Supplies	1,950
Payroll	48,060
Payroll Taxes & Insurance	5,767
Professional Services	500
Telephone & Utilities	14,400
Travel	1,200
TOTAL OPERATING EXPENSES	$113,447
NET PROFIT (before taxes)	$ 3,553

Example 3 – Forecasted Statement of Cash Flows

Tribal Convenience Store

FORECASTED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 1994

BEGINNING CASH BALANCE	$ 0
PLUS RECEIPTS:	
Cash Sales	$ 390,000
Investment (Equity) Capital	400,000
Loan Proceeds	0
Total Receipts	$ 790,000
TOTAL CASH AVAILABLE	$ 790,000
LESS DISBURSEMENTS:	
Capital Outlays	$ 310,000
Inventory	60,000
Cost of Goods Sold	273,000
Cash Operating Expenses	83,447
Loan Principal Payments	0
Total Disbursements	$ 726,447
ENDING CASH BALANCE	$ 63,553

Example 4 – Forecasted Statements of Operations (Month-by-Month)

Tribal Convenience Store

FORECASTED STATEMENTS OF OPERATIONS

January 1, 1994 through December 31, 1994

Month	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
% of Sales	**7%**	**7%**	**8%**	**9%**	**9%**	**10%**	**10%**	**9%**	**9%**	**8%**	**7%**	**7%**	**100%**
NET SALES	**$27,300**	**$27,300**	**$31,200**	**$35,100**	**$35,100**	**$39,000**	**$39,000**	**$35,100**	**$35,100**	**$31,200**	**$27,300**	**$27,300**	**$390,000**
COST OF GOODS SOLD	**$19,110**	**$19,110**	**$21,840**	**$24,570**	**$24,570**	**$27,300**	**$27,300**	**$24,570**	**$24,570**	**$21,840**	**$19,110**	**$19,110**	**$273,000**
GROSS PROFIT	**$8,190**	**$8,190**	**$9,360**	**$10,530**	**$10,530**	**$11,700**	**$11,700**	**$10,530**	**$10,530**	**$9,360**	**$8,190**	**$8,190**	**$117,000**
OPERATING EXPENSES:													
Advertising & Promotion	$273	$273	$312	$351	$351	$390	$390	$351	$351	$312	$273	$273	$3,900
Bad Debts	$27	$28	$31	$35	$35	$39	$39	$35	$35	$31	$27	$28	$390
Bank Services	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$180
Depreciation & Amortization	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$30,000
Insurance	$417	$417	$416	$417	$417	$416	$417	$417	$416	$417	$417	$416	$5,000
Interest	0	0	0	0	0	0	0	0	0	0	0	0	0
Licenses & Permits	$150	0	0	0	0	0	0	0	0	0	0	0	$150
Maintenance & Repairs	$136	$137	$156	$175	$176	$195	$195	$175	$176	$156	$136	$137	$1,950
Office & Other Supplies	$137	$136	$156	$176	$175	$195	$195	$176	$175	$156	$137	$136	$1,950
Payroll	$4,005	$4,005	$4,005	$4,005	$4,005	$4,005	$4,005	$4,005	$4,005	$4,005	$4,005	$4,005	$48,060
Payroll Taxes & Insurance	$481	$480	$481	$480	$481	$480	$481	$480	$481	$480	$481	$481	$5,767
Professional Services	$200	0	0	$100	0	0	$100	0	0	$100	0	0	$500
Telephone & Utilities	$1,200	$1,200	$1,200	$1,200	$1,200	$1,200	$1,200	$1,200	$1,200	$1,200	$1,200	$1,200	$14,400
Travel	$100	$100	$100	$100	$100	$100	$100	$100	$100	$100	$100	$100	$1,200
TOTAL OPERATING EXPENSES	**$9,641**	**$9,291**	**$9,372**	**$9,554**	**$9,455**	**$9,535**	**$9,637**	**$9,454**	**$9,454**	**$9,472**	**$9,291**	**$9,291**	**$113,447**
NET PROFIT (before taxes)	**$(1,451)**	**$(1,101)**	**$(12)**	**$976**	**$1,075**	**$2,165**	**$2,063**	**$1,076**	**$1,076**	**$(112)**	**$(1,101)**	**$(1,101)**	**$3,553**
ACCUMULATED NET PROFIT		**$(2,552)**	**$(2,564)**	**$(1,588)**	**$(513)**	**$1,652**	**$3,715**	**$4,791**	**$5,867**	**$5,755**	**$4,654**	**$3,553**	

Tribal Convenience Store

FORECASTED STATEMENTS OF CASH FLOWS

January 1, 1994 through December 31, 1994

Month	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
% of Sales	**7%**	**7%**	**8%**	**9%**	**9%**	**10%**	**10%**	**9%**	**9%**	**8%**	**7%**	**7%**	**100%**
BEGINNING CASH BALANCE	**0**	**$31,049**	**$32,448**	**$34,936**	**$38,412**	**$41,987**	**$46,652**	**$51,215**	**$54,791**	**$58,367**	**$60,755**	**$62,154**	**0**
PLUS RECEIPTS:													
Cash Sales	$27,300	$27,300	$31,200	$35,100	$35,100	$39,000	$39,000	$35,100	$35,100	$31,200	$27,300	$27,300	$390,000
Investment (Equity) Capital	$400,000	0	0	0	0	0	0	0	0	0	0	0	$400,000
Loan Proceeds	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Receipts	**$427,300**	**$27,300**	**$31,200**	**$35,100**	**$35,100**	**$39,000**	**$39,000**	**$35,100**	**$35,100**	**$31,200**	**$27,300**	**$27,300**	**$790,000**
TOTAL CASH AVAILABLE	**$427,300**	**$58,349**	**$63,648**	**$70,036**	**$73,512**	**$80,987**	**$85,652**	**$86,315**	**$89,891**	**$89,567**	**$88,055**	**$89,454**	**$790,000**
LESS DISBURSEMENTS													
Capital Outlays	$310,000	0	0	0	0	0	0	0	0	0	0	0	$310,000
Inventory	$60,000	0	0	0	0	0	0	0	0	0	0	0	$60,000
Cost of Goods Sold	$19,110	$19,110	$21,840	$24,570	$24,570	$27,300	$27,300	$24,570	$24,570	$21,840	$19,110	$19,110	$273,000
Cash Operating Expenses	$7,141	$6,791	$6,872	$7,054	$6,955	$7,035	$7,137	$6,954	$6,954	$6,972	$6,791	$6,791	$83,447
Loan Principal Payments	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Disbursements	**$396,251**	**$25,901**	**$28,712**	**$31,624**	**$31,525**	**$34,335**	**$34,437**	**$31,524**	**$31,524**	**$28,812**	**$25,901**	**$25,901**	**$726,447**
ENDING CASH BALANCE	**$31,049**	**$32,448**	**$34,936**	**$38,412**	**$41,987**	**$46,652**	**$51,215**	**$54,791**	**$58,367**	**$60,755**	**$62,154**	**$63,553**	**$63,553**

Worksheet 5 - Forecasted Balance Sheets

Name of Your Business

FORECASTED BALANCE SHEETS

	Start Up Date	Year End Date
ASSETS		
Current Assets:		
Cash	$	$
Accounts Receivable		
Inventory		
Total Current Assets	$	$
Fixed Assets		
Land	$	$
Buildings & Improvements		
(less accumulated depreciation)	( )	( )
Equipment		
(less accumulated depreciation)	( )	( )
Furniture/Fixtures		
(less accumulated depreciation)	( )	( )
Vehicles		
(less accumulated depreciation)	( )	( )
Total Fixed Assets	$	$
Other Assets:		
	$	$
Total Other Assets	$	$
TOTAL ASSETS	$	$
LIABILITIES AND OWNER'S EQUITY		
Current Liabilities		
Accounts Payable	$	$
Current Portion of Long-term Notes		
Total Current Liabilities	$	$
Long-Term Liabilities		
(less current portion above)		
TOTAL LIABILITIES	$	$
OWNER'S EQUITY	$	$
TOTAL LIABILITIES AND OWNER'S EQUITY	$	$

Worksheet 6 – Forecasted Statement of Operations (Yearly)

Name of Your Business

FORECASTED STATEMENT OF OPERATIONS

For the Year Ended _____, 20_____

NET SALES	$ _____
COST OF GOODS SOLD	$ _____
GROSS PROFIT	$ _____
OPERATING EXPENSES (specify):	
_____	$ _____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
TOTAL OPERATING EXPENSES	$ _____
NET PROFIT (before taxes)	$ _____

Worksheet 7 – Forecasted Statement of Cash Flows (Yearly)

Name of Your Business

FORECASTED STATEMENT OF CASH FLOWS

For the Year Ended _____, 20_____

BEGINNING CASH BALANCE	$ _____
PLUS RECEIPTS:	
Cash Sales	$ _____
Collection of Accounts Receivable	$ _____
Investment (Equity) Capital	$ _____
Loan Proceeds	$ _____
Total Receipts	$ _____
TOTAL CASH AVAILABLE	$ _____
LESS DISBURSEMENTS:	$ _____
Capital Outlays	$ _____
Inventory	$ _____
Cost of Goods Sold	$ _____
Operating Expenses (less depreciation)	$ _____
Loan Principal Payments	$ _____
Owner's Withdrawals	$ _____
Total Disbursements	$ _____
ENDING CASH BALANCE	$ _____

Name of Your Business

FORECASTED STATEMENTS OF OPERATIONS

_____, 20___ through _____, 20___

Month	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
% of Sales	%	%	%	%	%	%	%	%	%	%	%	%	100%
NET SALES													
COST OF GOODS SOLD													
GROSS PROFIT													
OPERATING EXPENSES:													
TOTAL OPERATING EXPENSES													
NET PROFIT (before taxes)													
ACCUMULATED NET PROFIT													

Main Table of Contents
Section Table of Contents
Fillable Worksheet

Worksheet 9 – Forecasted Statements of Cash Flows (Month-by-Month)

Name of Your Business

FORECASTED STATEMENTS OF CASH FLOWS

_____, 20___ through _____, 20___

Month	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
% of Sales	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**100%**
BEGINNING CASH BALANCE													
PLUS RECEIPTS:													
Cash Sales													
Collection of Accounts Receivable													
Investment (Equity) Capital													
Loan Proceeds													
Total Receipts													
TOTAL CASH AVAILABLE													
LESS DISBURSEMENTS:													
Capital Outlays													
Inventory													
Cost of Goods Sold													
Operating Expenses (less depreciation)													
Loan Principal Payments													
Owner's Withdrawals													
Total Disbursements													
ENDING CASH BALANCE													

Main Table of Contents
Section Table of Contents
Fillable Worksheet

How Is Break-even Analysis Used to Assess Business Risk?

"Break-even analysis" is a mathematical tool for determining what volume of sales will allow a business to cover its costs exactly and, therefore, *"break even."* By comparing the calculated break-even sales volume to the projected sales volume of a business, it is possible to assess the risk (or, conversely, the margin of safety) inherent in the projected sales. That is, if the break-even sales volume were 90% of optimistically projected sales, there would be a questionable 10% margin of safety and the business might be considered relatively risky. On the other hand, if the break-even sales volume were only 60% of realistically projected sales, there would be a 40% margin of safety and the business might be considered relatively low in risk.

The formula for calculating the break-even sales volume is:

BES = VC + FC, where

BES = Break-Even Sales,

VC = Variable Costs (expressed as a percentage of sales), and

FC = Fixed Costs (in absolute dollar amounts).

The first step in break-even analysis is to differentiate between variable costs and fixed costs, separating them into two lists. For purposes of assessing business risk, it is a good idea to include in the "fixed costs" any amounts required for loan principal payments and owner's withdrawals, since the success of a business depends upon its ability to service its debts and sustain its owner(s). On the other hand, such non-cash expenses as depreciation and amortization may be excluded from fixed costs, since they do not have to be covered by sales revenues.

Again returning to the tribal convenience store example, variable and fixed costs could be listed as follows:

Main Table of Contents

Section Table of Contents

Variable Costs	% of Sales
Cost of Goods Sold	70.0%
Advertising & Promotion	1.0%
Bad Debts	.1%
Maintenance & Repairs	.5%
Office & Other Supplies	.5%
TOTAL:	**72.1%**

Fixed Costs	Amount
Bank Services	$ 180
Insurance	5,000
Licenses & Permits	150
Payroll	48,060
Payroll Taxes & Insurance	5,767
Professional Services	500
Telephone & Utilities	14,400
Travel	1,200
TOTAL:	**$75,257**

Substituting these figures into the break-even analysis formula, the break-even sales volume may be calculated as follows:

BES = VC + FC, where

BES = 72.1% of Sales + $75,257,

BES = .721S + $75,257,

.279S = $75,257, and

BES = $269,738 (or 69% of the projected $390,000).

Assuming the projected sales of $390,000 are realistic, the business might be considered relatively low in risk in light of the $120,262, or 31%, margin of safety identified by the break-even analysis.

Main Table of Contents
Section Table of Contents

Another way to use break-even analysis in assessing business risk is to test the sensitivity of the break-even sales volume to possible changes in variable or fixed costs. As one example, suppose the Cost of Goods Sold at the convenience store were 75% of sales instead of 70%. The break-even sales volume would be recalculated as follows:

BES = 77.1% of Sales + $75,257

BES = .771S + $75,257,

.229S = $75,257, and

BES = $328,633 (or 84% of the projected $390,000).

This analysis demonstrates the importance of controlling the Cost of Goods Sold—by monitoring the cost of merchandise purchases and carefully pricing products—in order to minimize business risk.

As another example of using break-even analysis to assess business risk, suppose the tribal convenience store could not be capitalized completely with equity. If $100,000 were borrowed at 12% interest for a term of 10 years, the annual interest and principal payments would total $17,217. If the break-even sales volume were recalculated with this additional fixed cost, the result would be as follows:

BES = 72.1% of Sales + $92,474

BES = .721S + $92,474,

.279S = $92,474, and

BES = $331,448 (or 85% of the projected $390,000).

This analysis shows that the addition of $17,217 in fixed costs reduced the originally calculated margin of safety by more than half, from 31% to 15% of the projected sales. In the event debt financing were required, the risk inherent in the business would be substantially increased.

Main Table of Contents

Section Table of Contents

How Should You Organize Your Business?

The legal form of organization of a business affects the degree of managerial control by its owner(s) as well as their legal and financial liability, their ability to raise capital and their income tax reporting requirements. Before choosing a legal form of organization for your business, it is recommended that you consult with an attorney and a certified public accountant regarding the legal, financial, managerial and tax implications. The *advantages* and *disadvantages* of the most common forms of business organization are summarized below.

Sole Proprietorship

Among the most often cited advantages of the sole proprietorship are the simplicity of organization, the owner's complete control of decision-making and profits, minimized tax reporting requirements and the ease with which an individual can start and end the business — virtually by beginning or ceasing business operations. For these reasons, most small businesses operate as sole proprietorships.

In maximizing individual freedom and simplicity, however, the sole proprietorship often is confronted with the following disadvantages: managerial capacity limited to the training and personal experience of the owner, limited opportunities for good employees, ability to raise equity capital limited to the financial resources of the owner, limited life of the business (particularly the risk to creditors in the event of the owner's death or disability), and unlimited personal liability for the financial obligations of the business (the owner can be sued by a creditor or customer for settlements extending to personal as well as business assets).

Partnership

Two or more persons may enter a partnership agreement to operate a business for specified shares of its profits. Usually the profit-sharing plan reflects each partner's investment of financial and human resources in the business. Partnership agreements should be written with legal assistance; they should define the authorities, rights and duties of each partner and anticipate all potential areas of disagreement among the partners.

The *advantages* of partnerships include the ease of organization, the combination of partners' business management capabilities and the increased availability of equity capital. In addition, the profits of the partnership are divided among the partners according to the profit-sharing plan, and the partners pay income taxes according to the income tax bracket of each individual.

Main Table of Contents
Section Table of Contents

The *disadvantages* of partnerships include the unlimited liability of each partner for business debts, the termination of the partnership upon the death or withdrawal of any partner, the division of authority for decision-making and the potential for unresolvable disagreements among the partners.

Corporation

State- or tribally-chartered corporations generally are formed by filing an application with the appropriate state or tribal office. The application specifies the types and amount of stock, or ownership shares, to be authorized for sale by the corporation. Incorporation documents include "articles of incorporation" and "bylaws" or rules of organization. It is recommended that legal assistance be obtained in the preparation of corporate documents.

Among the *advantages* of incorporating is the shareholders' ability to limit their financial liability to the extent of their investment in the assets of the business. Other advantages include the perpetual life of the business (that is, if a shareholder dies, the shares are passed to heirs and the business continues to operate), the ease of transferring ownership by selling shares in the business, and the ability to raise equity capital by selling stock.

The *disadvantages* of incorporation include the expenses associated with organizing (e.g., attorney's fees and application filing fees), governmental regulation and, in most situations, increased income tax liability—first the corporation pays taxes on profits, and then its owners pay taxes again when the profits are distributed as dividends.

Subchapter S Corporation

Under the provisions of special federal tax legislation, a Subchapter S Corporation may realize many of the advantages of incorporation without the usual increases in income tax liability to the owners. Laws governing Subchapter S Corporations limit the number and types of eligible stockholders. Because the laws change periodically, the advice of an attorney should be sought prior to organizing a Subchapter S Corporation.

Main Table of Contents

Section Table of Contents

Joint Venture
Similar in concept to a partnership, a joint venture operation usually is limited in scope to a single, relatively narrowly defined business undertaking or project that will be completed within a specified period of time. As in the case of a partnership, a written joint venture agreement should be developed in order to define clearly the ownership, control and management of the business, as well as the financial and human resources to be contributed by each joint venturer and the manner in which the profits will be shared. The advantages and disadvantages of the joint venture are similar to those of a partnership.

In choosing a legal form of organization, the Indian entrepreneur should take into consideration the advantages of maintaining at least 51% Indian ownership. Certain business and economic development financing programs are available only to "Indian-owned" enterprises, and a number of public and private sector procurement assistance programs are available to Indian- and other minority-owned businesses. In addition, certain income and sales tax exemptions are afforded reservation-based Indian enterprises.

Limited Liability Partnership
Limited Liability Partnership, or LLP, is a recent form of business structure. This structure attempts to gain the flexibility of a partnership while limiting the liability of the business to only the assets of the business, rather than exposing the personal assets of the partners to financial risks associated with the business. Each state determines the organizational process and required paperwork for creating the entity as well as any yearly reporting requirements.

While the LLP has the advantage of protecting the personal assets of business owners from creditor or customer lawsuits, there are disadvantages to this structure as well. Financiers may be unwilling to lend monies to a business unless there are personal guarantees of repayment.

Limited Liability Company
A Limited Liability Company or LLC offers businesses the protection of a corporation and the single taxation feature of a partnership. As with LLPs, these entities are regulated by each state. Thus there can be differences in how LLCs are created, as well as in their reporting and operating requirements.

Main Table of Contents
Section Table of Contents

There are many *advantages* to operating as an LLC, including limited disclosure of owners and no public disclosure of finances. Owners of an LLC can build into the structure buy/sell and ownership compensation provisions, and owners who are involved in operations are insulated from liability.

The *disadvantages* arise when there are out-of-state business transactions in a state that does not recognize LLCs. In addition, a large number of owners can complicate LLC status; and death, bankruptcy or withdrawal of owners can cause problems as well.

There are significant tax implications regarding LLCs. Before incorporating as an LLC, consult a certified public accountant to determine the effect of these tax issues on your particular business.

Registering a Business Name

Once you have determined the legal structure of your business, the next step is to complete the necessary registration requirements. Most businesses are required to register with the tribe, city, county and/or state in which the enterprise will operate. Additionally, when establishing a corporation or business that employs two or more people, you will need an Employer Identification Number (EIN) also known as a federal tax identification number. There are three methods of applying for an EIN, including:

1. Calling the Internal Revenue Service at 800-829-4933;

2. Mailing a completed SS-4 form to:
   Internal Revenue Service
   EIN Operations
   Philadelphia, PA 19255; and

3. Applying online at: www.irs.gov/businesses/small/ .

Main Table of Contents

Section Table of Contents

What Are the Key Personnel Requirements?

Whether a business is to be managed and operated by a single person or a number of people, it is important to consider all the managerial and technical skills that will be required for success. Many people become motivated to go into business because their employment experience has provided opportunities to develop highly specialized *technical skills* in construction, manufacturing, retailing or service industries. They soon learn, however, that in order to market those skills successfully, they also need to know how to prepare a cash budget, negotiate contracts, make major purchases, establish credit with lenders and suppliers, train and supervise employees, safeguard property, and manage the financial records of a business.

Business *management skills* can be developed through formal education courses or on-the-job training. They also can be acquired through self-development programs that include books and periodicals; workshops and conferences offered by community colleges, professional groups and trade organizations; and low-cost publications made available by the Small Business Administration through the U.S. Government Printing Office. Accountants, bankers, business consultants, chambers of commerce and local economic development organizations also are good sources of self-help training materials for the motivated entrepreneur.

Earlier in this guide, the key production factors of a business were identified by first visualizing the various activities to be performed and then determining what facilities, equipment and supplies were needed for each activity. The *key personnel requirements* can be identified in much the same way—by visualizing the management, marketing and production activities of the business and deciding what kind of employees will be needed for each.

Even in a very small business, it's a good idea to prepare a job description for every position, from stock clerk to sales manager, manual laborer to project foreman, or receptionist to president. Each job description should define the duties, responsibilities and reporting relationships of the position. In addition, the minimum qualifications for the position should be stated in terms of experience, technical skills and abilities to perform in specific, job-related situations.

Main Table of Contents

Section Table of Contents

Once a job description has been prepared for each position in a business, an *organizational chart* can be developed. The organizational chart depicts the "chain of command" or internal reporting relationships of employees. Used together, the employee job descriptions and organizational chart can aid the business manager in identifying inefficiencies that result from communication barriers, duplicated efforts and unfairly distributed duties and responsibilities. Examples of a job description and organizational chart for a tribal convenience store follow.

Main Table of Contents

Section Table of Contents

Example 6 – Retail Clerk Job Description

RETAIL CLERK JOB DESCRIPTION

Job Title:	Retail Clerk
Reports To:	Store Manager
Fair Labor Standards Act:	Non-exempt
Classification Date:	July 1, 2004
Hourly Wage:	$6.75 per hour

Essential Duties:

- Greets customers in a cheerful and positive manner.
- Is familiar with store inventory and is able to direct or assist customers in finding products.
- Is able to operate cash register and count money back to customers after purchase.
- Takes initiative to resolve customer problems.
- Performs minor cleanup tasks.
- Opens and closes store when manager is absent.
- Directs supplier deliveries to proper storage locations.
- Other duties as assigned by manager.

Qualifications:

- Friendly, outgoing nature.
- Be able to physically perform assigned work duties with reasonable accommodation.
- Is dependable and punctual.
- Basic math skills required to count money and make change.
- Ability to operate cash register and make money drops during shift.
- Ability to operate security system.
- Must be bondable.

Education / Experience:

- High school diploma or equivalent education.
- One year previous retail sales experience.

Special Requirements:

- Available to work evenings, weekends and/or holidays.
- May be required to lift items in excess of 25 pounds.
- May work with cleaning materials and chemicals.

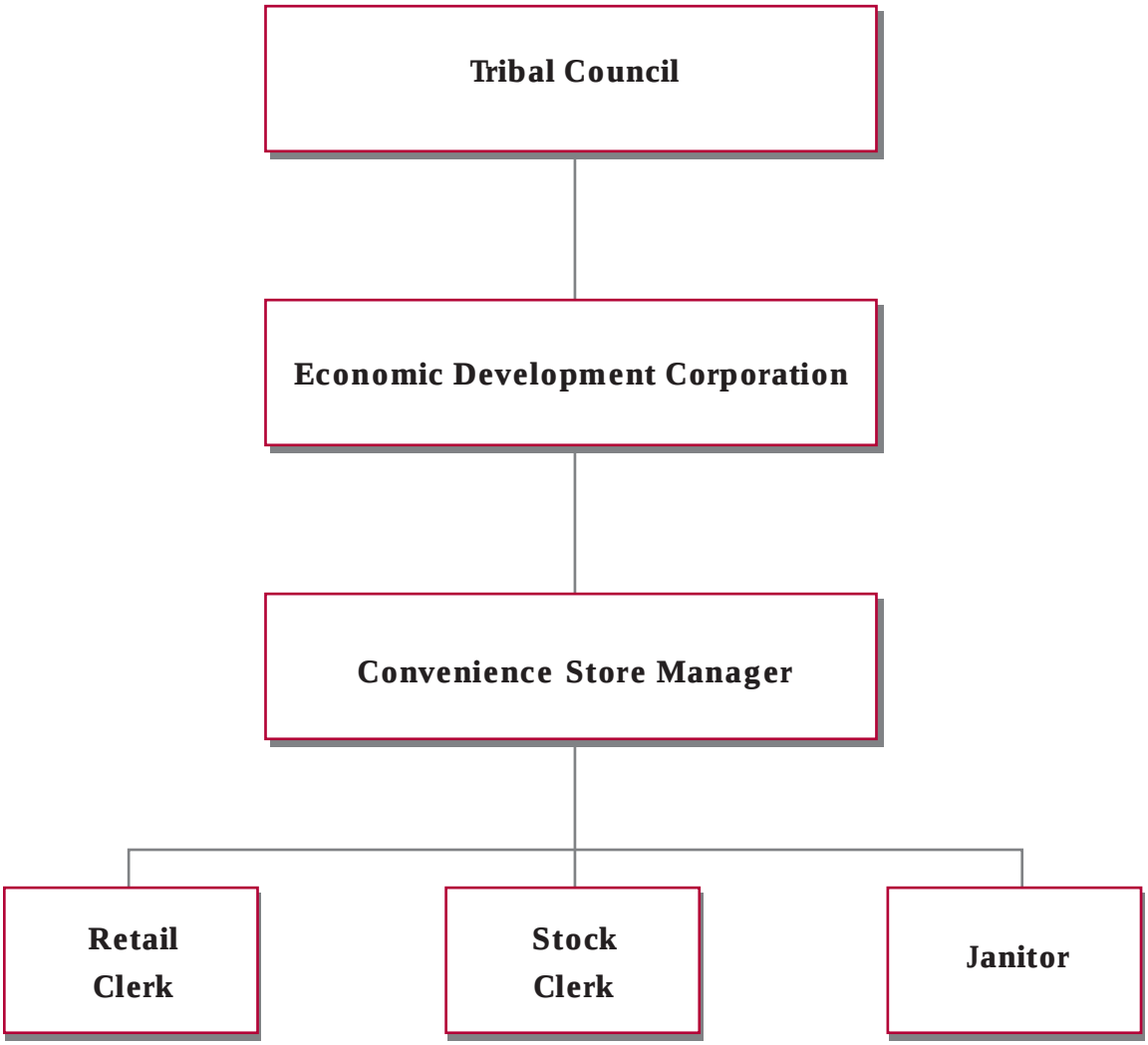
To apply:

Contact the store manager at:
Tribal Convenience Store
234 Reservation Road
Klamath, California 95548
(707) 482-0000
(707) 482-1111

Example 7 – Organizational Chart

ORGANIZATIONAL CHART

Tribal Convenience Store



Worksheet 10 – Preliminary Business Feasibility Study

Now that you understand all the important considerations, you can use the following format to perform your own preliminary feasibility study.

A. Business Concept

1. *Briefly* describe your business in terms of:
   a. The name of the business.

   _____

   b. The legal form of organization and date (to be) established.

   _____

   c. The status of the business (startup, expansion or buyout).

   _____

   d. The type of business (agricultural, construction, manufacturing, retail, service or wholesale) and primary products and services.

   _____

   _____

   e. Your business goals—the expected benefits to you and your community (e.g., sales revenues, profits, employment opportunities and tax contributions).

   _____

   _____

   _____

B. Market Factors

2. What products and/or services are you offering?

   _____

   _____

   _____

3. In what industry are you competing?

   _____

   _____

   _____

Worksheet 10 – Preliminary Business Feasibility Study – continued

4. What have been the industry trends in the past five years, and what is the industry outlook for the next five years?

5. Who are your targeted customers, and where are they located?

6. Who are your major competitors? What competitive advantages and disadvantages do they have?

7. Considering your targeted customers and your major competitors, what are your competitive strategies for:
   a. Defining your products or services?

   b. Pricing your products or services?

   c. Promoting your products or services?

   d. Locating or delivering your products or services?

8. What are your "market projections," or estimated business sales, for the next three years? What sources of information and research methods were used to estimate sales?

_____

_____

_____

C. Key Production Factors

9. Identify your key production and technical requirements and the resources available to meet them.

a. Equipment.

_____

_____

b. Facilities (land, buildings and utilities development).

_____

_____

_____

c. Inventories, raw materials and supplies.

_____

_____

_____

d. Labor requirements, including technical personnel.

_____

_____

_____

e. Licenses and permits.

_____

_____

_____

f. Transportation requirements.

_____

_____

_____

D. Capitalization Requirements

10. Using the three-column format on page 93, list the capitalization requirements of your business, including the following:
    a. Organizational and planning costs (e.g., feasibility study, business plan and organizational documents);
    b. Development costs (e.g., product development, site selection, environmental impact assessment, facilities design and personnel development);
    c. Construction costs (e.g., leasehold improvements or site preparation, utility development, building construction, parking facilities and access roads);
    d. Equipment, furniture and fixtures;
    e. Inventories, raw materials and supplies;
    f. Insurance (e.g., coverage for employees, liability and property, including equipment, facilities, inventories and vehicles);
    g. Licenses and permits;
    h. Tax and utility deposits; and
    i. Working capital requirements—the cash needed to cover operating costs (e.g., advertising, grand opening events, insurance, interest, professional services, rent, utilities and wages) until a positive cash flow is established.

11. Describe your preliminary plan for financing your business in terms of the following:
    a. Sources and amounts of equity financing.

    _____

    _____

    _____

    b. Sources and amounts of debt financing.

    _____

    _____

    _____

    c. Proposed structure of financing (combination of equity and debt financing) to meet capitalization requirements.

    _____

    _____

    _____

E. Forecasted Financial Statements

12. Using the two-column format on page 115 and your list of capitalization requirements, prepare a forecasted balance sheet for the startup date of your business.

13. As an aid in preparing your forecasted statement of operations, write your "notes" or list of assumptions regarding projected sales, cost of goods sold and operating expenses in the first year of your planned business operation.

_____

_____

_____

_____

_____

14. Using the 13-column format on page 118, prepare a forecasted statement of operations for the first year of your planned business operation.

15. As an aid in preparing your forecasted statement of cash flows, write your "notes" or list of assumptions regarding cash receipts and cash disbursements in the first year of your planned business operation.

_____

_____

_____

16 Using the 13-column format on page 119, prepare a forecasted statement of cash flows for the first year of your planned business operation.

17. Using the data developed in your forecasted statements of operations and cash flows, complete the year-end column of your forecasted balance sheets (started with Question 13).

F. Risk Assessment

18. List the variable costs of operating your business, and calculate the percent of sales represented by each cost.

_____

_____

_____

19. List the fixed costs of operating your business, and show the first-year total of each cost (including debt service and owner's withdrawals).

_____

_____

_____

20. Using the formula on page 120, calculate the break-even sales volume of your business in the first year of operation.

_____

_____

_____

21. Calculate the "margin of safety" between your projected sales volume and the break-even sales volume, and comment on the apparent degree of risk associated with the business venture.

_____

_____

_____

22. Identify any variable or fixed costs that might increase under alternate assumptions; state the alternate assumptions and increased costs.

_____

_____

_____

23. Recalculate the break-even sales volume based upon the alternate assumptions regarding costs, and reassess the degree of risk in the business venture.

_____

_____

_____

G. Organizational Considerations

24. Who will own what percentage of your planned business?

Name(s) of Owner(s) Percentage of Ownership

_____

_____

_____

25. What will be the legal form of organization of your business?

_____

_____

_____

26 What legal, financial, tax and other advantages will be afforded by your legal form of organization?

_____

_____

_____

27 What legal, financial, tax and other disadvantages will be afforded by your legal form of organization?

_____

_____

_____

_____

H. Key Personnel Requirements

28. List the key management and technical personnel required for the success of your business; briefly describe the duties and qualifications related to each position.

Name(s) of Owner(s) Duties Qualifications

_____

_____

_____

29. Using the format on page 130, draft an organizational chart depicting the reporting relationships of the key management and technical personnel identified in Question 29.

_____

_____

_____

_____

30. Describe the process by which you will recruit the key management and technical personnel required for the success of your business.

_____

_____

_____

31. Describe any anticipated needs for employee training and identify the training resources to be utilized.

Training Needs | Training Resources

_____

_____

_____

I. Conclusions

32. Based on the information compiled in this preliminary business feasibility study, what are the strengths of the proposed business venture?

_____

_____

_____

_____

33. What are the weaknesses of the proposed business venture?

_____

_____

_____

_____

35. Under what circumstances will your proposed business venture succeed or fail? (Refer to the goals you established in Question 1.e.)

_____

_____

_____

_____

36. What additional information is needed to confirm the feasibility of your proposed business venture?

_____

_____

_____

_____

Supplemental Electronic Resources

FedStats

FedStats provides access to a full range of official statistical information available to the public from the Federal Government. Use the Internet's powerful linking and searching capabilities to track economic and population trends, education, health care costs, aviation safety, foreign trade, energy use, farm production, and more. Access official statistics collected and published by more than 100 Federal agencies without having to know in advance which agency produces them.
http://www.fedstats.gov/

Manufacturing Extension Partnership

100 Bureau Drive, Stop 4800
Gaithersburg, MD 20899-3460
Telephone: 301-975-5020

MEP is a nationwide network of not-for-profit centers in more than 400 locations nationwide, whose sole purpose is to provide small- and medium-size manufacturers with the help they need to succeed.
http://www.mep.nist.gov

Service Corps Of Retired Executives (SCORE)

Toll Free: 800-634-0245

SCORE is a non-profit association providing free counseling and low-cost workshops to small businesses throughout the United States. SCORE provides entrepreneurs with free, confidential face-to-face and email business counseling. Counseling and workshops are offered at 389 chapter offices nationwide by volunteers who are experienced entrepreneurs or corporate managers/executives. The website hosts a "Business Toolbox" and on-line learning center that brings together the expertise of thousands of successful business owners and offers a wealth of knowledge and practical experience.
http://www.score.org

Main Table of Contents

Section Table of Contents

Small Business Administration
"Marketing Research"
http://www.sba.gov/starting_business/marketing/research.html

"Competitive Analysis"
http://www.sba.gov/starting_business/marketing/analysis.html

"Essential Elements of a Good Business Plan For Growing Companies"
http://www.sbaonline.sba.gov/managing/strategicplan/guide.html

Office of Advocacy – Economic Statistics and Research
The SBA Office of Advocacy provides a wide variety of free searchable databases, working papers, quarterly indicators relevant to small businesses and geographic-specific business information.
http://www.sba.gov/advo/research/

Start-Up Journal
The Wall Street Journal's Center for Entrepreneurs
The Start Up Journal's website provides a wide variety of tools including a startup costs calculator, cash flow calculators, trademark searches and information on businesses and franchises for sale. The service is free.
http://www.startupjournal.com/

Wall Street Journal
The *Wall Street Journal* offers in-depth reports, market data centers, and many other on-line services that are helpful in performing feasibility studies. The website periodically offers free trial subscriptions for new members; most services are available for a fee. Check your local community college or university library for free access.
http://online.wsj.com/public/us

Main Table of Contents

Section Table of Contents

Weatherization and Intergovernmental Program
Tribal Energy Program
(This information is specifically for tribal governments interested in developing or maintaining tribal energy programs.)
In fiscal year 2003, the U.S. Department of Energy solicited applications for financial assistance from federally recognized tribes or Alaska Native Corporations to conduct feasibility studies for renewable energy installations on tribal lands. These feasibility studies are intended to demonstrate the potential sustainability of renewable energy development on tribal lands, including the potential economic and environmental benefits to the tribe. You can review the feasibility studies at:
http://www.eere.energy.gov/tribalenergy/projects/fy04_feasibility_studies.html

U.S. Department of Agriculture
Small Farms Coordination
(This information is specifically for small farming programs.)
The USDA Small Farms Coordination program offers a variety of reports and searchable databases that may be helpful in determining the feasibility of small farming industries in your area.
http://www.usda.gov/oce/smallfarm/

The USDA Cooperative Extension Service is a nationwide, non-credit educational network. Each U.S. state and territory has a state office at its land-grant university and a network of local or regional offices. These offices are staffed by one or more experts who provide useful, practical, and research-based information to agricultural producers, small business owners, youth, consumers, and others in rural areas and communities of all sizes.
http://www.csrees.usda.gov/Extension/index.html

Main Table of Contents

Section Table of Contents

References

1. Bank of America NT & SA, *Small Business Reporter: Convenience Food Stores*, 1970.
2. Bank of America NT & SA, *Small Business Reporter: Personnel Guidelines* (Bank of America Marketing Public Relations Department), 1985.
3. Bank of America NT & SA, *Understanding Financial Statements*, 1980.
4. Stanley J. Garfunkel, Ph.D., *Developing the Marketing Plan: A Practical Guide* (New York: Random House, Inc.), 1980.
5. Sue Ella Kobak and Nina McCormack, *Workshop on Developing Feasibility Studies for Community-based Business Ventures* (New Market, Tennessee: The Highlander Research and Education Center), 1988.
6. National Association of Convenience Stores, *State of the Convenience Store Industry 1989* (Alexandria, Virginia: National Association of Convenience Stores, Inc.), 1989.
7. William J. Stanton, *Fundamentals of Marketing*, Fifth Edition (New York: McGraw-Hill Book Company), 1978.
8. Dan Steinhoff, D.S.Sc., *Small Business Management Fundamentals*, Third Edition (New York: McGraw-Hill Book Company), 1982.
9. U.S. Small Business Administration, Office of Business Development, "Choosing a Retail Location" (U.S. Government Printing Office: 1988-202-411/60075).

Main Table of Contents

Section Table of Contents

Guide Three

Preparing a Business Plan

Table of Contents

Guide Three - Preparing a Business Plan

Main Table of Contents

Main Table of Contents

The Indian Business Owner's Guide to Preparing a Business Plan is the third in a series of four guides. It provides an overview of the business plan development process, which represents the culmination of numerous pre-business planning activities. It is designed to help you:

- Make a clear and concise written statement of your business concept and goals;
- Summarize the key market factors based upon which your business sales have been projected realistically;
- Identify the production-related resources available to your business;
- Itemize the capitalization requirements of your business;
- Demonstrate the economic feasibility of your business using well-reasoned financial forecasts;
- Assess the risk inherent in your business using break-even analysis;
- Describe the managerial strengths of key personnel who will operate your business; and
- Organize and package essential information for maximum usefulness in monitoring the success of your business and planning for future growth.

Because it is the marketing effort that produces sales—and the feasibility of a business depends upon the realistically attainable sales volume—the first guide in this series is *The Indian Business Owner's Guide to Developing a Marketing Plan.* The second guide, *Performing a Preliminary Feasibility Study*, builds upon the marketing plan to assist in determining the economic feasibility of a business idea.

The Indian Business Owner's Guide to Preparing a Business Plan is designed to complete the step-by-step process of self-guided business planning. Finally, *The Indian Business Owner's Guide to Securing Financing*, fourth in the series, will help you access the capital needed to implement your business plan.

The financial projections used in this guide are based upon an actual business and reflect the prevailing costs at that time. They are used in this guide solely for the purpose of demonstrating the step-by-step process used in developing financial projections. Readers must research and utilize current prices and costs specific to their own businesses when developing their own financial projections.

Main Table of Contents

Section Table of Contents

What Is a "Business Plan" and Why Do You Need One?

A "business plan" is a written statement of your business goals, proposed marketing activities, intended methods of production, identified managerial and technical strengths, and expected financial results over a specified period of time. A well-prepared business plan will guide you to success and profitability by answering such critical questions as:

Who…

Will sell what….

To whom…

Where…

At what cost…

For what price?

In order to answer these questions, you will need to define your business in detail, research the industry in which you are competing, establish realistically attainable sales goals, determine your production and operating costs, identify financial and managerial resources, and project the financial performance of your business. Based upon information available to you from numerous first- and secondhand sources, you will need to make reasonable assumptions about general economic conditions, your specific business and industry, and your own capabilities. If new information alters the reasonableness of your assumptions, you will need to modify your business plan accordingly.

The success of your business is largely dependent upon how well planned it is. The U.S. Small Business Administration estimates that 50% of new small businesses fail within the first three years of operation and 75% fail within the first five years. The most often cited reason for small business failure is poor management—and the most common management pitfall is the failure to plan. Bear in mind that business risk stems from uncertainty—and the amount of uncertainty associated with a business depends upon the owner's attention to planning. If you want to minimize the risks inherent in your business venture, make a commitment to address all the pertinent planning issues—in as much detail as possible—**before you start the business.** Remember:

If you fail to plan, you can plan to fail.

Main Table of Contents

Section Table of Contents

Your well-researched, clearly written business plan will serve as a guide for sound management decision-making and provide a basis for measuring goal attainment. By sharing your business plan with creditors, key employees and major suppliers, you will gain their respect for you as an entrepreneur who is organized, well-versed in your line of business and realistic in your expectations. Their confidence that you are a good manager will enhance your chances of success, particularly when their assistance is needed.

Main Table of Contents

Section Table of Contents

Are You Ready to Go Into Business?

Your goal in preparing a business plan is to demonstrate that:

> YOU can sell products or services
> at competitive prices
> and make sufficient profits
> to repay business debts,
> sustain business growth
> and support yourself.

Therefore your business plan must identify your personal attributes as well as the strengths of your business concept. Among the elements most critical to your success in business are those commonly known as the "6 C's of Success in Business," namely: Character, Capability, Conditions, Cash, Credit and Collateral. Let's explore these "6 C's" briefly to see how they are related to your business plan and where evidence of them might be found.

Character. It takes a special kind of character to succeed in business—and an extra-special kind of character if the business is to be financed by others. Common **character**istics of business owners include an "entrepreneurial spirit" or willingness to take risks, independence, decisiveness, competitiveness, self-discipline, devotion to work, adaptability and perseverance. Other traits that are especially desirable from the perspective of creditors include integrity, responsibility, a cooperative nature and a willingness to take advice.

Clues about your character will be found in your employment history, financial statements, credit profile and income tax returns. Other good sources of information about your character are reference letters from creditors, educators, employers and tribal or civic leaders.

Capability. There is no substitute for experience as a predictor of success in business. Whether you own a construction firm, a farm or ranch, a manufacturing company, a retail store or a service business, your success will depend upon firsthand knowledge of its day-to-day operation. Equally as important as this *technical* knowledge are basic *managerial* skills. It's not enough to know how to deliver your product or service—you also must know how to manage cash flows, contracts, credit, personnel, property, sales and all the essential records of your business.

If you have been in business for a few years, you will have a reputation, or "track record," that can be verified through trade references such as

Main Table of Contents
Section Table of Contents

creditors, major customers and suppliers. If you are a first-time entrepreneur, your education, special training, employment history and personal credit references will be used to evaluate your readiness for business ownership. (You might need to rewrite your old job-hunting resume to emphasize both the technical and managerial skills you have developed while employed by others.)

Conditions. All too often people go into business without first considering market conditions and other environmental factors that promote or hinder success. It's risky to assume your business (no matter how well managed) will be profitable without analyzing current and predicted market conditions. You need to know the total demand for your product or service, the acceptable range of prices, the level of competition and the market share you are likely to capture.

You need to be able to estimate with reasonable accuracy your first three years' sales, month by month. Based upon your sales forecasts, you need to project the direct and indirect costs of operating your business, including repayment of debt, allowances for growth and withdrawals of cash for your own livelihood.

Other conditions to be considered in your business plan include government regulations, license and permit requirements, natural hazards such as fires and floods, security risks and insurability. Perhaps you are considering a business venture that requires an environmental assessment, archaeological clearance, special permit, bonding or liability insurance. You will need to determine that you can meet those requirements before you get into business.

You can identify the market and other conditions that affect your business by talking to accountants, attorneys, bankers, business consultants, economists, insurance agents and real estate brokers. Don't overlook the opportunity to get firsthand information from others in the same line of business by traveling to a non-competing market area to interview other business owners. Ask the following questions:

Why did you get into this business?

Has it met your expectations?

What has been your biggest challenge?

What has been most gratifying?

If you could start over, what would you do differently?

Main Table of Contents

Section Table of Contents

Chambers of commerce, marketing and trade associations, city and county planning departments, and licensing bureaus also can be good sources of information about market conditions. The U.S. Small Business Administration publishes hundreds of booklets and pamphlets for small business owners, and many are free. Your public librarian can direct you to numerous reference materials—be sure to ask for the *U.S. Industrial Outlook*, an especially readable summary of information about the current status and probable future of major industries throughout the country.

Cash. When you start, expand or buy out a business, you will be expected to contribute at least some of the cash required to "capitalize" the venture. The "capital requirements" of a business include the costs of such "fixed assets" as real property, equipment, tools and other depreciable items, as well as cash needed for day-to-day operations. The total amount of cash or "working capital" required for ongoing operations will differ from business to business, depending on the "variable costs" incurred to produce sales, the time needed to collect sales receipts, the "fixed costs" (such as insurance, payroll, rent and utilities), the scheduled debt payments and the planned owner's draws.

To be a good "cash flow" manager, you will have to project each year's sales receipts and cash disbursements on a month-by-month basis. By studying the "cash flow cycles" or periodic increases and decreases in cash receipts and disbursements, you can develop a cash flow budget that will ensure an adequate supply of cash at all times. A business that makes only cash sales and is not seasonal in nature might require minimum amounts of working capital because its daily cash receipts are sufficient to cover its daily cash disbursements and sustain its growth. A business that extends credit and generates accounts receivable might need more working capital to cover cash disbursements until sales receipts are collected. A business that operates only seasonally or has seasonal sales peaks will require careful cash flow budgeting so that financial obligations can be met during "off-season" periods.

Prospective financiers will expect you to know how much cash is needed to capitalize your business. Your business plan will contain a "capital budget" that identifies your proposed sources and uses of capital funds, including working capital. Because financiers do not want to assume all of the monetary risks involved in the operation of your business, you will be expected to contribute a significant portion of the required cash as your "owner's equity" in the business. Depending on the policies of a particular financier, the expected equity contribution could be as little as 20% of total capital requirements or as much as 50%.

Main Table of Contents

Section Table of Contents

To assess your capacity to make an equity contribution to your business, prepare and review your personal financial statements (balance sheet and income and expense statement) on the next two pages. Be sure to consider both existing and potential sources of cash. In addition to money you have in checking, savings, and retirement accounts, consider the value of stocks, bonds and other marketable securities you could convert to cash to invest in your business. You also can consider the market value of other personal assets you would be willing to sell in order to raise equity capital—a boat, motorcycle or other recreational vehicle, a second home or a piece of land. If you have accrued substantial equity in real estate such as your personal residence or a commercial property, it might be possible to raise cash through a second mortgage or refinancing arrangement.

Credit. Your track record as a borrower will be reflected in your personal credit profile. If you own a business, your performance as a commercial borrower will be recorded in a separate business credit report. Credit reports typically list each of your credit accounts and include such information as the status of the account (whether it is current, overdue, paid in full or in collection proceedings), date of the report, date on which the account was opened, the type of account (auto loan, charge account, secured or unsecured loan, legal judgment or lien), the account number, original account balance, current balance and the payment history for the most recent 12-month period.

Main Table of Contents

Section Table of Contents

Worksheet 11 – Personal Balance Sheet

ASSETS

Cash	$ _____
Stocks, Bonds & Other Securities	$ _____
Cash Value of Life Insurance	$ _____
Accounts Receivable	$ _____
Rebates/Refunds Receivable	$ _____
Autos, Trucks & Motorcycles	$ _____
Recreational Vehicles (including boats)	$ _____
Real Estate	$ _____
Pension	$ _____
Individual Retirement Account (IRA)	$ _____

Other Assets:

Household Furnishings	$ _____
Art/Antiques/Jewelry	$ _____
Trade/Professional Tools	$ _____
Hobby/Sports Equipment	$ _____
Livestock/Show Animals	$ _____
Trusts & Patents	$ _____
Equity in Business/Farm (specify)	$ _____
TOTAL ASSETS:	**$ _____**

LIABILITIES

Accounts Payable (credit cards & stores)	$ _____
Auto Loans	$ _____
Contracts Payable (furniture, appliances)	$ _____
Mortgage Loans	$ _____
Notes Payable	$ _____
Taxes Payable (income, property, self-employment)	$ _____
Other Liabilities	$ _____
TOTAL LIABILITIES:	**$ _____**
NET WORTH:	**$ _____**
TOTAL LIABILITIES AND NET WORTH	**$ _____**

Worksheet 12 – Personal Income and Expense Statement

MONTHLY INCOME

Gross Salary/Wages	$ _____
Minus Deductions	– _____
Take-home Pay	$ _____
Spouse Salary/Wages	$ _____
Minus Deductions	– _____
Take-home Pay	$ _____
Bonuses, Commissions, Tips	$ _____
Net Profit/Withdrawals from Business, Farm or Trade	$ _____
Interest or Dividends	$ _____
Income from Rental Property	$ _____
Other Income:	
Alimony/Child Support	$ _____
Disability Benefits	$ _____
Income from Trusts	$ _____
Life Insurance Benefits	$ _____
Retirement Pensions	$ _____
Social Security Benefits	$ _____
Unemployment Benefits	$ _____
Veterans Benefits	$ _____
Other	$ _____
Other	$ _____
Other	$ _____
TOTAL INCOME:	**$ _____**

MONTHLY EXPENSES

Alimony/Child Support	$ _____
Car Payments	$ _____
Child Care	$ _____
Credit Card Payments	$ _____
Donations	$ _____
Dues	$ _____
Education	$ _____
Food/Household Supplies	$ _____
Furniture/Appliance Payments	$ _____
Income/Property Taxes	$ _____
Insurance Payments	$ _____
Household Repairs	$ _____
Lease Payments	$ _____
Medical/Dental/Optical	$ _____
Mortgage/Rent Payments	$ _____
Personal Maintenance (clothing, dry cleaning laundry, hair & fitness)	$ _____
Recreation/Entertainment	$ _____
Telephone	$ _____
Transportation (including car operating expenses)	$ _____
Utilities (cable TV, electricity, garbage, gas and water)	$ _____
TOTAL EXPENSES:	**$ _____**
INCOME EXCEEDING EXPENSES:	**$ _____**

Most financial institutions subscribe to computerized credit reporting services so that credit information is readily accessible. Before you approach a prospective lender, it's a good idea to go to a local credit bureau and purchase a copy of your credit profile. Review it carefully to be sure it is accurate and complete. It is not uncommon to find that a credit report contains erroneous negative information. As examples, a disputed bill may be reported as overdue or an account that was paid in full after the due date may continue to show an outstanding balance. Occasionally, a medical bill thought to have been paid by an insurance company appears on a credit report as an "account in collection."

If your credit profile contains erroneous negative information, you should provide the credit bureau with evidence to support your claim that an error exists. The credit bureau will contact your creditor regarding the disputed information and request written verification of its accuracy. If your creditor does not respond (usually within 30 days), the credit bureau has the responsibility to delete the unverified information from your credit report.

If your credit profile contains negative information that is accurate but attributable to unusual circumstances, you should request an opportunity to add an explanation to your credit report. For example, if an illness or injury prevented you from working for a period of time during which some of your personal accounts became delinquent, you should provide a brief statement regarding that situation and your plan to bring the accounts current. If it was an unusual turn of events in your business that caused delinquencies in trade accounts, your explanation and proposed remedial action should be discussed in your business plan as well as in an attachment to your credit report.

Some creditors do not report account information to credit bureaus, and therefore your credit profile may be incomplete. If you wish to have your credit worthiness evaluated on the bases of complete information, you can ask non-reporting creditors to provide account information to the credit bureau. As an alternative, ask individual creditors for written references that you can submit to prospective financiers along with your credit profile.

Collateral. Any property asset that is used to secure payment of a debt is known as "collateral" or "security." The type of property considered acceptable as collateral depends upon the purpose, size and term of the debt. If a business' inventory turns over quickly and its accounts receivable are collected when due, these assets might be acceptable as

Main Table of Contents
Section Table of Contents

security for short-term "working capital" loans (usually repaid within one year or less). If a business uses debt to acquire a major item of equipment with an expected life of ten years, the equipment might be acceptable as security for a medium-term debt of five to eight years. If a business needs a large, long-term loan, real property will be the most acceptable form of collateral.

It should be understood that the lender's potential sale of collateral to settle a debt presupposes that the debt has become delinquent. Therefore, in determining the value of a particular asset as collateral for a debt, the lender generally will discount its "fair market value" to arrive at a dollar amount that most likely could be attained in a quick sale, or "liquidation," of the asset. While real property or major equipment items might be valued for collateral purposes at 50% to 80% of fair market value because quick sale would be relatively easy, inventory and accounts receivable might be valued at only 25% to 50% of actual value because of the greater effort required to convert them to cash.

If you plan to borrow money in order to purchase medium- to long-lived business assets, those assets generally will provide most or all of the collateral required. The sale prices of the assets will be considered their fair market values. To estimate the value of additional collateral you could offer as debt security, review your business balance sheet and your personal balance sheet. Identify those business and personal assets that are free of liens (i.e., assets that are not already securing debts) and have them appraised at fair market value. Once you know the fair market value of each asset available for use as debt security, you can ask prospective lenders what percentage of the fair market value represents its value as collateral.

Under certain circumstances, real estate already pledged as collateral may be used to provide additional debt security. For example, if you have accrued substantial equity in your property, a second mortgage or refinancing arrangement might be used to secure additional debt.

Main Table of Contents

Section Table of Contents

What Are the Essential Components of a Business Plan?

Following is an adaptation of the Business Plan Outline recommended by the Bureau of Indian Affairs, Division of Financial Assistance, U.S. Department of the Interior, in its booklet *Financial Assistance for Indian Economic Development Projects* (U.S. Government Printing Office: 1991-298-682-40681). It has been used successfully by Indian business owners for many years and has proved to be acceptable to both commercial and governmental lenders.

Main Table of Contents

Section Table of Contents

Business Plan Outline

- **COVER SHEET:** Name of business, name(s) of owner(s), address(es), phone number(s) and date.

- **STATEMENT OF PURPOSE:** Brief statement of the objectives of the business plan, including the amount, type, terms and proposed uses of any financing requested.

- **TABLE OF CONTENTS**

I. EXECUTIVE SUMMARY: Overview summarizing key points and major findings in the business plan sections that follow.

II. DESCRIPTION OF BUSINESS

A. Business Concept:
Type of business (agricultural, construction, manufacturing, retail or service), current status (startup, expansion or buyout), form of ownership (sole proprietorship, partnership, corporation, joint venture or cooperative).

B. Product/Service Description:
Major products or services, including proposed new products/services.

C. Key Production Factors:
Raw materials, utilities, transportation and labor availability, environmental and safety considerations; technical and equipment requirements.

D. Location and Physical Facilities:
Regional, local and site-specific location factors; description of existing or proposed facilities.

E. Status of Current Operations (for business expansions and buyouts):
Existing products, historic and current financial indicators (sales and profits), employment statistics.

F. Tribal and Other Local Benefits:
Expected revenues, employment and other beneficial impacts on the economy.

G. Relationship to Tribal Economic Development Strategy:
Applies primarily to tribally sponsored and reservation-based projects.

Main Table of Contents
Section Table of Contents

III. MARKET ANALYSIS

A. Market Description:
Key market determinants (price, quality, service, method of delivery); local, regional or national market area; private and/or public market sectors.

B. General Market Trends:
Overall economic conditions in the defined market area; industry- and business-specific market trends.

C. Competition:
Relative strengths and weaknesses of major competitors; basis for competing successfully (e.g., better price, quality or service).

D. Market Projections:
Realistically projected market share and sales volume (based upon the foregoing market considerations).

IV. ORGANIZATION AND MANAGEMENT

A. Legal Form of Organization:
Sole proprietorship, partnership, corporation, joint venture or cooperative; legal and financial implications of chosen form of organization.

B. Management Plan:
Key management position descriptions and reporting relationships; names of key management personnel and brief descriptions of qualifications; organizational chart depicting reporting relationships.

C. Training Plan:
Applies primarily to startups and expansions.

Main Table of Contents

Section Table of Contents

V. FINANCIAL ANALYSIS

A. Capital Requirements:
Funds needed for business startup, expansion or buyout; working capital required for ongoing operations.

B. Structure of Financing:
Equity and debt financing secured or requested to meet capital requirements.

C. Financial Forecasts:
Forecasted balance sheets, statements of operations and statements of cash flows for the next three years. Forecasted statements of operations and cash flows should be prepared on a month-by-month basis for the first year and on an annualized basis for the second and third years.

D. Explanatory Notes to Financial Forecasts:
Statements regarding the research data and key assumptions on which the financial forecasts are based.

E. Key Financial Ratios and Measures of Performance:
Debt/equity and debt coverage ratios; rate of return on equity and assets; accounts receivable and inventory turnover rates.

F. Break-even Analysis.

G. Historic Financial Statements:
For existing businesses, provide balance sheets and statements of operations (income and expenses) for the past three years.

VI. SUPPORTING DOCUMENTS

Detailed product descriptions, technical specifications, photographs and promotional materials; tentative business buy/sell agreement; cost quotations from building contractors, equipment dealers, insurance agents and other suppliers; inventories of existing business equipment and property; appraisals of business equipment and property; letters of intent to hire, contracts in hand or in progress, franchise or marketing agreements; management agreements; resumes of key personnel; organizational documents (partnership, joint venture or cooperative agreement, or articles of incorporation and bylaws); contract and lease agreements; loans payable; loan amortization schedules; current personal financial statements and credit profile(s) of owner(s); federal income tax returns of owner(s) and business for the past three years.

Main Table of Contents
Section Table of Contents

How Should You Approach Business Plan Development?

Some of the information needed to prepare a business plan was identified in the Supporting Documents section of the Business Plan Outline just presented. If you are using *The Indian Business Owner's Guide to Preparing a Business Plan* in conjunction with *The Indian Business Owner's Guides to Developing a Marketing Plan* and *Performing a Preliminary Feasibility Study* and have completed the research recommended in the previous two guides, you already will have gathered most of the essential information for your business plan. If you are using this (the third) guide independently of the other two, it will be especially helpful to organize your information-gathering effort into three primary areas of concentration:

a. *Personal Information* about you and any co-owners of your business;

b. *Market Information*, including economic conditions, industry trends, customers' needs and preferences, competitors' practices, your pricing strategy, your proposed business location or delivery method, and your planned promotional activities; and

c. *Information About Your Business*, its products or services, its financial condition, its production requirements, and its managerial and organizational requirements.

A detailed checklist of information to be gathered in each of the three primary categories is provided on page 166. If you are reasonably confident that your character, capabilities and credit history will meet the expectations of the business and financial community, your approach to business plan development should begin with the gathering of market information. Once you have determined there is an unmet need or "market demand" for the products or services you plan to offer, you will need to estimate the "market share" or sales volume you realistically expect to achieve. Your market research will be summarized in Part III of the Business Plan under the various components of "Market Analysis."

Next you will need to determine the economic feasibility of your planned business, given the realistically attainable volume of sales. Such a determination will be based upon estimates of the startup and operating costs, including the cost of any debt financing. If you will depend on your business for a livelihood, its projected profits will have to be sufficient to cover your monthly cash withdrawals in addition to the financial obligations of the business. Your summary of feasibility considerations will be presented in Part V of the Business Plan under the various components of "Financial Analysis."

Main Table of Contents

Section Table of Contents

After you have completed Sections III (Market Analysis) and V (Financial Analysis) of your business plan, you can complete Sections II (Description of Business) and IV (Organization and Management). You will draw from the business and personal information you have collected according to your checklist and summarize the critical decisions you have made regarding the management and organization of your business. The items to be included in Section VI (Supporting Documents) should be labeled as attachments or exhibits and presented in the order in which they are referenced in Sections II-V of the business plan.

The introductory pages of the business plan will be completed last. Section I (Executive Summary) and the Table of Contents must be done last because they highlight and direct the reader to everything else contained in the plan. The exact information to be included on the Cover Sheet and in the Statement of Purpose will depend upon the intended use of the business plan. For example, if it is to be used as a three-year operating guide for the business owner(s), the Statement of Purpose may state briefly the sales, profit and equity goals of the business owner for a three-year period. On the other hand, if the business plan is to be presented to a creditor with a request for financing, the Statement of Purpose should include the amount, type, terms and proposed uses of the requested financing, and the Cover Sheet should show the name and address of the creditor to whom the business plan will be submitted.

Main Table of Contents

Section Table of Contents

Information Needed for a Business Plan

A. PERSONAL INFORMATION

_____ Current Personal Financial Statements of Owner(s) (Balance Sheet and Monthly Income & Expense Statement)

_____ Personal Credit Profile(s) of Owner(s)

_____ Most Recent Federal Income Tax Return(s) of Owner(s)

_____ Personal Resumes of Owner(s) and Key Personnel

B. MARKET INFORMATION

_____ Brief Product/Service Description (including photographs and technical specifications, if available)

_____ Industry Information (from *U.S. Industrial Outlook, Standard and Poor's Industry Surveys*, trade references)

_____ List of Major Customers (existing and/or prospective)

_____ Contracts in Hand or in Progress; Letters of Intent to Hire or Do Business

_____ Franchise or Marketing Agreements

_____ List of Major Competitors

_____ Map of Target Market Area (indicate where you and your competitors are located)

_____ Brief Description of Your "Competitive Edge" or Strategy for Competing Successfully

_____ Copies of Promotional Materials (ads, brochures, mailers, if available)

C. BUSINESS INFORMATION

(Note: Business financial records will not be available for new startups).

_____ Current Balance Sheet (list of assets and liabilities)

_____ Statement of Operations (Profit/Loss) for the Current Year

_____ Schedules of Accounts Receivable and Accounts Payable

_____ Statements of Operations (Profit/Loss) for the Past 3 Years

_____ Most Recent Federal Income Tax Return of Business

_____ Equipment Inventory (or Depreciation Schedule from Federal Income Tax Return)

_____ Appraisal(s) of, and Deed(s) to, Real Property Owned

_____ List of Equipment or Other Property To Be Purchased

_____ Supplier Quotations on Equipment To Be Purchased

_____ Tentative Buy/Sell Agreement for Commercial Property To Be Purchased

_____ Appraisal of Commercial Property To Be Purchased

_____ Contractor's Quotations on Building or Leasehold Improvements To Be Constructed

_____ Lease Agreements (equipment, space, vehicles)

_____ Insurance Quotations for Complete Business Coverage (e.g., real property, equipment, inventory, liability, vehicles and worker's compensation)

_____ Contracts Payable, Loans Payable and Notes Payable

_____ Organizational Documents (Partnership, Joint Venture or Cooperative Agreement; Articles of Incorporation and Bylaws)

What Are the Key Factors in Forecasting Business Sales?

The realistically attainable sales volume of your business will depend upon the interrelated opportunities afforded by (a) the market demand for your products or services, (b) your productive capacity, and (c) your access to financial resources. Since most entrepreneurs have limited productive capacity and financial resources, they will attempt to identify the "market segments" or consumer groups whose needs can be met most profitably. In order to do that, you will need to consider the **"5 P's of Marketing":**

- **the PEOPLE** whose needs you can meet most effectively;
- **the PRODUCT** you are offering, particularly its unique features or other competitive advantages;
- **the PRICE** of your product as it relates to perceived quality, the cost to produce it and competitors' prices;
- **the PLACE** where your product will be sold or the method of delivery to your customers; and
- **the PROMOTION** of your product through media that will reach your targeted customers.

You can get information about the market demand for products or services from a number of first- and secondhand sources. *Primary data* is information gathered specifically for your market study. An example would be a "market survey" or questionnaire administered to individual prospective customers. *Secondary data* is information gathered by others and made available for your use. Such information frequently is available from chambers of commerce, marketing and trade associations, city and county planning departments, licensing bureaus, state and federal agencies, and public libraries. Other good sources of secondary information about market conditions include accountants, attorneys, bankers, business consultants, economists, insurance agents, real estate brokers and wholesale suppliers.

Sometimes people go to great expense to gather primary data without first determining whether reliable secondary data is available. Because secondary data usually can be gathered much more quickly and far less expensively than primary data, it's a good idea to research secondary sources of information first. If the research indicates there is a significant unmet need for your product or service in your defined market area, you then can gather primary data to refine your sales forecasts.

Main Table of Contents

Section Table of Contents

For example, *suppose* you live on an Indian reservation in a rural county where agriculture is among the primary industries and dairy farming represents 60% of the agricultural activity. You have 100 acres available for a field crop and suspect there is an unmet need for alfalfa hay to feed local dairy cattle. The farm advisor at your local agricultural extension service will have information about the volume of alfalfa hay imported to your county annually and the distances from which it is transported.

If your secondary research revealed that 25,000 tons of alfalfa hay is imported to your county annually from distances of 100 to 250 miles, you might want to survey local dairy farmers firsthand to determine their interest in purchasing alfalfa from you. Your survey should explore such questions as the volumes of alfalfa purchased annually, quality standards, range of prices paid, methods of delivery, terms of payment and any other special needs of your prospective customers.

Suppose your firsthand survey indicated that 5,000 tons of alfalfa hay is purchased annually by dairy farmers located within 50 miles of your property and the farmers were interested in purchasing alfalfa from you—especially if it were of comparable quality to, and less expensive than, the imported alfalfa for which they were paying $135 to $150 per ton. Your next challenge would be to determine your productive capacity and the economic feasibility of selling your product at a lower price. Suppose your local farm advisor confirmed that the soil and climate in your area are conducive to alfalfa production and estimated that:

- You will produce 2.5 tons of alfalfa per acre per harvest;
- You will have three harvests in each planting year and four harvests in each non-planting year; and
- You will need to replant your alfalfa crop every fourth year.

If you wanted to ensure the sale of your entire crop by offering a selling price of $130 per ton, you could project your first-year sales as follows:

100 acres x 2.5 tons/acre x 3 harvests = 750 tons

750 tons of alfalfa @ $130/ton = $97,500

Main Table of Contents

Section Table of Contents

Second- and third-year sales would be projected to increase because (a) the fourth cutting possible in non-planting years would increase productive output and (b) the price per ton would be expected to increase based upon your marketing strategy and trends in the industry. If you were to increase your prices per ton by 10% in the second year and another 5% in the third year, your sales would be projected as follows:

Year 2 – 100 acres x 2.5 tons/acre x 4 harvests = 1,000 tons
1,000 tons of alfalfa @ $143/ton = $143,000

Year 3 – 100 acres x 2.5 tons/acre x 4 harvests = 1,000 tons
1,000 tons of alfalfa @ $150/ton = $150,000

You now have determined that:

- The total market demand for alfalfa hay in your county requires that 25,000 tons be imported annually;
- Your targeted market segment—dairy farmers located within 50 miles of your property—purchases 5,000 tons of alfalfa hay annually; and
- You can produce 750 tons of alfalfa hay in each planting year and 1,000 tons in each non-planting year.

If you were to define your product as "high-quality, locally grown, competitively priced alfalfa hay," your promotional strategy might be to focus on direct sales to the most successful dairy farmers in your area. Your promotional message might emphasize convenience and dependable service as well as high quality and low cost. In order to determine whether you really can produce high-quality alfalfa hay and sell it at a competitive price, you will need to consider the startup and operating costs of your proposed business, your access to financial resources and the potential profitability of the venture. These factors will be explored in the next section of this guide.

Main Table of Contents
Section Table of Contents

How Are Business Capitalization Requirements Determined?

The "capitalization requirements" of a business may be defined as the funds required to (a) purchase assets used in production and (b) cover operating expenses until the business becomes profitable and self-sustaining. One way to identify the key production factors of your planned business is to visualize the various activities or operations that will be performed and then ask yourself two questions:

1. What resources will be needed to get started?
2. What resources will be needed to continue operating?

If you do not have extensive firsthand experience, you might explore these questions by talking to people who are, or have been, in the same line of business. Talk to prospective customers about their preferences for certain products, prices or places of business. Call or visit chambers of commerce, marketing and trade associations, city and county planning departments, and licensing bureaus—and ask them about the production methods and operational requirements of your business. Ask local accountants, bankers and insurance agents what kinds of problems characterize the business you envision. Talk to real estate brokers about the costs of building, buying or leasing the commercial space you will need. Explore the availability of essential suppliers and ask what terms of payment they would offer if you purchased from them.

Returning to our alfalfa-growing example, discussions with the local farm advisor and area suppliers might help to identify the following key production factors for the 100-acre parcel of land already owned.

Main Table of Contents

Section Table of Contents

Key Production Factors – Humbolt Alfalfa Yard

Activity	Startup Requirements	Operational Needs
Site Preparation and Fencing	Leased bulldozer with operator, fencing materials and seasonal laborer	Hand tools, repair supplies and seasonal laborer
Soil Preparation	50 hp and 27 hp diesel tractors, 3-bottom plow, 8-ft. disk, 12-ft. harrow and seasonal laborer	Fuel, oil, misc. spare parts, repair supplies, and seasonal laborer
Fertilization and Planting	12-ft Ezee-flow spreader, 20 tons of 16-20-0 fertilizer, 2,500 lb. of alfalfa seed and seasonal laborer	Repair supplies, fertilizer, alfalfa seed and seasonal laborer
Irrigation	Water source development (e.g., water well and 10 hp pump), 4,000 ft. of 6-inch diameter aluminum mainline pipe, 2,200 ft. of 4-inch diameter aluminum lateral pipe, 74 sets of rainbird sprinklers with risers, and seasonal laborer	Electricity for pump, shovels and other garden tools, misc. spare parts, repair supplies and seasonal laborer
Harvest	Mower-conditioner; seasonal laborer	Repair supplies; seasonal laborer
Baling	Rake, baler and bale wagon; seasonal laborer	Repair supplies; seasonal laborer
Storage	Metal barn and seasonal laborer	Maintenance supplies
Product Sales and Customer Service	Weigh scales, calculator, cash box and receipt book; 1-ton delivery truck	Truck fuel, oil and repair supplies
Financial Recordkeeping and Property Management	File cabinets and recordkeeping supplies; management training; equipment and building insurance	Updated insurance coverage, including coverage of stored product

Once you have identified the startup and operational requirements of your planned business, you will need to consider their estimated costs. (If you already own some of the needed assets, you also will want to consider their undepreciated or "book value" as part of your equity investment in the business.) If you are going to acquire equipment or facilities, you will need to make tentative decisions about leasing or owning the assets—and whether the assets should be new or used. Finally you will need to consider the "working capital" requirements of your business—the cash needed to cover such operating costs as advertising, insurance, interest, professional services, rent, utilities and wages—until the cash flowing into the business exceeds the cash paid out.

Again using the alfalfa-growing example, the format on page 173 would facilitate the gathering of supplier quotations and the estimation of total capitalization requirements. Once the first-year **market demand** (or sales) and initial **capitalization requirements** of the business have been projected, the direct (variable) and indirect (fixed) operating costs can be projected, and the total need for financing can be determined.

A major financial consideration that affects the feasibility of any new business enterprise is the structure of financing—or the combination of owner's equity and debt that will be used to fund the startup costs of the business. "Equity" can include cash or property contributed to the venture by its owner(s) or grants awarded to the owner(s) for investment in the business. Sources of "debt" financing may include banks, credit unions, finance companies, government and tribal loan programs, local development corporations, supplier credit lines and private parties.

Most commercial lenders require that new business owners invest at least 40% of the required capital in the form of equity. If a federal loan guaranty is available, the minimum equity required for a commercial loan may be as low as 30%. Special business development loans offered by the Bureau of Indian Affairs, local development corporations and some tribes might require only 20% equity investment. Of course the lower the equity investment—and the higher the debt financing—the more profitable a business will have to be in order to service its debt, or pay the monthly interest and principal due on its loan(s).

In order to determine the most appropriate structure of financing for your business—and its overall feasibility—you will need to prepare "forecasted financial statements." Instructions begin on page 174.

Main Table of Contents

Section Table of Contents

Capitalization Requirements – Humbolt Alfalfa Yard

Startup Costs	Source	Quote
100 Acres of Land with Metal Barn	County Assessor (already owned)	$200,000
Site Preparation:		
Clearing and leveling	Bulldozer Operator	$ 15,000
Fencing (barbed wire, field fencing, steel and wooden posts)	Farm Supplier	$ 7,500
Irrigation System:		
Water well installation	Well Driller	$ 5,000
Pump, mainline pipe with underground installation, lateral pipe and sprinklers	Irrigation/Plumbing Contractor	$ 60,000
Major Equipment Items:		
50 hp Diesel tractor	Farm Equipment Supplier	$ 20,000
27 hp Diesel tractor		$ 12,000
3-bottom Plow		$ 3,500
8-ft. Disk		$ 5,000
12-ft. Harrow		$ 1,000
12-ft. Spreader		$ 1,000
8 ft. Mower-conditioner		$ 10,000
Side-delivery rake		$ 3,500
Baler		$ 15,000
Bale Wagon		$ 1,000
1-ton Delivery truck (used)	Truck Dealer	$ 10,000
Hand Tools:		
Mechanic's tools	Auto Parts Store	$ 600
Gardening and repair tools	Farm Supplier	$ 400
Supplies:		
Cougar alfalfa seed	Farm Supplier	$ 6,250
16-20-0 Fertilizer		$ 5,000
Baling twine		$ 500
Diesel Fuel		$ 3,000
Motor oil and misc. parts and supplies		$ 250
Business/Office Equipment: (scales, calculator and file cabinet)	Office Equipment Dealer	$ 5,000
Working Capital:		
Administrative and general (advertising, telephone and travel)	Accountant	$ 500
Electricity	Utility Company	$ 3,000
Full-coverage insurance	Insurance Agent	$ 1,500
Wages	Accountant	$ 4,500
TOTAL CAPITALIZATION REQUIREMENTS:		**$400,000**

How Are "Forecasted Financial Statements" Prepared?

"Financial statements" are reports that summarize the financial condition and performance of a business. "*Forecasted* financial statements" *project the future* financial condition and performance of a business. They are used for planning or budgeting purposes and are prepared in formats similar to actual financial statement formats.

Three types of financial statements are commonly used in planning a business:

- **Balance Sheet**—The Balance Sheet is a report of assets (what is owned), liabilities (what is owed) and owner's equity (also called "net worth" because it is the difference between the value of assets owned and liabilities owed by the business). The Balance Sheet is a *point-in-time* statement because it reports the financial condition of a business on a specific date. The format of the Balance Sheet is based upon the *fundamental accounting equation*:

  Assets = Liabilities + Owner's Equity

  (transposed from Assets – Liabilities = Owner's Equity).

  The Balance Sheet is divided into two parts—a list of assets and a list of liabilities plus owner's equity—and the totals of the two parts are equal, or "in balance." In some formats, assets are listed on the left-hand side of the sheet, with liabilities and owner's equity on the right-hand side. In other formats, assets are on the top half of the sheet, with liabilities and owner's equity on the bottom half.

- **Statement of Operations**—Also called an "Income and Expense" or "Profit/Loss" Statement, this is a report of business income, expenses and resulting profit or loss *over a period of time*, such as a month, a calendar quarter or a year. Some Statements of Operations show two columns of income and expenses—one for the currently reported month or calendar quarter, and one for the year-to-date totals. First-year *Forecasted Statements of Operations* usually are formatted in thirteen columns so that each of the twelve months' income and expenses are shown, followed by totals in the thirteenth column.

Main Table of Contents

Section Table of Contents

- **Statement of Cash Flows**—Also called a "Cash Budget," this is a report or projection of all cash "inflows" (receipts) and "outflows" (disbursements) of a business *over a period of time*, such as a month, a calendar quarter or a year. Some cash receipts (including interest income, investments and loans) are from sources other than business sales, and some cash disbursements (including capital outlays, loan principal payments and owner's withdrawals) are not classified as "expenses." Therefore, a Statement of Cash Flows is needed in order to account for all cash received and disbursed, and to determine the balance of cash on hand at any given time. Again, first-year *Forecasted Statements of Cash Flows* usually are formatted on a month-by-month basis, in thirteen columns.

Sample formats for various types of financial statements follow on the next five pages.

Main Table of Contents

Section Table of Contents

Sample Balance Sheet Format

Name of Business
BALANCE SHEET
(date on which financial data was current)

ASSETS		
Current Assets		
Cash		$ _____
Accounts Receivable		$ _____
Inventory		$ _____
Prepaid Expenses		$ _____
Total Current Assets		$ _____
Fixed Assets		
Land		$ _____
Buildings		$ _____
Equipment		$ _____
Furniture/Fixtures		$ _____
Vehicles		$ _____
Less Accumulated Depreciation		$ (_____)
Total Fixed Assets		$ _____
Other Assets		
LIST EACH ASSET		$ _____
TOTAL ASSETS		$ _____
LIABILITIES AND OWNER'S EQUITY		
Current Liabilities		
Accounts Payable (to suppliers and trade creditors)		$ _____
Short-term Notes (due within one year)		$ _____
Current Portion of Long-term Notes (portion due within one year)		$ _____
Accrued Expenses Payable (interest, payroll and taxes)		$ _____
Total Current Liabilities		$ _____
Long-term Liabilities		
Notes Payable	$ _____	
(less current portion above)	$ (_____)	
Total Long-term Liabilities		$ _____
TOTAL LIABILITIES		$ _____
OWNER'S EQUITY		$ _____
TOTAL LIABILITIES AND OWNER'S EQUITY		$ _____

Sample Format for Statement of Operations

Name of Business
STATEMENT OF OPERATIONS
For the Month and Year to Date Ended _____, 20_____

	Current Month	Year to Date
NET SALES	$ _____	$ _____
COST OF GOODS SOLD	$ _____	$ _____
GROSS PROFIT	$ _____	$ _____
OPERATING EXPENSES:		
Advertising & Promotion	$ _____	$ _____
Bad Debts	$ _____	$ _____
Bank Services	$ _____	$ _____
Depreciation	$ _____	$ _____
Insurance	$ _____	$ _____
Interest	$ _____	$ _____
Licenses & Permits	$ _____	$ _____
Maintenance & Repairs	$ _____	$ _____
Office & Other Supplies	$ _____	$ _____
Payroll	$ _____	$ _____
Payroll Taxes & Insurance	$ _____	$ _____
Professional Services	$ _____	$ _____
Telephone & Utilities	$ _____	$ _____
Travel	$ _____	$ _____
Total Operating Expenses	$ _____	$ _____
NET PROFIT (before taxes)	$ _____	$ _____

Name of Business

STATEMENTS OF OPERATIONS

January 1, 20___ through December 31, 20___

Month	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
% of Sales	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**100 %**
NET SALES													
COST OF GOODS SOLD													
GROSS PROFIT													
OPERATING EXPENSES:													
Advertising & Promotion													
Bad Debts													
Bank Services													
Depreciation													
Insurance													
Interest													
Licenses & Permits													
Maintenance & Repairs													
Office & Other Supplies													
Payroll													
Payroll Taxes & Insurance													
Professional Services													
Telephone & Utilities													
Travel													
Total Operating Expenses													
NET PROFIT (before taxes)													
ACCUMULATED NET PROFIT													

Sample Format for Statement of Cash Flows

Name of Business
STATEMENT OF CASH FLOWS
For the Month and Year to Date Ended _____, 20_____

	Current Month	Year to Date
BEGINNING CASH BALANCE	$ _____	$ _____
PLUS RECEIPTS:		
Cash Sales	$ _____	$ _____
Collection of Accounts Receivable	$ _____	$ _____
Investment (Equity) Capital	$ _____	$ _____
Loan Proceeds	$ _____	$ _____
Total Receipts	$ _____	$ _____
TOTAL CASH AVAILABLE	$ _____	$ _____
LESS DISBURSEMENTS:		
Capital Outlays	$ _____	$ _____
Inventory	$ _____	$ _____
Cost of Goods Sold	$ _____	$ _____
Operating Expenses (less depreciation)	$ _____	$ _____
Loan Principal Payments	$ _____	$ _____
Owner's Withdrawals	$ _____	$ _____
Total Disbursements	$ _____	$ _____
ENDING CASH BALANCE	$ _____	$ _____

Main Table of Contents
Section Table of Contents

Sample Format for Statements of Cash Flows (Month-by-Month)

Name of Business
STATEMENTS OF CASH FLOWS
January 1, 20 _____, through December 31, 20_____

Month	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
% of Sales	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**100 %**
BEGINNING CASH BALANCE													
PLUS RECEIPTS:													
Cash Sales													
Collection of Accounts Receivable													
Investment (Equity) Capital													
Loan Proceeds													
Total Receipts													
TOTAL CASH AVAILABLE													
LESS DISBURSEMENTS													
Capital Outlays													
Inventory													
Cost of Goods Sold													
Operating Expenses (less depreciation)													
Loan Principal Payments													
Owner's Withdrawals													
Total Disbursements													
ENDING CASH BALANCE													

Returning to our example of an alfalfa grower, let's use the sample financial statement formats to develop *forecasted* financial statements for the planned alfalfa hay project.

Forecasted Balance Sheets

In planning a new business venture, it is useful to develop multi-column Forecasted Balance Sheets that show the projected financial condition of the business on the startup date and after one or more years of operation. Because this will be a three-year business plan, the Forecasted Balance Sheets will have *four* columns—one for the startup date and three more to show the financial condition of the business after each of three years of operations.

The information needed for the *beginning* balance sheet is contained in the capitalization requirements listed on page 173 of this guide. However, the data will have to be grouped into the asset classifications of the Forecasted Balance Sheet as follows:

Cash— The $15,000 budgeted for supplies and the $9,500 budgeted for working capital may be considered the cash balance on the startup date of the business.

Land— The 100-acre parcel to be contributed by the owner may be shown on the Balance Sheet at its fair market value. If it has not been appraised recently, it may be shown at its assessed value. In this example, it is assumed the most current statement from the County Assessor shows the value of the land at $195,500.

Site Improvements— The $15,000 in clearing and leveling costs and the $7,500 in fencing costs may be totaled and listed with the fixed assets as "site improvements." In this example, it will be assumed that the expected "useful life" of the assets is ten years.

Building— The metal barn located on the 100-acre parcel must be listed at its original cost, less any depreciation allowed in prior years. In this example, it is assumed the metal barn is a pre-manufactured unit assembled by the owner at a total cost of $4,500. It is further assumed the building has an expected "useful life" of ten years and has not been depreciated in prior years.

Main Table of Contents

Section Table of Contents

Equipment— The total cost of all equipment, including the irrigation system ($65,000), major farm equipment items ($72,000), delivery truck ($10,000), tools ($1,000) and business/office equipment ($5,000) may be grouped into the equipment category of the balance sheet. For sake of simplicity in this example, it is assumed the expected "useful life" of all equipment is ten years.

Current Portion of Long-term Debt— The loan principal payments to be paid in one year represent the "current portion" of long-term debt. In this example, it is assumed the owner will qualify for a special tribal loan of $200,000 at 8% interest for a ten-year term. Designed especially for new agricultural projects, the terms of the loan provide for a moratorium on payments in the first six months. Therefore the current portion of long-term debt in the first year will represent only six months' loan principal payments.

"Loan amortization schedules" (also called "mortgage schedules") show the month-by-month and year-by-year breakdown of loan payments into interest and principal amounts. If you do not have access to a personal computer with a loan amortization program, you can obtain a loan amortization schedule from an accountant, bookkeeping or data processing service, or business consultant.

In the alfalfa grower's example, it is assumed a loan amortization schedule was obtained from an accountant who assisted the business owner in calculating each year's loan principal and interest payments.

Long-term Liabilities— The long-term liabilities are those debts with terms of more than one year. When a balance sheet lists the "current portion" of long-term debts separately, as in this example, the remaining (long-term) portion of the debts is listed in the long-term liabilities category.

The financial condition of the planned alfalfa growing project on the startup date of April 1, 1994 is projected in the first column of the Forecasted Balance Sheets on page 190. The data needed to complete the remaining columns will be available after the Forecasted Statements of Operations and Cash Flows have been completed.

Main Table of Contents

Section Table of Contents

Forecasted Statements of Operations

Earlier in this guide, the process of developing "market projections" was described. Using the alfalfa grower's example, first-year sales were projected at $97,500. In projecting the costs of operation, it will be important to determine which costs are *variable* and which are *fixed*. "Variable costs" go up and down with sales. They include the direct labor, materials, supplies and utilities associated with the production of alfalfa. "Fixed costs" do not vary, no matter what volume of sales is achieved. They include the indirect expenses associated with the business, such as advertising, telephone, travel and other "administrative and general expenses," depreciation of assets, insurance and interest on loans.

In our example, some of the costs will be projected according to supplier quotations (e.g., supplies, electricity and insurance). Other costs will be projected on the basis of mathematical calculations (e.g., administrative expenses, interest and wages).

To facilitate the preparation of monthly and annual Forecasted Statements of Operations, it is especially useful to develop a set of assumptions regarding the bases for projecting costs. These assumptions can be formatted as "Notes to Forecasted Financial Statements" and included in Section V of the business plan. The following assumptions might be developed in support of the Forecasted Statement of Operations for the planned Humbolt Alfalfa Yard.

Sales— In the first year (a planting year), 3 harvests of 250 tons each will be sold at $130 per ton; 750 tons @ $130 per ton = $97,500. In the second and third years (non-planting years), there will be four harvests of 250 tons each. In the second year, the price will increase by 10% to $143 per ton; 1,000 tons @ $143 per ton = $143,000. In the third year, the price will increase by 5% to $150 per ton; 1,000 tons @ $150 per ton = $150,000.

Assuming the completion of planting by mid-May, seed germination by mid-June, harvest of the first crop in mid-July, and baling and storage by the end of July, 250 tons of alfalfa will be available for sale in August of the first year. The second cutting will occur five weeks after the first, and the third cutting will occur five weeks after the second. The first cutting of alfalfa will be sold as soon as it is available, in the month of August. Subsequent cuttings will be stored and sold in the months of September through December.

Main Table of Contents

Section Table of Contents

Cost of Sales— All direct costs associated with the production of alfalfa:

a. **Electricity**— Estimated by the local utility company at $5,000 in the first year with 8% increases in each subsequent year.

b. **Fertilizer**— The amount and type of fertilizer required (20 tons of 16-20-0) were determined by the local farm advisor, and the first-year price of $250 per ton was quoted by a local farm supply company. Five percent price increases are projected annually.

c. **Fuel**— The amount of diesel fuel required (2,000 gallons) was estimated by the local farm advisor based upon data published by the equipment manufacturer. The first-year price of $1.50 per gallon was quoted by a local farm supply company. Five-percent price increases are projected annually. The amount of fuel required in non-planting years is estimated at one-half that required in planting years.

d. **Labor**— One seasonal laborer will be hired at $960 per month ($6 per hour). The first-year projection of $1,104 per month includes 15% in payroll taxes and fringe benefits. Five-percent wage increases are projected annually. The seasonal laborer will be employed for seven months in planting years and for six months in non-planting years.

e. **Seed**— The amount and type of seed required (2,500 pounds of Cougar alfalfa seed) were determined by the local farm advisor, and the first-year price of $2.50 per pound was quoted by a local farm supply company. Seeding will be required at three-year intervals.

f. **Twine**— The amount, type and price of baling twine were determined by a local farm supply company. Five-percent increases are projected annually.

Gross Profit— Sales minus Total Cost of Sales.

Main Table of Contents

Section Table of Contents

Operating Expenses— The indirect expenses associated with the business:

a. **Administrative & General Expenses**— First-year expenses for advertising, telephone service and travel have been estimated by an accountant at $100 per month in non-marketing/selling months and $200 per month in marketing months. Five-percent cost increases are projected annually.

b. **Depreciation**— The total value of all fixed assets except land ($180,000) will be depreciated using a straight-line method for the ten-year expected useful life of the assets, at the rate of $18,000 per year ($1,500 per month).

c. **Insurance**— The cost of full-coverage insurance in the first year ($1,500) was quoted by a local insurance agent. Terms of payment require a $400 payment in the first month of the year and $100 per month in the remaining months. Ten percent cost increases are projected annually.

d. **Interest**— Monthly and annual interest payments were calculated by a local accountant. A loan amortization schedule is included with the Support Documents in Section VI of the business plan.

e. **Maintenance & Repairs**— Because manufacturer's warranties will be in effect in the first year, expenses for equipment maintenance and repairs are expected to be minimal. First-year expenses are estimated by the equipment dealers at a total of $250. After expiration of warranties, a local accountant estimates expenses for maintenance and repair of equipment at 1% of sales.

Net Profit— Gross Profit minus Total Operating Expenses.

The month-by-month financial performance of the planned alfalfa project in its first year of operation, and the year-by-year financial results for each of three years, are summarized in Forecasted Statements of Operations on pages 191 and 193.

Main Table of Contents

Section Table of Contents

Forecasted Statements of Cash Flows

As noted earlier, some of the cash receipts of a business (including the proceeds of loans) are from sources other than sales, and some of the cash disbursements (including capital outlays and loan principal payments) are not properly classified as "operating expenses." Because these cash receipts and disbursements will not appear on the Forecasted Statements of Operations, Forecasted Statements of Cash Flows will be needed in order to monitor the balance of cash on hand at any given time.

Another difference between these two financial statements is that the Forecasted Statement of Operations is designed to determine the taxable profit of a business and, therefore, includes the non-cash expense of depreciation. Since the Forecasted Statement of Cash Flows is designed to determine the cash balance of a business, it includes cash operating expenses only.

In preparing Forecasted Statements of Cash Flows, it is again useful to develop a set of underlying assumptions or explanatory notes that can be included in Section V of the business plan. The following notes might be developed in support of the Forecasted Statements of Cash Flows for the planned Humbolt Alfalfa Yard, which appear on pages 192 and 194.

Beginning Cash Balance— The owner's entire equity contribution will be in the form of land and building assets; therefore, the beginning cash balance will be zero.

Cash Receipts:

a. **Loan Proceeds**— The $200,000 tribal loan for the startup of the business is the only loan that will be required if the cash flow projections are realized.

b. **Sales Receipts**— The first cutting of alfalfa will be sold as soon as it is available in the month of August. Subsequent cuttings will be stored and sold in the months of September through December. All sales will be for "cash on delivery." It is expected that some customers will pick up and haul their purchases while others will request delivery. When delivery is requested, a standard mileage reimbursement rate will be charged to offset the cost. Since the delivery fee and cost will be offset – and the profits and cash flows will be unaffected— no attempt has been made to estimate them in the financial projections.

Main Table of Contents

Section Table of Contents

Cash Disbursements:

a. **Capital Outlays**— The total expenditures for site improvements ($22,500) and equipment ($153,000), as shown in the Forecasted Statements of Operations.

b. **Cost of Sales**— The total costs of electricity, fertilizer, fuel, labor, seed and twine, as shown in the Forecasted Statements of Operations.

c. **Cash Operating Expenses**— Total Operating Expenses shown in the Forecasted Statements of Operations, less depreciation, a non-cash expense.

d. **Loan Principal Payments**— Monthly and annual principal payments were calculated by a local accountant. A loan amortization schedule is included with the Support Documents in Section VI of the business plan.

e. **Owner's Withdrawals**— The owner has personal savings sufficient to cover personal expenses in the startup phase of the operation. Therefore, first-year owner's withdrawals of $24,000 will be taken in the latter eight months of the year. Second- and third-year withdrawals are projected at $30,000 and $36,000, respectively, and will be taken over twelve months subject to the availability of cash.

Ending Cash Balance— The balance of cash available for unforeseen costs (such as pest or weed control) and business growth. Each ending cash balance becomes the beginning cash balance for the subsequent period.

The month-by-month financial performance of the planned alfalfa project in its first year of operations, and the year-by-year financial results for each of three years, are summarized in Forecasted Statements of Cash Flows on pages 192 and 194, respectively.

It is important to note that the first-year ending cash balance of $44,278 should be sufficient to cover production and operating expenses in the early months of the second year. That is, if the first cutting of alfalfa is completed by the end of June of the second year, sales should begin in July. Cash requirements for the months of April through July are estimated as follows:

Main Table of Contents

Section Table of Contents

Humbolt Alfalfa Yard
Cash Requirements April through July of Year 2

Cost of Sales:		
Electricity	$ 2,700	
Fertilizer	$ 5,250	
Fuel	$ 525	
Laborer	$ 3,478	$ 11,953
Operating Expenses:		
Administrative & General	$ 525	
Insurance	$ 770	
Maintenance and Repairs	$ 477	$ 1,772
Other Cash Disbursements:		
Loan Payments (4 @ $2,427/mo.)		$ 9,708
Owner's Withdrawals (4 @ $2,500/mo.)		$ 10,000
TOTAL CASH REQUIRED:		**$ 33,433**

Main Table of Contents
Section Table of Contents

Completion of the Forecasted Balance Sheets

Once the Forecasted Statements of Operations and Cash Flows have been prepared, the Forecasted Balance Sheets can be completed as follows:

Cash— The ending cash balance on each Forecasted Statement of Cash Flows will become the cash figure on each year-end balance sheet unless some of the cash is used to purchase other assets. If new assets are purchased, the cash balance and appropriate other asset figures will be adjusted accordingly.

Fixed Assets— Since land is a non-depreciable asset, its value will remain constant on the balance sheets. All other fixed asset values will be reduced annually by the amount expensed for depreciation.

Liabilities— The new "current liabilities" figure on each year-end balance sheet will be the total of loan principal payments to be paid in the next twelve months. The total balance of long-term liabilities, less the current portion shown, will be the new "long-term liabilities" figure on each year-end balance sheet. The current liabilities and balances of long-term liabilities can be compiled by referring to the loan amortization schedule used in preparing the Forecasted Statements of Operations and Cash Flows.

Main Table of Contents

Section Table of Contents

Example 8 – Humbolt Alfalfa Yard: Forecasted Balance Sheets

Humbolt Alfalfa Yard

FORECASTED BALANCE SHEETS

	April 1 1994	April 1 1995	April 1 1996	April 1 1997
ASSETS				
Current Assets				
Cash	$ 24,500	$ 44,278	$ 103,482	$ 162,210
Total Current Assets	$ 24,500	$ 44,278	$ 103,482	$ 162,210
Fixed Assets				
Land	$ 195,500	$ 195,500	$ 195,500	$ 195,500
Site Improvements	$ 22,500	$ 20,250	$ 18,000	$ 15,750
Building	$ 4,500	$ 4,050	$ 3,600	$ 3,150
Equipment	$ 153,000	$ 137,700	$ 122,400	$ 107,100
Total Fixed Assets	$ 375,500	$ 357,500	$ 339,500	$ 321,500
TOTAL ASSETS	**$ 400,000**	**$ 401,778**	**$ 442,982**	**$ 483,710**
LIABILITIES AND OWNER'S EQUITY				
Current Liabilities				
Current Portion of Long-term Notes	$ 6,670	$ 14,165	$ 15,340	$ 16,612
Total Current Liabilities	$ 6,670	$ 14,165	$ 15,340	$ 16,612
Long-term Liabilities	$ 193,330	$ 179,165	$ 163,825	$ 147,213
TOTAL LIABILITIES	**$ 200,000**	**$ 193,330**	**$ 179,165**	**$ 163,825**
OWNER'S EQUITY	**$ 200,000**	**$ 208,448**	**$ 263,817**	**$ 319,885**
TOTAL LIABILITIES AND OWNER'S EQUITY	**$ 400,000**	**$ 401,778**	**$ 442,982**	**$ 483,710**

Example 9 – Humbolt Alfalfa Yard: Forecasted Statements of Operations

Humbolt Alfalfa Yard

FORECASTED STATEMENTS OF OPERATIONS

Year	**1994-1995**	**1995-1996**	**1996-1997**
Tons Sold	**750**	**1,000**	**1,000**
Price/Ton	**$ 130**	**$ 143**	**$ 150**
SALES	**$ 97,500**	**$ 143,000**	**$150,000**
COST OF SALES			
Electricity	$ 5,000	$ 5,400	$ 5,832
Fertilizer	$ 5,000	$ 5,250	$ 5,513
Fuel	$ 3,000	$ 1,575	$ 1,654
Labor	$ 7,728	$ 6,955	$ 7,303
Seed	$ 6,250	$ 0	$ 0
Twine	$ 500	$ 525	$ 551
Total Cost of Sales	**$ 27,478**	**$ 19,705**	**$ 20,853**
GROSS PROFIT	**$ 70,022**	**$ 123,295**	**$129,147**
OPERATING EXPENSES			
Administrative & General	$ 1,800	$ 1,890	$ 1,985
Depreciation	$ 18,000	$ 18,000	$ 18,000
Insurance	$ 1,500	$ 1,650	$ 1,815
Interest	$ 16,024	$ 14,956	$ 13,779
Maintenance & Repairs	$ 250	$ 1,430	$ 1,500
Total Operating Expenses	**$ 37,574**	**$ 37,926**	**$ 37,079**
NET PROFIT	**$ 32,448**	**$ 85,369**	**$ 92,068**
ACCUMULATED NET PROFIT		**$ 117,817**	**$209,885**

Example 10 – Humbolt Alfalfa Yard: Forecasted Statements of Cash Flows

Humbolt Alfalfa Yard

FORECASTED STATEMENTS OF CASH FLOWS

Year	**1994-1995**	**1995-1996**	**1996-1997**
BEGINNING CASH BALANCE	**$ 0**	**$ 44,278**	**$103,482**
CASH RECEIPTS			
Loan Proceeds	$ 200,00	$ 0	$ 0
Sales Receipts	$ 97,500	$ 143,00	$150,000
Total Cash Available	**$ 297,500**	**$ 187,278**	**$253,482**
CASH DISBURSEMENTS			
Capital Outlays	$175,500	$ 0	$ 0
Cost of Sales	$ 27,478	$ 19,705	$ 20,853
Cash Operating Expenses	$ 19,574	$ 19,926	$ 19,079
Loan Principal Payments	$ 6,670	$ 14,165	$ 15,340
Owner's Withdrawals	$ 24,000	$ 30,000	$ 36,000
Total Cash Disbursements	**$ 253,222**	**$ 83,796**	**$ 91,272**
ENDING CASH BALANCE	**$ 44,278**	**$ 103,482**	**$162,210**

Example 11 – Humbolt Alfalfa Yard: Forecasted Statements of Operations (Month-by-Month)

Humbolt Alfalfa Yard

FORECASTED STATEMENTS OF OPERATIONS

April 1, 1994 through March 31, 1995

Year	**1994**									**1995**			
Month	**Apr**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Tons Sold @					250 @	125 @	125 @	125 @	125 @				750 @
Price/Ton					$ 130	$ 130	$ 130	$ 130	$ 130				$ 130
SALES	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 32,500**	**$ 16,250**	**$ 16,250**	**$ 16,250**	**$ 16,250**	**$ 0**	**$ 0**	**$ 0**	**$ 97,500**
COST OF SALES:													
Electricity	0	500	1,000	1,000	1,000	1,000	500	0	0	0	0	0	5,000
Fertilizer	0	5,000	0	0	0	0	0	0	0	0	0	0	5,000
Fuel	1,000	500	0	500	500	0	500	0	0	0	0	0	3,000
Labor	1,104	1,104	1,104	1,104	1,104	1,104	1,104	0	0	0	0	0	7,728
Seed	0	6,250	0	0	0	0	0	0	0	0	0	0	6,250
Twine	0	0	0	167	167	0	166	0	0	0	0	0	500
TOTAL COST OF SALES	**$ 2,104**	**$ 13,354**	**$ 2,104**	**$ 2,771**	**$ 2,771**	**$ 2,104**	**$ 2,270**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 27,478**
GROSS PROFIT (Loss)	**$ (2,104)**	**$ (13,354)**	**$ (2,104)**	**$ (2,771)**	**$ 29,729**	**$ 14,146**	**$ 13,980**	**$ 16,250**	**$ 16,250**	**$ 0**	**$ 0**	**$ 0**	**$ 70,022**
OPERATING EXPENSES:													
Advertising & Promotion	100	100	100	200	200	200	200	200	200	100	100	100	1,800
Depreciation	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Insurance	400	100	100	100	100	100	100	100	100	100	100	100	1,500
Interest	0	0	0	0	0	8,135	1,333	1,326	1,319	1,311	1,304	1,296	16,024
Maintenance & Repairs	25	25	25	25	25	25	100	0	0	0	0	0	250
Total Operating Expenses	**$ 2,025**	**$ 1,725**	**$ 1,725**	**$ 1,825**	**$ 1,825**	**$ 9,960**	**$ 3,233**	**$ 3,126**	**$ 3,119**	**$ 3,011**	**$ 3,004**	**$ 2,996**	**$ 37,574**
NET PROFIT (Loss)	**$ (4,129)**	**$ (15,079)**	**$ (3,829)**	**$ (4,596)**	**$ 27,904**	**$ 4,186**	**$ 10,747**	**$ 13,124**	**$ 13,131**	**$ (3,011)**	**$(3,004)**	**$ (2,996)**	**$ 32,448**
ACCUMULATED NET PROFIT (Loss)		$ (19,208)	$ (23,037)	$(27,633)	$ 271	$ 4,457	$ 15,204	$ 28,328	$ 41,459	$ 38,448	$ 35,444	$ 32,448	

Main Table of Contents
Section Table of Contents

Humbolt Alfalfa Yard

FORECASTED STATEMENTS OF CASH FLOWS

April 1, 1994 through March 31, 1995

Year	**1994**									**1995**			
Month	**Apr**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
BEGINNING CASH BALANCE	**$ 0**	**$ 21,871**	**$ 8,292**	**$ 5,963**	**$ 2,867**	**$ 29,271**	**$ 31,957**	**$ 40,111**	**$ 50,634**	**$ 61,157**	**$ 55,531**	**$ 49,904**	**$ 0**
CASH RECEIPTS:													
Loan Proceeds	200,000	0	0	0	0	0	0	0	0	0	0	0	200,000
Sales Receipts	0	0	0	0	32,500	16,250	16,250	16,250	16,250	0	0	0	97,500
Total Cash Available	**$ 200,000**	**$ 21,871**	**$ 8,292**	**$ 5,963**	**$ 35,367**	**$ 45,521**	**$ 48,207**	**$ 56,361**	**$ 64,884**	**$ 61,157**	**$ 55,531**	**$ 49,904**	**$ 297,500**
CASH DISBURSEMENTS:													
Capital Outlays	175,500	0	0	0	0	0	0	0	0	0	0	0	175,500
Cost of Sales	2,104	13,354	2,104	2,771	2,771	2,104	2,270	0	0	0	0	0	27,478
Cash Operating Expenses	525	225	225	325	325	8,460	1,733	1,626	1,619	1,511	1,504	1,496	19,574
Loan Principal Payments	0	0	0	0	0	0	1,093	1,101	1,108	1,115	1,123	1,130	6,670
Owner's Withdrawals	0	0	0	0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	24,000
Total Cash Disbursements	**$ 178,129**	**$ 13,579**	**$ 2,329**	**$ 3,096**	**$ 6,096**	**$ 13,564**	**$ 8,096**	**$ 5,727**	**$ 5,727**	**$ 5,626**	**$ 5,627**	**$ 5,626**	**$ 253,222**
ENDING CASH BALANCE	**$ 21,871**	**$ 8,292**	**$ 5,963**	**$ 2,867**	**$ 29,271**	**$ 31,957**	**$ 40,111**	**$ 50,634**	**$ 61,157**	**$ 55,531**	**$ 49,904**	**$ 44,278**	**$ 44,278**

How Is Break-Even Analysis Used to Assess Business Risk?

"Break-even analysis" is a mathematical tool for determining what volume of sales will allow a business to cover its costs exactly and, therefore, *"break even."* By comparing the calculated break-even sales volume to the projected sales volume of a business, it is possible to assess the risk (or, conversely, the margin of safety) inherent in the projected sales. That is, if the break-even sales volume were 90% of *optimistically* projected sales, there would be a questionable 10% margin of safety and the business might be considered relatively risky. On the other hand, if the break-even sales volume were only 60% of *realistically* projected sales, there would be a 40% margin of safety and the business might be considered relatively low in risk.

The formula for calculating the break-even sales volume is:

BES = VC + FC, where

BES = Break-Even Sales,

VC = Variable Costs (expressed as a percent of sales) and

FC = Fixed Costs (in absolute dollar amounts)

The first step in break-even analysis is to differentiate between variable costs and fixed costs, separating them into two lists. For purposes of assessing business risk, it is a good idea to include with the "fixed costs" any amounts required for loan principal payments and owner's withdrawals, since the success of a business depends upon its ability to service its debts and sustain its owner(s). On the other hand, such non-cash expenses as depreciation may be excluded from fixed costs because they do not have to be covered by sales revenues.

Again returning to our example of Humbolt Alfalfa Yard, the variable and fixed costs could be listed as follows:

Variable Costs	% of Sales	Fixed Costs	Amount
Cost of Sales	28.2%	Admin. & General	$ 1,800
Maintenance & Repairs	.3%	Insurance	1,500
		Interest	16,024
		Loan Principal	6,670
		Owner's Withdrawals	24,000
TOTAL:	**28.5%**	**TOTAL:**	**$49,994**

Main Table of Contents
Section Table of Contents

Substituting these figures into the break-even analysis formula, the break-even sales volume may be calculated as follows:

BES = VC + FC, where

BES = 28.5% of Sales + $49,994,

BES = .285S + $49,994

.715S = $49,994, and

BES = $69,922 (or 71.7% of the projected sales of $97,500).

Assuming the projected sales of $97,500 are realistic, the business might be considered relatively low in risk in light of the $27,578, or 28.3%, margin of safety identified by the break-even analysis.

Another way to use break-even analysis in assessing business risk is to test the sensitivity of the break-even sales volume to possible changes in variable or fixed costs. As one example, suppose the Cost of Sales of the alfalfa project included pest and weed control costs totaling $5,000. Total Cost of Sales then would be $32,478, or 33.3% of Sales, and Total Variable Costs would be 33.6%. The break-even sales volume would be recalculated as follows:

BES = 33.6% of Sales + $49,994,

BES = .336S + $49,994,

.664S = $49,994, and

BES = $75,292 (or 77.2% of the projected sales of $97,500).

The second analysis demonstrates that even with unexpected pest and weed control costs, there still would be a 22.8% margin of safety between the realistically projected sales and the break-even sales volume.

Main Table of Contents

Section Table of Contents

How Will Your Business Be Organized and Managed?

Organizational Considerations

The legal form of organization of a business affects the degree of managerial control by its owners as well as their legal and financial liability, their ability to raise capital and their income tax reporting requirements. Before choosing a legal form of organization for your business, it is recommended that you consult with an attorney and a certified public accountant regarding the legal, financial, managerial and tax implications. The advantages and disadvantages of the most common forms of business organization are summarized on the next three pages.

Sole Proprietorship

Among the most often cited *advantages* of the sole proprietorship are the simplicity of organization, the owner's complete control of decision-making and profits, minimized tax reporting requirements and the ease with which an individual can start and end the business—virtually by beginning or ceasing business operations. For these reasons, most small businesses operate as sole proprietorships.

In maximizing individual freedom and simplicity, however, the sole proprietorship often is confronted with the following *disadvantages*: managerial capacity limited to the training and personal experience of the owner; limited opportunities for good employees; ability to raise equity capital limited to the financial resources of the owner; limited life of the business (particularly the risk to creditors in the event of the owner's death or disability); and unlimited personal liability for the financial obligations of the business (the owner can be sued by a creditor or customer for settlements extending to personal as well as business assets).

Partnership

Two or more persons may enter a partnership agreement to operate a business for specified shares of its profits. Usually the profit-sharing plan reflects each partner's investment of financial and human resources in the business. Partnership agreements should be written with legal assistance; they should define the authorities, rights and duties of each partner and anticipate all potential areas of disagreement among the partners.

Main Table of Contents

Section Table of Contents

The *advantages* of partnerships include the ease of organization, the combination of partners' business management capabilities and the increased availability of equity capital. In addition, the profits of the partnership are divided among the partners according to the profit-sharing plan, and the partners pay income taxes according to the income tax bracket of each individual.

The *disadvantages* of partnerships include the unlimited liability of each partner for business debts, the termination of the partnership upon the death or withdrawal of any partner, the division of authority for decision-making and the potential for unresolvable disagreements among the partners.

Corporation

State- or tribally-chartered corporations generally are formed by filing an application with the appropriate state or tribal office. The application specifies the types and amount of stock, or ownership shares, to be authorized for sale by the corporation. Incorporation documents include "articles of incorporation" and "bylaws" or rules of organization. It is recommended that legal assistance be obtained in the preparation of corporate documents.

Among the *advantages* of incorporating is the shareholders' ability to limit their financial liability to the extent of their investment in the assets of the business. Other advantages include the perpetual life of the business (that is, if a shareholder dies, the shares are passed to heirs and the business continues to operate), the ease of transferring ownership by selling shares in the business and the ability to raise equity capital by selling stock.

The *disadvantages* of incorporation include the expenses associated with organizing (e.g., attorney's fees and application filing fees), governmental regulation and, in most situations, increased income tax liability—first the corporation pays taxes on profits, and then its owners pay taxes again when the profits are distributed as dividends.

Subchapter S Corporation

Under the provisions of special federal tax legislation, a Subchapter S Corporation may realize many of the advantages of incorporation without the usual increases in income tax liability to the owners. Laws governing Subchapter S Corporations limit the number and types of eligible stockholders. Because the laws change periodically, the advice of an attorney should be sought prior to organizing a Subchapter S Corporation.

Main Table of Contents

Section Table of Contents

Joint Venture
Similar in concept to a partnership, a joint venture operation usually is limited in scope to a single, relatively narrowly-defined business undertaking or project that will be completed within a specified period of time. As in the case of a partnership, a written joint venture agreement should be developed in order to define clearly the ownership, control and management of the business, as well as the financial and human resources to be contributed by each joint venturer and the manner in which the profits will be shared. The advantages and disadvantages of the joint venture are similar to those of a partnership.

In choosing a legal form of organization, the Indian entrepreneur should take into consideration the advantages of maintaining at least 51% Indian ownership. Certain business and economic development financing programs are available only to "Indian-owned" enterprises, and a number of public and private sector procurement assistance programs are available to Indian- and other minority-owned businesses. In addition, certain income and sales tax exemptions are afforded reservation-based Indian enterprises.

Limited Liability Partnership
Limited Liability Partnership, or LLP, is a recent form of business structure. This structure attempts to gain the flexibility of a partnership while limiting the liability of the business to only the assets of the business, rather than exposing the personal assets of the partners to financial risks associated with the business. Each state determines the organizational process and required paperwork for creating the entity as well as any yearly reporting requirements.

While the LLP has the advantage of protecting the personal assets of business owners from creditor or customer lawsuits, there are disadvantages to this structure as well. Financiers may be unwilling to lend monies to a business unless there are personal guarantees of repayment.

Limited Liability Company
A Limited Liability Company, or LLC, offers businesses the protection of a corporation and the single taxation feature of a partnership. As with LLPs, these entities are regulated by each state. Thus there can be differences in how LLCs are created, as well as in their reporting and operating requirements.

Main Table of Contents
Section Table of Contents

There are many *advantages* to operating as an LLC, including limited disclosure of owners and no public disclosure of finances. Owners of an LLC can build into the structure buy/sell and ownership compensation provisions, and owners who are involved in operations are insulated from liability.

The *disadvantages* arise when there are out-of-state business transactions in a state that does not recognize LLCs. In addition, large numbers of owners can complicate LLC status; and death, bankruptcy or withdrawal of owners can cause problems as well.

There are significant tax implications regarding LLCs. Before incorporating as an LLC, a certified public accountant should be consulted to determine the effects of these tax issues on your particular business.

Registering a Business Name

Once you have determined the legal structure of your business, the next step is to complete the necessary registration requirements. Most businesses are required to register with the tribe, county and/or state in which the enterprise will operate. Additionally, when establishing a corporation or business that employs two or more people, you will need an Employer Identification Number (EIN), also known as a federal tax identification number. There are three methods of applying for an EIN, including:

1. Calling the Internal Revenue Service at (800) 829-4933;

2. Mailing a completed SS-4 form to:
   Internal Revenue Service
   EIN Operations
   Philadelphia, PA 19255; and

3. Applying online at: www.irs.gov/businesses/small/

Main Table of Contents

Section Table of Contents

Key Personnel Requirements

Whether a business is to be managed and operated by a single person or a number of people, it is important to consider all the managerial and technical skills that will be required for success. Many people become motivated to go into business because their employment experience has provided opportunities to develop highly specialized *technical skills* in construction, manufacturing, retailing or service industries. They soon learn, however, that in order to market those skills successfully, they also need to know how to prepare a cash budget, negotiate contracts, make major purchases, establish credit with lenders and suppliers, train and supervise employees, safeguard property, and manage the financial records of a business.

Business *management skills* can be developed through formal education courses or on-the-job training. They also can be acquired through self-development programs that include books and periodicals; workshops and conferences offered by community colleges, professional groups and trade organizations; and low-cost publications made available by the Small Business Administration through the U.S. Government Printing Office. Accountants, bankers, business consultants, chambers of commerce and local economic development organizations also are good sources of self-help training materials for the motivated entrepreneur.

Earlier in this guide the key production factors of a business were identified by first visualizing the various activities to be performed and then determining what facilities, equipment and supplies were needed for each activity. The *key personnel requirements* can be identified in much the same way by visualizing the management, marketing and production activities of the business and deciding what kinds of employees will be needed for each.

Even in a very small business, it's a good idea to prepare a job description for every position, from stock clerk to sales manager, manual laborer to project foreman, or receptionist to president. Each job description should define the duties, responsibilities and reporting relationships of the position. In addition, the minimum qualifications for the position should be stated in terms of experience, technical skills and abilities to perform in specific, job-related situations.

Main Table of Contents

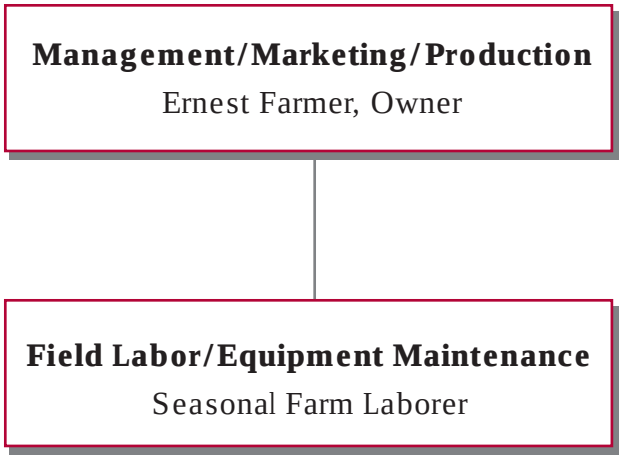
Section Table of Contents

Once a job description has been prepared for each position in a business, an *organizational chart* can be developed. The organizational chart depicts the "chain of command" or internal reporting relationships of employees. Used together, the employee job descriptions and organizational chart can aid the business manager in identifying inefficiencies that result from communication barriers, duplicated efforts and unfairly distributed duties and responsibilities. Examples of an organizational chart and job description for the planned alfalfa-growing project follow.

Example 13 – Humboldt Alfalfa Yard: Organizational Chart

ORGANIZATIONAL CHART

Humboldt Alfalfa Yard



Main Table of Contents

Section Table of Contents

Example 14 – Humboldt Alfalfa Yard: Seasonal Farm Laborer Job Description

SEASONAL FARM LABORER JOB DESCRIPTION

Job Title:	Seasonal Farm Laborer
Reports To:	Owner, Humboldt Alfalfa Yard
Fair Labor Standards Act:	Non-exempt
Work Season:	April 1st through October 31st
Hourly Wage:	$6.00 per hour

Essential Duties:

- Assists owner in all alfalfa-growing and related farming activities;
- Operates equipment, including tractors, baler and other farm implements;
- Maintains currency in techniques used for soil preparation, planting, fertilizing, harvesting, baling and storage of alfalfa hay;
- Works alone as well as with other laborers.

Qualifications:

- Be able to physically perform assigned work duties with reasonable accommodation;
- Mechanical skills to operate farm equipment safely;
- Ability to perform maintenance and minor repairs on farm equipment;
- Ability to drive a truck safely; and
- Diesel mechanic skills desirable.

Education / Experience:

- High school diploma or equivalent education.
- One year farm labor experience.

Special Requirements:

- Available to work flexible hours;
- May be required to lift items in excess of 50 pounds;
- May work with equipment cleaning materials and chemicals; and
- May work with alfalfa fertilizers and pesticides.

To apply, contact:

Ernest Farmer, Owner
Humboldt Alfalfa Yard
P.O. Box 100
Klamath, California 95548
(707) 482-0000

How Should Your Business Plan Be Packaged?

Your finalized business plan should be typewritten on good quality white bond paper. Pay attention to neatness and spacing, including the adequacy of top, bottom and side margins. For the reader's ease in locating specific information contained in the business plan, it is helpful to provide tabbed index pages at the beginning of each major topic section (those designated by Roman numerals in the Table of Contents). Exhibits also may be tabbed.

Whether you type the plan yourself or have it typed professionally, it is a good idea to have it proofread by a professional accountant or business consultant in order to ensure that it contains no technical or typographical errors. Ask for feedback on the clarity and conciseness of your business description, market analysis and other narrative sections of the business plan. Ask for comments on the reasonableness of the assumptions underlying your financial projections. Request assistance in checking any mathematical calculations you may have done.

If you wish to submit your finished business plan to a lending institution with a request for business financing, be sure to ask how many copies will be required. In some institutions, your business plan will be reviewed by professional staff as well as members of a credit committee. Your provision of an adequate number of copies will be appreciated. You also should ask the lender's preferences regarding the binding of the business plan. Generally it is better to use a clip or ring type binding (that allows easy removal of individual pages) than spiral or other more permanent types of binding.

You can use the Sample Business Plan that starts on page 207 as a model for the format, layout and essential components of your own business plan.

(NOTE: The content of the Sample Business Plan is illustrative only and should not be considered "factual.")

Main Table of Contents

Section Table of Contents

References

1. Bank of America NT & SA *Small Business Reporter: Personnel Guidelines* (Bank of America Marketing Public Relations Department), 1985.

2. Bank of America NT & SA, *Understanding Financial Statements*, 1980.

3. Bureau of Indian Affairs, Division of Financial Assistance, U.S. Department of the Interior, *Financial Assistance for Indian Economic Development Projects* (U.S. Government Printing Office: 1991-298-682[40681]).

4. Stanley J. Garfunkel, Ph.D, *Developing the Marketing Plan: A Practical Guide* (New York: Random House, Inc.), 1980.

5. Sue Ella Kobak and Nina McCormack, *Workshop on Developing Feasibility Studies for Community-based Business Ventures* (New Market, Tennessee: The Highlander Research and Education Center), 1988.

6 William J. Stanton, *Fundamentals of Marketing*, Fifth Edition (New York: McGraw-Hill Book Company), 1978.

7. Dan Steinhoff, D.S.Sc., *Small Business Management Fundamentals*, Third Edition (New York: McGraw-Hill Book Company), 1982.

Main Table of Contents

Section Table of Contents

Sample Business Plan

Humboldt Alfalfa Yard

Business Plan

Humboldt Alfalfa Yard

Owned by:
Ernest Farmer
Post Office Box 100
Klamath, California 95548
(707) 482-0000

January 1, 1994

STATEMENT OF PURPOSE

This Business Plan describes the startup activities, production methods, and projected financial performance of the Humboldt Alfalfa Yard in its first three years of operation. The Plan identifies the key market factors based upon which alfalfa sales have been projected. It also describes the managerial, technical and capital requirements of the new alfalfa-growing venture, which is scheduled to begin on April 1, 1994.

The Business Plan will be used to secure a long-term (10-year), low-interest (8%) agricultural loan from the Local Indian Tribe, and to guide the business owner/manager in monitoring the success of his new reservation-based enterprise.

Table of Contents

I. EXECUTIVE SUMMARY

Ernest Farmer will begin doing business as "Humboldt Alfalfa Yard" on April 1, 1994 when he undertakes the production of high-quality alfalfa hay on 100 acres of personally owned property in Klamath, California. The value of the proposed site, including a storage facility, is $200,000. Additional capital requirements totaling $200,000 include $22,500 for site development, $153,000 for irrigation, farm, business and office equipment, $15,000 for supplies, and $9,500 for working capital. It is proposed that these capital requirements will be met by a special agricultural loan from the revolving loan fund of the Local Indian Tribe.

The demand for alfalfa hay in the targeted market region of Humboldt and Del Norte Counties is demonstrated by the 25,000-ton volume of alfalfa imported annually. The imported alfalfa is transported by rail and truck from central California locations 100 to 250 miles away. A recent market survey indicates that 5,000 tons of alfalfa hay are purchased annually within a 50-mile radius of the proposed alfalfa growing site. By competing on the multiple bases of quality, price and service, it is anticipated that Humboldt Alfalfa Yard will capture 1,000 tons (20%) of that market segment by the second year of operation.

Humboldt Alfalfa Yard will be a sole proprietorship, 100% owned by Ernest Farmer, who is a member of the Local Indian Tribe. As a federally-recognized Indian residing on the Local Indian Reservation, Mr. Farmer will be exempt from state sales tax on capital equipment and other retail purchases, as well as from state income tax on the net profits of his business. Mr. Farmer will employ one tribal member in a seasonal farm laborer position.

The financial forecasts included in this business plan demonstrate the potential of the proposed alfalfa project to earn profits of $32,448, $85,369, and $92,068 in the first three years, respectively. In the same three-year period, the cash balance of the business will grow from the $24,500 originally borrowed for supplies and working capital to an ending balance of $162,210—an overall growth of 662% – even after owner's withdrawals of $90,000. At the same time, owner's equity in the business will increase from $200,000 (50%) to $319,885 (66%).

A break-even analysis indicates that the planned enterprise would be successful at only 71.7% of the realistically projected sales volume, and therefore it is considered relatively low in risk. According to the forecasted financial statements, the leverage, coverage and operating ratios also are expected to be highly favorable.

II. DESCRIPTION OF BUSINESS

A. BUSINESS CONCEPT

Humboldt Alfalfa Yard is a new agricultural business that is scheduled to begin operations on April 1, 1994. The reservation-based, Indian-owned enterprise will be managed and operated by Ernest Farmer, sole proprietor.

B. PRODUCT/SERVICE DESCRIPTION

Humboldt Alfalfa Yard will specialize in the production and sale of high-quality, competitively priced alfalfa hay. Delivery service will be available to customers located within a 50-mile radius of Klamath, California.

C. KEY PRODUCTION FACTORS

The following production factors are considered essential to the planned agricultural enterprise.

1. **Suitable Site.** A 100-acre parcel of land has been designated as optimally suitable for alfalfa production. The soil is of the "Ferndale silt loam" type (Fe2), which is noted throughout Humboldt and Del Norte Counties for producing maximum yields of high-quality field crops. The soil has good texture, fair drainage, high nutrient capacity and fair water holding capacity.

   The average annual rainfall at the site is 90 inches. Average temperatures range from 58 degrees Fahrenheit in the summer to 45 degrees in the winter, with an overall average of 53 degrees. The number of frost-free days averages 244 per year, allowing for a long growing season.

   The proposed site was pre-cleared three years ago and has not been subjected to severe weather conditions or flooding since that time. Although no major excavation work will be needed, the successful production of alfalfa requires that the field terrain be free of dips and gullies in which water might pool—the result of such pooling would be the destruction of the plant roots. Therefore the planned site preparation includes land leveling to ensure proper soil drainage.

   The entire site will be fenced with a combination of field fencing and barbed wire to protect the growing crops.

2. **Irrigation.** According to the Farm Advisor at the local Agricultural Extension Service, the production of alfalfa at the proposed site will require installation of an irrigation system that has the capacity to cover the planted area within a 10- to 14-day period. Technical staff at the Agricultural Extension Service have assisted in the design of an appropriate system. A local irrigation and plumbing contractor has confirmed the availability of adequate water sources. The local utility company has estimated the amount and cost of electricity required to pump the water.

3. **Fertilization**. The Farm Advisor has estimated that 400 pounds per acre of a 16-20-0 type fertilizer will be needed to maintain proper soil nutrient levels.

4. **Pest and Weed Control.** Because no alfalfa hay currently is produced in proximity to the proposed site, no crop threatening pests or weeds are present at this time. However the site will be monitored continuously for indications that pest or weed control measures may be warranted in the future.

5. **Equipment**. In addition to the irrigation system, a full complement of farm equipment will be required for soil tilling, planting, fertilization, harvesting, baling and storage activities associated with alfalfa production. For optimum efficiency in various tasks, both large (50 hp) and small (27 hp) diesel tractors will be purchased. Other equipment purchases will include a 3-bottom plow, an 8-foot disk, a 12-foot harrow and a 12-foot Ezee-flow spreader (for seeding and fertilization).

   Due to prevailing fog conditions at the proposed site, hay curing time normally would extend beyond the usual four- to six-day period. Therefore a combination mower-conditioner will be used. By cracking the stem of the alfalfa during the mowing process, the mower-conditioner can reduce field curing time by as much as 50%, thus ensuring it will not exceed three or four days. Other harvest-related equipment purchases will include a side-delivery rake, baler and bale wagon. A used 1-ton truck will be purchased for use in making deliveries to customers.

   An itemized list of equipment to be purchased is provided on page 9 of this business plan under the caption "Capital Requirements." Dealers' price quotations are included in Section VI, Support Documents, as Exhibit 1.

6. **Storage Facility.** A pre-manufactured metal barn unit was placed on the southeast corner of the proposed site, adjacent to the access road, one year ago. The building will be adequate for storage of harvested alfalfa pending sale. Farm supplies and miscellaneous tools also will be secured in the metal barn.

7. **Labor Availability.** Annual unemployment rates in Humboldt County currently range between 6% and 8% and in Del Norte County, between 10% and 12%. Among the three largest Indian tribes residing in Humboldt and Del Norte Counties, annual unemployment rates range between 40% and 60%. Because agriculture is the second largest industry in the economies of these two counties, many experienced farm laborers are available for hire.

8. **Technical Assistance.** The services of the Farm Advisor at the Humboldt-Del Norte County Agricultural Extension Service (U.S. Department of Agriculture) are available without charge. In addition training and technical assistance in small business management methods are available without charge at the Center for Indian Community

Development, Humboldt State University, in Arcata, California. These technical assistance providers are within 60 miles of the proposed alfalfa growing site and generally are available on a day's notice.

D. LOCATION AND PHYSICAL FACILITIES

The town of Klamath, California, is located on Highway 101, just north of the Humboldt-Del Norte County border. It is about 60 miles north of Eureka, the Humboldt County seat, and 20 miles south of Crescent City, the Del Norte County seat. Situated on the shore of the Klamath River, approximately one mile from the Pacific Ocean, the town of Klamath is within the boundaries of the Local Indian Reservation.

The Ernest Farmer property and proposed site of the Humboldt Alfalfa Yard are one-half mile southwest of Klamath, on the south shore of the Klamath River. Only one-half mile from Highway 101, the property is accessed by a county road. Area and vicinity maps are provided in Exhibit 2.

A pre-cleared, 100-acre parcel of land has been designated for the proposed alfalfa hay enterprise. The site includes a metal barn that will be used to store harvested alfalfa, farm supplies, small tools and spare equipment parts. A heavy equipment yard is located on an adjacent parcel of Ernest Farmer's property. Should additional facilities be required for storage of harvested alfalfa after the startup phase of operations, a large barn also is located on the adjacent parcel.

E. TRIBAL AND OTHER LOCAL BENEFITS

The data provided in Section V, Financial Analysis, demonstrate that Humboldt Alfalfa Yard has the potential to make the following beneficial impacts on tribal and other local economies.

1. **Capital Outlays.** The site preparation and major equipment purchases of the project will provide total capital expenditures of $175,500. Indian-owned enterprises will be contracted to perform the $15,000 clearing and leveling work and to install the $65,000 irrigation system. The $80,000 in total expenditures to Indian-owned enterprises represent 45.6% of capital outlays.

2. **Production and Operating Costs.** The proposed business will utilize the services of the local public utilities district and purchase farm supplies from local outlets. Of the $47,052 in first-year cash production and operating costs, $23,752 (50.5%) will be for Indian labor and interest on a tribal loan. It is expected that the proportion of production and operating costs to benefit the tribal economy will remain above 50% in subsequent years.

F. RELATIONSHIP TO TRIBAL ECONOMIC DEVELOPMENT STRATEGY

The current ten-year economic development plan of the Local Indian Tribe establishes a high priority for development of agricultural and related businesses. To support that priority, the tribal revolving loan fund has developed a special agricultural loan program that offers low-interest, long-term loans to tribal members who wish to start, expand or buy out businesses related to the agricultural industry. The business plan for Humboldt Alfalfa Yard is based upon the availability of financing from the Local Indian Tribe.

III. MARKET ANALYSIS

A. MARKET DESCRIPTION

In the overall market region of Humboldt and Del Norte Counties, agriculture is the second largest industry. (The largest industry is comprised of timber and related products.) In the coastal areas of the region, the growing season is year-round. Primary agricultural products include dairy products (60%), livestock and poultry (13%), field crops (16%), nursery products (9%) and vegetables and other produce (2%).

Local economists estimate the value of Humboldt County's milk production at $30 million per year. More than 150 of the county's dairy producers are members of the Humboldt Creamery Association, which produces a variety of dairy products, such as butter, fluid milk, powdered milk and cream products. Sixty percent of these products are shipped by rail and truck throughout California, and the remaining 40% are shipped as far away as Kansas and the East Coast.

According to data available from the Agricultural Extension Service, U.S. Department of Agriculture, in Eureka, California, 25,000 tons of alfalfa hay are imported annually to meet the needs of Humboldt-Del Norte County dairy farmers. These hay shipments originate 100 to 250 miles south of the two-county region and are sold at a current price of $135 to $150 per ton. In lesser quantities than a ton, the prices at local outlets are even higher.

The specific target market of Humboldt Alfalfa Yard has been defined as those dairy farmers located within a 50-mile radius of the Ernest Farmer property. A market survey conducted in December of 1993 (appended as Exhibit 3) revealed that 5,000 tons of alfalfa hay are purchased annually within the targeted market segment. Respondents were enthusiastic about the prospect of purchasing alfalfa from a local producer, particularly if the hay were of comparable quality and less expensive than the imported alfalfa. Targeted dairy farmers also indicated they sometimes are cut off from central California sources of alfalfa when severe winter weather conditions at intermediate points along Highway 101 result in road closures. The accessibility of a local alfalfa producer would be especially advantageous at those times.

B. GENERAL MARKET TRENDS

Although statistics published by the Humboldt County Department of Agriculture indicate that the total value of agricultural production declined from 1981 to 1987, the industry has grown continuously since 1988. As a primary component of the agricultural industry, dairy products have produced stable profits for Humboldt County farmers for the past ten years.

Data available from the Agricultural Extension Service confirm that the volume of alfalfa hay imported to Humboldt and Del Norte Counties has grown from 20,000 tons to 25,000 tons in the past ten years, an overall increase of 25%. In the same ten-year

period, the average price per ton of alfalfa sold in the two-county market region has jumped from $110 to $142.50, an overall increase of 29.5%.

C. COMPETITION

The Humboldt Alfalfa Yard will compete with other alfalfa outlets on the bases of price, quality and service. Because the business enterprise will target nearby dairy farmers—eliminating long-distance transportation costs and the profit margin required by farm suppliers in Eureka and Crescent City—the "homegrown" alfalfa can be offered at a lower price. The optimally suitable proposed alfalfa growing site is expected to yield a very high-quality crop, and the accessibility of the site (one-half mile off Highway 101) is a competitive advantage, as well. For those customers who desire delivery services, a standard mileage reimbursement rate will be charged to offset the cost.

Once the alfalfa crop has been established, Ernest Farmer will begin contacting targeted dairy farmers in personal visits and by telephone in order to apprise them of the expected date of product availability. He will determine the estimated quantities of hay each customer wishes to have delivered and the desired delivery dates between August and December. Follow-up calls will be made as soon as the first harvest of alfalfa is available for inspection by prospective customers.

D. MARKET PROJECTIONS

Based upon the soil and climate at the proposed alfalfa production site, the local farm advisor has estimated that:

- Production will be at the rate of 2.5 tons of alfalfa per acre per harvest,
- There will be three harvests in each planting year and four harvests in each non-planting year, and
- Replanting will be required in every fourth year.

The projected volumes of alfalfa production in the first three years may be calculated as follows:

Year 1:	100 acres x 2.5 tons/acre x 3 harvests	=	750 tons
Years 2 & 3:	100 acres x 2.5 tons/acre x 4 harvests	=	1,000 tons

In order to ensure the quick sale of alfalfa produced in the first year, it will be offered at $130 per ton (as compared to prices of $135 to $150 per ton at other outlets in the region). There will be a 10% price increase to $143 per ton in the second year and another 5% price increase to $150 per ton in the third year. The increased prices—which already are common among competitors—are expected to continue to be advantageous to targeted customers.

Based upon the established pricing strategy, market projections for the first three years of operation may be calculated as follows:

Year 1:	750 tons @ $130/ton	=	$ 97,500
Year 2:	1,000 tons @ $143/ton	=	$ 143,000
Year 3:	1,000 tons @ $150/ton	=	$ 150,000

IV. ORGANIZATION AND MANAGEMENT

A. LEGAL FORM OF ORGANIZATION

Humboldt Alfalfa Yard will be organized as a sole proprietorship. It will be 100% owned by Ernest Farmer, who is a member of the Local Indian Tribe. As a federally recognized Indian residing on the Local Indian Reservation, Mr. Farmer is exempt from certain sales and income taxes. For example, by having his capital equipment purchases delivered to his property on the reservation, Mr. Farmer will be exempt from the 7.25% state sales tax on a total of $153,000—a savings of $11,093. In addition, he will be exempt from state income tax on the net profits of his business.

As a tribal member starting an agricultural enterprise that will benefit the reservation economy, Mr. Farmer is eligible to apply to the Local Indian Tribe for a special long-term (10-year), low-interest (8%) business development loan. His eligibility to use this special loan program to secure a $200,000 loan will save $53,143 in interest that would have been charged for a 10-year commercial loan at the current interest rate of 12%.

B. MANAGEMENT AND TRAINING PLANS

A resident of the Local Indian Reservation for the past 35 years, Ernest Farmer has worked in the agricultural industry since his honorable discharge from the U.S. Army 10 years ago. He worked for three years (1983-1985) on a neighboring farm where field crops, including oat hay, were produced. For the next three years (1986-1988), Mr. Farmer worked as a diesel mechanic in a privately owned repair shop in Crescent City. The business specialized in the repair and maintenance of heavy equipment, including farm equipment.

For the past five years (1989-1993), Mr. Farmer has been employed at a farm supply company in Eureka. Initially hired as a stock and sales clerk, he presently is the assistant manager of the business. In that capacity, Mr. Farmer is responsible for inventory management and stock orders, supervision of stock and sales clerks, management of cash receipts and disbursements, and store security. He also provides direct services to preferred customers and works closely with the store's accountant.

A complete resume of Mr. Farmer's education, military training and employment experience is appended as Exhibit 4. His past experience in field crop production, diesel equipment repair and retail store management has prepared him for many of the management, marketing and production tasks that will be undertaken in his new alfalfa growing enterprise. He will receive additional training in small business management methods from the staff of the Center for Indian Community Development at Humboldt State University. He also will receive technical assistance from the local farm advisor.

One seasonal farm laborer will be required to assist Mr. Farmer in the production of alfalfa hay, including soil preparation, fertilization, planting, irrigation, harvesting, baling

and storage activities. The laborer also will assist in equipment and fence repairs. Mr. Farmer will advertise the position at the employment office of the Local Indian Tribe. Job qualifications will include a high school diploma or equivalent education, one year's farm or ranch labor experience, and availability to work flexible hours in the seven-month season beginning April 1 and ending October 31, 1994. Diesel mechanic skills will be listed as desirable. Mr. Farmer will train and supervise the laborer.

An organizational chart and complete job description for the seasonal farm laborer position are included with Mr. Farmer's resume in Exhibit 4.

V. FINANCIAL ANALYSIS

A. CAPITAL REQUIREMENTS

The total cost of the proposed alfalfa hay enterprise is projected at $400,000. The $200,000 in new capital requirements will include the following:

Site Preparation	$ 22,500
Irrigation System	$ 65,000
Major Equipment Items	$ 82,000
Hand Tools	$ 1,000
Supplies	$ 15,000
Business/Office Equipment	$ 5,000
Working Capital	$ 9,500
TOTAL	$200,000

A detailed breakdown of capital requirements is provided on page 14. Contractor and supplier quotations are provided in Exhibit 1.

B. STRUCTURE OF FINANCING

Fifty percent of the $400,000 in total project costs will be met by the equity contributions of Mr. Farmer. The 1993 assessment (Exhibit 5) of the 100-acre parcel to be contributed to the project indicates a land value of $195,500. The metal barn situated on the property was built by Mr. Farmer at a cost of $4,500. Thus Mr. Farmer's equity contribution will total $200,000.

The remaining $200,000 needed for the project will be requested from the revolving loan fund of the Local Indian Tribe. According to the provisions of the tribe's special agricultural loan program, Mr. Farmer expects to receive a $200,000 loan at 8% fixed interest for a term of 10 years. In addition to the major equipment to be purchased with the loan, Mr. Farmer will offer his 100-acre parcel of land and building as collateral for the tribal loan. Under the proposed plan, the financing will be structured as 50% debt and 50% equity.

Capitalization Requirements

Startup Costs	Source		Quote
100 Acres of Land with Metal Barn	County Assessor (already owned)	$	200,000
Site Preparation:			
Clearing and leveling	Bulldozer Operator	$	15,000
Fencing (barbed wire, field fencing and posts)	Farm Supplier	$	7,500
Irrigation System:			
Water well installation	Well Driller	$	5,000
Pump, mainline pipe with underground installation, lateral pipe and sprinklers	Irrigation/Plumbing Contractor	$	60,000
Major Equipment Items:	Farm Equipment Supplier		
50 hp Diesel Tractor		$	20,000
27 hp Diesel Tractor		$	12,000
3-bottom Plow		$	3,500
8-ft. Disk		$	5,000
12-ft. Harrow		$	1,000
12-ft. Spreader		$	1,000
8-ft. Mower-conditioner		$	10,000
Side-delivery Rake		$	3,500
Baler		$	15,000
Bale Wagon		$	1,000
1-ton Delivery Truck (Used)	Truck Dealer	$	10,000
Hand Tools:			
Mechanic's Tools	Auto Parts Store	$	600
Gardening and Repair Tools	Farm Supplier	$	400
Supplies:	Farm Supplier		
Cougar Alfalfa Seed		$	6,250
16-20-0 Fertilizer		$	5,000
Baling Twine		$	500
Diesel Fuel		$	3,000
Motor Oil and Misc. Parts and Supplies		$	250
Business/Office Equipment: (Scales, Calculator and File Cabinet)	Office Equipment Dealer	$	5,000
Working Capital:			
Administrative and General	Accountant	$	500
Electricity	Utility Company	$	3,000
Full-coverage Insurance	Insurance Agent	$	1,500
Wages	Accountant	$	4,500
TOTAL CAPITALIZATION REQUIREMENTS:		**$**	**400,000**

C. FINANCIAL FORECASTS

Forecasted Balance Sheets, Statements of Operations and Statements of Cash Flows for the first three years of operations at Humboldt Alfalfa Yard are presented on pages 16-20 of this business plan. Explanatory Notes to the Financial Forecasts begin on page 21.

The month-by-month, first-year Forecasted Statements of Operations and Cash Flows that appear on pages 17 and 18 demonstrate that the amount of cash budgeted for farm supplies and working capital will be sufficient to cover the costs of establishing the initial alfalfa crop in April and May, managing the crop during seed germination in June and harvesting the crop in July. Alfalfa sales will begin in August.

The annualized Forecasted Statements of Operations on page 19 demonstrate that profits of $32,448, $85,369 and $92,068 can be realized in the first three years, respectively, for a three-year total of $209,885.

The annualized Forecasted Statements of Cash Flows on page 20 demonstrate that the cash balance of the business will increase in three years' time from the $24,500 originally borrowed for supplies and working capital to $162,210—an overall increase of 662%—even after owner's withdrawals totaling $90,000.

The Forecasted Balance Sheets on page 16 show the impact of three years' operations on the financial condition of the business. The value of assets will increase from $400,000 on the startup date to $483,710 three years later. In the same period of time, the balance of debt will decrease from $200,000 on the startup date to $163,825. As a result, the equity position of the business will increase from 50% on the start-up date to 66% at the end of three years.

Other measures of financial performance are discussed on pages 25 and 26 of this business plan.

Humboldt Alfalfa Yard

FORECASTED BALANCE SHEETS

	April 1 1994	April 1 1995	April 1 1996	April 1 1997
ASSETS				
Current Assets				
Cash	$ 24,500	$ 44,278	$ 103,482	$ 162,210
Total Current Assets	$ 24,500	$ 44,278	$ 103,482	$ 162,210
Fixed Assets				
Land	$ 195,500	$195,500	$ 195,500	$ 195,500
Site Improvements	$ 22,500	$ 20,250	$ 18,000	$ 15,750
Building	$ 4,500	$ 4,050	$ 3,600	$ 3,150
Equipment	$ 153,00	$ 137,700	$ 122,400	$ 107,100
Total Fixed Assets	$ 375,500	$ 357,500	$ 339,500	$ 321,500
TOTAL ASSETS	$ 400,000	$ 401,778	$ 442,982	$ 483,710
LIABILITIES AND OWNER'S EQUITY				
Current Liabilities				
Current Portion of Long-term Debt	$ 6,670	$ 14,165	$ 15,340	$ 16,612
Total Current Liabilities	$ 6,670	$ 14,165	$ 15,340	$ 16,612
Long-Term Liabilities	$ 193,330	$ 179,165	$ 163,825	$ 147,213
TOTAL LIABILITIES	$ 200,000	$ 193,330	$ 179,165	$ 163,825
OWNER'S EQUITY	$ 200,000	$ 208,448	$ 263,817	$ 319,885
TOTAL LIABILITIES AND OWNER'S EQUITY	$ 400,000	$ 401,778	$ 442,982	$ 483,710

Humboldt Alfalfa Yard

FORECASTED STATEMENTS OF OPERATIONS

April 1, 1994 through March 31, 1995

Year	**1994**									**1995**			
Month	**Apr**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Tons Sold @					250 @	125 @	125 @	125 @	125 @				750 @
Price/Ton					$130	$130	$130	$130	$130				$130
SALES	**0**	**0**	**0**	**0**	**$ 32,500**	**$ 16,250**	**$ 16,250**	**$ 16,250**	**$16,250**	**0**	**0**	**0**	**$ 97,500**
COST OF SALES:													
Electricity	0	$ 500	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 500	0	0	0	0	0	$ 5,000
Fertilizer	0	$ 5,000	0	0	0	0	0	0	0	0	0	0	$ 5,000
Fuel	$ 1,000	$ 500	0	$ 500	$ 500	0	$ 500	0	0	0	0	0	$ 3,000
Labor	$ 1,104	$ 1,104	$ 1,104	$ 1,104	$ 1,104	$ 1,104	$ 1,104	0	0	0	0	0	$ 7,728
Seed	0	$ 6,250	0	0	0	0	0	0	0	0	0	0	$ 6,250
Twine	0	0	0	$ 167	$ 167	0	$ 166	0	0	0	0	0	$ 500
TOTAL COST OF SALES	**$ 2,104**	**$ 13,354**	**$ 2,104**	**$ 2,771**	**$ 2,771**	**$ 2,104**	**$ 2,270**	**0**	**0**	**0**	**0**	**0**	**$ 27,478**
GROSS PROFIT (Loss)	**$(2,104)**	**$(13,354)**	**$(2,104)**	**$ (2,771)**	**$ 29,729**	**$ 14,146**	**$ 13,980**	**$ 16,250**	**$ 16,250**	**0**	**0**	**0**	**$ 70,022**
OPERATING EXPENSES:													
Advertising & Promotion	$ 100	$ 100	$ 100	$ 200	$ 200	$ 200	$ 200	$ 200	$ 200	$ 100	$ 100	$ 100	$ 1,800
Depreciation	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 18,00
Insurance	$ 400	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 1,500
Interest	0	0	0	0	0	$ 8,135	$ 1,333	$ 1,326	$ 1,319	$ 1,311	$ 1,304	$ 1,296	$16,024
Maintenance & Repairs	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25	$ 100	0	0	0	0	0	$ 250
Total Operating Expenses	**$ 2,025**	**$ 1,725**	**$ 1,725**	**$ 1,825**	**$ 1,825**	**$ 9,960**	**$ 3,233**	**$ 3,126**	**$ 3,119**	**$ 3,011**	**$ 3,004**	**$ 2,996**	**$ 37,574**
NET PROFIT (Loss)	**$(4,129)**	**$(15,079)**	**$(3,829)**	**$ (4,596)**	**$ 27,904**	**$ 4,186**	**$ 10,747**	**$ 13,124**	**$ 13,131**	**$(3,011)**	**$(3,004)**	**$(2,996)**	**$32,448**
ACCUMULATED NET PROFIT (Loss)		**$(19,208)**	**$(23,037)**	**$(27,633)**	**$ 271**	**$ 4,457**	**$ 15,204**	**$ 28,328**	**$ 41,459**	**$ 38,448**	**$ 35,444**	**$ 32,448**	

Humboldt Alfalfa Yard

FORECASTED STATEMENTS OF CASH FLOWS

April 1, 1994 through March 31, 1995

Year	**1994**									**1995**			
Month	**Apr**	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
BEGINNING CASH BALANCE	**0**	**$21,871**	**$8,292**	**$5,963**	**$2,867**	**$29,271**	**$31,957**	**$40,111**	**$50,634**	**$61,157**	**$55,531**	**$49,904**	**0**
CASH RECEIPTS:													
Loan Proceeds	$200,00	0	0	0	0	0	0	0	0	0	0	0	$200,000
Sales Receipts	0	0	0	0	$32,500	$16,250	$16,250	$16,250	$16,250	0	0	0	$97,500
TOTAL CASH AVAILABLE	**$200,000**	**$ 21,871**	**$8,292**	**$5,963**	**$35,367**	**$ 45,521**	**$48,207**	**$56,361**	**$64,884**	**$61,157**	**$55,531**	**$49,904**	**$297,500**
CASH DISBURSEMENTS:													
Capital Outlays	$175,500	0	0	0	0	0	0	0	0	0	0	0	$175,500
Cost of Sales	$2,104	$13,354	$2,104	$2,771	$2,771	$2,104	$2,270	0	0	0	0	0	$27,478
Cash Operating Expenses	$525	$225	$225	$325	$325	$8,460	$1,733	$1,626	$1,619	$1,511	$1,504	$1,496	$19,574
Loan Principal Payments	0	0	0	0	0	0	$1,093	$1,101	$1,108	$1,115	$1,123	$1,130	$6,670
Owner's Withdrawals	0	0	0	0	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$24,000
Total Cash Disbursements	**$178,129**	**$13,579**	**$2,329**	**$3,096**	**$6,096**	**$13,564**	**$8,096**	**$5,727**	**$5,727**	**$5,626**	**$5,627**	**$5,626**	**$253,222**
ENDING CASH BALANCE	**$21,871**	**$8,292**	**$5,963**	**$2,867**	**$29,271**	**$31,957**	**$40,111**	**$50,634**	**$61,157**	**$55,531**	**$49,904**	**$44,278**	**$44,278**

Humboldt Alfalfa Yard

FORECASTED STATEMENTS OF OPERATIONS

Year	**1994-1995**	**1995-1996**	**1996-1997**
Tons Sold	**750**	**1,000**	**1,000**
Price/Ton	**$ 130**	**$ 143**	**$ 150**
SALES	**$ 97,500**	**$ 143,000**	**$150,000**
COST OF SALES			
Electricity	$ 5,000	$ 5,400	$ 5,832
Fertilizer	$ 5,000	$ 5,250	$ 5,513
Fuel	$ 3,000	$ 1,575	$ 1,654
Labor	$ 7,728	$ 6,955	$ 7,303
Seed	$ 6,250	$ 0	$ 0
Twine	$ 500	$ 525	$ 551
TOTAL COST OF SALES	**$ 27,478**	**$ 19,705**	**$ 20,853**
GROSS PROFIT	**$ 70,022**	**$ 123,295**	**$129,147**
OPERATING EXPENSES			
Administrative & General	$ 1,800	$ 1,890	$ 1,985
Depreciation	$ 18,000	$ 18,000	$ 18,000
Insurance	$ 1,500	$ 1,650	$ 1,815
Interest	$ 16,024	$ 14,956	$ 13,779
Maintenance & Repairs	$ 250	$ 1,430	$ 1,500
Total Operating Expenses	**$ 37,574**	**$ 37,926**	**$ 37,079**
NET PROFIT	**$ 32,448**	**$ 85,369**	**$ 92,068**
ACCUMULATED NET PROFIT		**$ 117,817**	**$209,885**

Humboldt Alfalfa Yard

FORECASTED STATEMENTS OF CASH FLOWS

Year	**1994-1995**	**1995-1996**	**1996-1997**
BEGINNING CASH BALANCE	**$ 0**	**$ 44,278**	**$ 103,482**
CASH RECEIPTS:			
Loan Proceeds	$ 200,00	$ 0	$ 0
Sales Receipts	$ 97,500	$ 143,00	$ 150,00
TOTAL CASH AVAILABLE	**$ 297,500**	**$ 187,278**	**$ 253,482**
CASH DISBURSEMENTS:			
Capital Outlays	$ 175, 500	$ 0	$ 0
Cost of Sales	$ 27,478	$ 19,705	$ 20,853
Cash Operating Expenses	$ 19,574	$ 19,926	$ 19,079
Loan Principal Payments	$ 6,670	$ 14,165	$ 15,340
Owner's Withdrawals	$ 24,000	$ 30,000	$ 36,000
Total Cash Disbursements	**$ 253,222**	**$ 83,796**	**$ 91,272**
ENDING CASH BALANCE	**$ 44,278**	**$ 103,482**	**$ 162,210**

D. EXPLANATORY NOTES TO FINANCIAL FORECASTS

FORECASTED BALANCE SHEETS

1. **Cash**. The $15,000 budgeted for supplies and the $9,500 budgeted for working capital—a total of $24,500—represent the cash balance on the startup date of April 1, 1994. The ending cash balance on each year's Forecasted Statement of Cash Flows represents the cash balance at the beginning of each subsequent year.

2. **Land.** The 100-acre parcel contributed by Ernest Farmer is valued at $195,500, based on the 1993 statement from the County Assessor (Exhibit 5). Land is a non-depreciable asset.

3. **Site Improvements**. The $15,000 in clearing and leveling costs and the $7,500 in fencing costs—a total of $22,500—are included in the site improvements. The assets will be depreciated by the straight-line method over a period of ten years.

4. **Building**. The metal barn located on the 100-acre parcel to be contributed to the business is valued at $4,500, based on the actual cost of building materials. The asset will be depreciated by the straight-line method over a period of ten years.

5. **Equipment**. The $153,000 in total equipment includes $65,000 for the irrigation system, $72,000 for major items of farm equipment, $10,000 for a used delivery truck, $1,000 for tools and $5,000 for business/office equipment. The assets will be depreciated by the straight-line method over a period of ten years.

6. **Current Portion of Long-term Debt.** According to special provisions of the tribal agricultural loan program, loan principal payments will begin in the seventh month of operations. Therefore the current portion of long-term debt in the first year represents only six months' loan principal payments. The current portion of long-term debt in subsequent years represents the next twelve months' loan principal payments. A loan amortization schedule is provided in Exhibit 6.

7 **Long-term Liabilities.** The long-term liabilities at the beginning of each year represent the total balance of long-term debt minus the current portion.

FORECASTED STATEMENTS OF OPERATIONS

8. **Sales.** In the first year (a planting year), three harvests of 250 tons each will be sold at $130 per ton, for total sales of $97,500. In the second and third years (non-planting years), there will be four harvests of 250 tons each, for a total of 1,000 tons per year. At the second-year price of $143 per ton, sales will total $143,000. At the third-year price of $150 per ton, sales will total $150,000.

Assuming the completion of planting by mid-May, seed germination by mid-June, harvest of the first crop by mid-July, and baling and storage by the end of July, 250 tons of alfalfa will be available for sale in August of the first year. The second cutting will occur five weeks after the first; and the third cutting, five weeks after the second. The first harvest will be sold immediately in order to maintain a positive cash flow. Subsequent harvests will be stored and sold throughout the balance of the calendar year.

9. **Cost of Sales:**

   a. **Electricity**–Estimated by the local utility company at $5,000 in the first year with 8% increases in each subsequent year.

   b. **Fertilizer**–Based upon the advice of the local farm advisor and a local farm supplier, 20 tons of 16-20-0 fertilizer will be purchased at $250 per ton, for a total cost of $5,000, in the first year; 5% price increases are projected in subsequent years.

   c. **Fuel**–Based upon the advice of the local farm advisor and a local farm supplier, 2,000 gallons of diesel fuel will be purchased at a projected price of $1.50 per gallon, for a total of $3,000, in the first year; 5% price increases are projected in subsequent years. The amount of fuel required in non-planting years is estimated at one-half that of planting years.

   d. **Labor**–One seasonal laborer will be hired at $960 per month ($6/hr.). The projected $1,104 per month in the first year includes 15% in payroll taxes and benefits; 5% wage increases are projected in the second and third years. The laborer will work for seven months in planting years and for six months in non-planting years.

   e. **Seed**–Based upon the advice of the local farm advisor and a local farm supplier, 2,500 lbs. of Cougar alfalfa seed will be purchased at $2.50 per lb., for a total cost of $6,250, in the first year. Seeding will be required at three-year intervals.

   f. **Twine**–The amount, type and cost of baling twine in the first year were determined by a local farm supplier; 5% price increases are projected in subsequent years.

10. **Gross Profit.** Sales minus Total Cost of Sales.

11. **Operating Expenses:**

    a. **Administrative & General**–First-year expenses for advertising, telephone service and travel were estimated by an accountant at $100 per month in non-marketing/selling months and $200 per month in marketing months; 5% increases are projected in subsequent years.

b. **Depreciation**—The value of all fixed assets except land ($180,000) will be depreciated by the straight-line method over a period of ten years, at the rate of $18,000 per year and $1,500 per month.

c. **Insurance**—The cost of full-coverage business insurance in the first year was quoted at $1,500 by a local agent. Terms of payment require a $400 payment in the first month of the year and $100 per month for the balance of the year; 10% cost increases are projected annually.

d. **Interest**—Monthly and annual interest payments were calculated by a local accountant based on the loan terms offered by the Local Indian Tribe ($200,000 loan at 8% fixed interest for a term of 10 years). A loan amortization schedule is provided in Exhibit 6.

e. **Maintenance & Repairs**—Because manufacturers' warranties will be in effect in the first year, expenses for maintenance and repairs are expected to be minimal; $250 was estimated by equipment dealers. The expenses in subsequent years have been estimated by a local accountant at 1% of sales.

12. **Net Profit.** Gross Profit minus Total Operating Expenses.

FORECASTED STATEMENTS OF CASH FLOWS

13. **Beginning Cash Balance.** In lieu of a cash contribution, the owner is contributing equity consisting entirely of fixed assets. Therefore, the beginning cash balance is zero.

14. **Cash Receipts:**

a. **Loan Proceeds**—The $200,000 tribal loan for the startup of the business is the only loan that will be needed if the projected cash flows are realized.

b. **Sales Receipts**—All sales will be on cash terms. It is expected that some customers will haul their alfalfa purchases in their own vehicles, while others will request delivery service. Delivery will be at an additional charge based on a standard mileage reimbursement rate. Since the delivery charge will offset the cost—and profits and cash flows will be unaffected—no attempt has been made to estimate the delivery charges or costs in the financial forecasts.

15. **Cash Disbursements:**

a. **Capital Outlays**—Total expenditures for site improvements ($22,500) and equipment ($153,000) are included in capital outlays.

b. **Cost of Sales**–Total costs of electricity, fertilizer, fuel, labor, seed and twine, as shown on the Forecasted Statements of Operations.

c. **Cash Operating Expenses**–Total Operating Expenses (as shown on the Forecasted Statements of Operations) less depreciation, a non-cash expense.

d. **Loan Principal Payments**–Monthly and annual loan principal payments were calculated by a local accountant based on the loan terms offered by the Local Indian Tribe ($200,000 at 8% fixed interest for a term of 10 years). A loan amortization schedule is provided in Exhibit 6.

e. **Owner's Withdrawals**–The owner has personal savings sufficient to meet his personal expenses until the business generates a positive cash flow from sales in August. He will withdraw $24,000 in the latter eight months of the first year, $30,000 over twelve months in the second year and $36,000 in the third year.

16. **Ending Cash Balance.** The ending cash balance is the amount of funds available to meet unforeseen costs (such as pest or weed control) and provide for business growth. The ending cash balance in one period becomes the beginning cash balance in the next.

It is important to note that the first-year ending cash balance of $44,278 will be sufficient to cover production costs and operating expenses in the startup months of the second year. If the first cutting of alfalfa in the second year is completed by the end of June, sales could begin in July. Cash required for the months of April through July are estimated as follows:

Cost of Sales:		
Electricity	$ 2,700	
Fertilizer	$ 5,250	
Fuel	$ 525	
Labor	$ 3,478	$ 11,953
Operating Expenses:		
Administrative & General	$ 525	
Insurance	$ 770	
Maintenance & Repairs	$ 477	$ 1,772
Other Cash Requirements:		
Loan Payments (4 @ $2,427/month)		$ 9,708
Owner's Withdrawals (4 @ $2,500/month)		$ 10,000
TOTAL CASH REQUIRED:		**$ 33,433**

E. KEY FINANCIAL RATIOS AND MEASUREMENTS OF PERFORMANCE

1. **Leverage.** A business that is "highly leveraged" or has a lot of debt compared to equity is vulnerable to declines in sales and unforeseen costs. The "debt/equity" ratio shows the relationship between capital contributed by financiers and capital contributed by the owner. The beginning debt/equity ratio of Humboldt Alfalfa Yard will be 1 to 1 ($200,000 to $200,000). The Local Indian Tribe requires each loan applicant to provide at least 25% of the equity needed to capitalize a business–meaning the debt-equity ratio cannot exceed 3 to 1. By comparison, the 1 to 1 debt/equity ratio of the proposed alfalfa growing project is highly favorable. By the end of the third year of business, the debt/equity ratio is projected to be .5 to 1.

2. **Coverage**. Coverage ratios measure a business' ability to meet debt obligations. A commonly used coverage ratio compares the net cash flow from operations (net profit plus depreciation) to the current portion of long-term debt. In the case of the Humboldt Alfalfa Yard, the first year's net cash flow from operations ($50,448) will cover the first year's current portion of long-term debt ($6,670) at a ratio of 7.6 to 1. At the end of the third year–when current liabilities will be up to $16,612–the coverage ratio still is projected to be 6.6 to 1. Again the ratios are very favorable.

3. **Operating Ratios.** The rates of return on the assets and equity of a business are called "operating ratios." To calculate the rate of return on assets, profit is divided by the value of assets used to produce the profit, and the resulting figure is converted to a percentage. In the case of the Humboldt Alfalfa Yard, the first year's profit of $32,448 represents an 8.1% return on the $400,000 in total assets required to produce the profit. By the third year, the $92,068 profit will represent a 20.8% return on the value of assets used to produce it.

   To calculate the rate of return on equity, profit is divided by the amount of owner's equity in a business. In the case of the Humboldt Alfalfa Yard, the first year's profit of $32,448 represents a 16.2% return on the beginning equity of $200,000. The third year's profit of $92,068 will represent a 34.9% return on the equity at the beginning of the year. These are highly favorable rates of return as compared to the alternative investment opportunities of the owner.

F. BREAK-EVEN ANALYSIS

The formula for calculating a break-even sales volume is:

BES = VC + FC, where BES = Break-even sales
VC = Variable Costs (as a % of Sales),
and FC = Fixed Costs (as a dollar amount)

The first-year variable and fixed costs of the Humboldt Alfalfa Yard (including loan principal payments and owner's withdrawals) are as follows:

Variable Costs	% of Sales	Fixed Costs	Amount
Cost of Sales	28.2%	Admin. & General	$ 1,800
Maintenance & Repairs	.3%	Insurance	1,500
		Interest	16,024
		Loan Principal	6,670
		Owner's Withdrawals	24,000
TOTAL:	**28.5%**	**TOTAL:**	**$49,994**

By substituting these figures into the break-even analysis formula, the break-even sales volume may be calculated as follows:

BES = 28.5% of Sales + $49,994
BES = .285S + $49,994
.715S = $49,994
BES = $69,922 (71.7% of the forecasted sales of $97,500).

Assuming the sales forecast is realistic, the business venture may be regarded as relatively low in risk in light of the $27,578 (28.3%) margin identified by the break-even analysis. It also is interesting to note that if unforeseen pest and weed control costs of $5,000 increased the variable costs to 33.6% of sales, the recalculated break-even sales volume would be only $75,292—still 22.8% below the projected sales of $97,500.

VI. SUPPORTING DOCUMENTS

EXHIBIT 1: Contractor, Dealer and Supplier Quotations on Capital Requirements.

EXHIBIT 2: Humboldt-Del Norte County Area Map; Klamath Vicinity Map.

EXHIBIT 3: Market Survey of Targeted Dairy Farmers–December 1993.

EXHIBIT 4: Personal Resume of Ernest Farmer; Job Description for Seasonal Farm Laborer; Organizational Chart.

EXHIBIT 5: County Assessment of Business Property (1993).

EXHIBIT 6: Loan Amortization Schedule.

EXHIBIT 7: Personal Financial Statements and Credit Profile of Ernest Farmer, January 1, 1994.

EXHIBIT 8: Federal Income Tax Return of Ernest Farmer (1993).

Supplemental Electronic Resources

Credit Reports

There are hundreds of companies on the Internet that advertise "free credit checks" or ways to improve your credit rating; many of these advertisements eventually ask for credit card and social security numbers prior to giving your "free" report. For the sake of your business, avoid these websites and go directly to the three major credit bureaus to make sure there are no mistakes on your credit report and to get the most accurate information regarding your credit. Each of the three major credit report companies offers "Three-in-One" credit reports for a fee.

- Experian (TRW) (http://www.experian.com) 888-397-3742 ($39.95 for a 3-in-1 report)
- Equifax (http://www.equifax.com) 800-997-2493 ($39.95 for a 3-in-1 report)
- Trans-Union (http://www.tuc.com/) 800-888-4213 ($29.95 for a 3-in-1 report)

Entreworld

A World of Resources for Entrepreneurs supported by the Ewing Marion Kauffman Foundation, EntreWorld is designed to increase productivity by getting essential information as quickly and easily as possible. Recognized by USA Today, Forbes, Inc. and Fast Company as a premier online resource for small business owners, the EntreWorld search engine delivers useful information, guidance and contacts for small businesses and entrepreneurs. The site features articles, on-line tutorials and downloadable forms for developing, starting, and growing your business.
http://www.entreworld.org/

Small Business Administration

"Business Plan Basics"
http://www.sba.gov/starting_business/planning/basic.html

"Essential Elements of a Good Business Plan For Growing Companies"
http://www.sbaonline.sba.gov/managing/strategicplan/guide.html

"Forms of Business Ownership"
This site includes links to tax forms for different business structures.

Main Table of Contents

Section Table of Contents

http://www.sba.gov/starting_business/legal/forms.html

Small Business Lending Association

"Creating a Strategic Plan" Online Tutorial
(developed in association with the U.S. Small Business Administration)
http://www.va-interactive.com/cit/workshops/strategicplan/index.htm

Americans with Disabilities Act Employer Handbook

http://www.eeoc.gov/ada/adahandbook.html

Main Table of Contents

Section Table of Contents

Guide Four

Securing Financing

Table of Contents

Guide Four - Securing Financing

Main Table of Contents

Introduction

The Indian Business Owner's Guide to Securing Financing is the last in a series of four guides. It is designed to assist you in meeting one of the biggest challenges of business ownership—securing financing. By anticipating the financier's need for information and organizing that information so that it can be digested quickly, you will enhance your chances of securing business financing within a reasonable period of time. In two words, the real challenge is "financial packaging."

The Indian Business Owner's Guide to Securing Financing is designed to help you:

- Evaluate your potential for success in business;
- Determine what type(s) of financing you will need;
- Identify sources of financing available to you;
- Develop a complete and convincing financial package; and
- Make a favorable impression when you present your financial package to the financier(s) of choice.

The goal of this guide is to prepare you to approach your financier with confidence. Whether you develop your financial package independently or with professional assistance, *The Indian Business Owner's Guide to Securing Financing* will enhance your understanding of the process and improve your chances of getting the desired results.

The information presented in *The Indian Business Owner's Guide to Securing Financing* builds upon the material provided in the three preceding *Indian Business Owner's Guides—to Developing a Marketing Plan, to Performing a Preliminary Feasibility Study*, and *to Preparing a Business Plan.* While each of these guides may be used independently of the others, they are considered optimally useful as a series of four.

The financial projections used in this guide are based upon an actual business and reflect the prevailing costs at that time. They are used in this guide solely for the purpose of demonstrating the step-by-step process used in developing financial projections. Readers must research and utilize current prices and costs specific to their own businesses when developing their own financial projections.

Main Table of Contents

Section Table of Contents

What Is a "Financial Package" and Why Do You Need One?

A "financial package" is a set of written documents developed for the purpose of obtaining business financing. The "package" typically consists of application forms required by the prospective financier(s), a business plan and supporting documents.

If you plan to start, expand or purchase a business (or save a struggling one) **with money other than your own**, you will need a financial package. Your success in securing financing will depend upon your ability to convince others that you will succeed in business and meet your financial obligations in a timely manner.

A properly prepared financial package will demonstrate to prospective financiers that you are organized, well versed in your line of business and realistic in your expectations about financing. It will make a convincing statement that your business is a good investment because:

> YOU can sell products or services
> at competitive prices
> and make sufficient profits
> to repay business debts,
> sustain business growth
> and support yourself.

Main Table of Contents

Section Table of Contents

Have You Got What It Takes to Succeed In Business?

A well-prepared financial package will identify your personal attributes as well as the strengths of your existing or planned business. Essential elements of the financial package can be summarized for quick recall as the "6 C's of Success in Business"; namely:

- Character
- Capability
- Conditions
- Cash
- Credit
- Collateral

It is important to understand that commercial banks and other lenders are operating businesses, too. They loan money and provide other financial services. They make a profit when the loaned money is repaid with interest and when they collect fees for other financial services. Just as you will need to determine that your customers have both the character and the capability to pay for your products or services, banks and other lenders will need to make subjective assessments of your character and capability.

Your prospective lenders will review your financial statements, credit references and income tax returns for clues about your integrity, self-discipline and reliability. They will review your resume of education and employment for clues about your business-related training and experience, demonstrated work ethic, dependability and overall capability to manage and operate your existing or planned business.

Next your lenders will want to know what external conditions might improve or hinder your success in business. Although market conditions (such as the demand for your products or services, level of competition and your estimated market share) will be of greatest concern, other conditions could make the difference between your success and failure. Your business plan should address those conditions, including government regulations, license and permit requirements, natural hazards, security risks and insurability.

Finally, your lenders will assess the three "money C's": cash, credit and collateral. They will look to your forecasted financial statements to determine whether the projected cash flows of your business will be sufficient to repay borrowed funds with interest. They will review your credit history to see if you are in the habit of meeting your financial obligations in a timely fashion. They will evaluate your business and personal balance sheets to determine what assets could be used to

Main Table of Contents
Section Table of Contents

secure new debts, as secondary or "back-up" sources of repayment in the event the forecasted cash flows of your business are not realized. Collateral can be anything with cash value, including real property, equipment, vehicles, accounts receivable, inventory, certificates of deposit, retirement accounts and certain life insurance policies. On a subjective level, lenders tend to have more faith in borrowers who will risk their own assets than those who will not.

The "6 C's of Success in Business" were discussed in more detail in Guide Three, *The Indian Business Owner's Guide to Preparing a Business Plan* (pages 152-159). You may wish to review them now, in preparation for the material that follows.

Main Table of Contents

Section Table of Contents

What Key Factors Affect Your Financing Options?

Your best option for business financing will depend on (1) the proposed use(s) of funds, (2) the total amount of financing needed, (3) the desired terms of repayment (including the amount and frequency of payments) and (4) the cost of financing (including loan interest, processing fees and guaranty fees). Let's explore these interrelated factors to see how they will affect your business financing options.

Proposed Use(s) of Funds. If you need an "asset-based loan" to start, expand or acquire a business by purchasing land, buildings or equipment that can be used as collateral, you might be able to secure relatively low-cost, long-term financing. If you need a "working capital loan" to cover operating expenses during periods when sales revenues fluctuate, you might qualify for an unsecured, relatively high-cost, short-term loan. According to the "hedging principle" of finance, *permanent or long-lived assets should be financed with permanent (medium- to long-term) sources of financing, and temporary assets should be financed with temporary or short-term financing (usually repaid within a year or less).*

In financing a new business startup, virtually all of the asset requirements can be considered "permanent" because they will be needed as long as the business is in operation. Although equipment and facilities are readily identified as permanent asset requirements, it also is important to recognize that for some businesses permanent investments must be made in base levels of accounts receivable, inventory and cash reserves to cover operating expenses during slow sales seasons. Similarly, financing a business expansion involving new equipment acquisitions, additions to facilities or sustained increases in accounts receivable and inventory would require permanent (medium- to long-term) financing. On the other hand, temporary increases in accounts receivable and inventory, such as those required for seasonal increases in sales, would require temporary (short-term) financing.

Total Amount of Financing Needed. Because undercapitalization is one of the leading causes of business failure, lenders will expect you to know how much cash will be needed to start, expand, acquire or revitalize your business. The combined equity and debt financing used to capitalize your business should be sufficient to implement your well-researched business plan and achieve your realistically established sales and profit goals. If losses are expected in the startup phase or during seasonal sales slumps, your request for financing should be adequate to support the business until a positive cash flow can be sustained.

Main Table of Contents

Section Table of Contents

Never ask a lender "how much can I get?" Your challenge is to demonstrate to the lender that you know how much financing is needed, how it will be used, when and how you plan to repay it (from the cash flows of the business) and what you are willing to offer in the form of business or personal assets to secure the debt.

When reviewing a financial package, commercial lenders will take into consideration the amount of financing requested from them versus the amount of financing invested by the business owner(s). It was noted in the discussion of cash and capital budgeting in Guide Three (pages 154-155) that financiers do not want to assume all of the monetary risk involved in your business. Your portion of the assumed financial risk is represented by your "equity" in the business, including cash or property you contribute and grants awarded to you for investment in the business. Most commercial lenders require that new business owners invest *at least* 40% of the required capital in the form of equity. If a federal loan guaranty is available, the "minimum equity requirement" may be as low as 30%. Special business development loans offered by the Bureau of Indian Affairs, local development corporations and some tribes may require only 20% equity investment.

Financiers frequently describe the *structure of financing*—or the *combination of owner's equity and debt* used to finance a business—as its "debt-to-equity ratio." The ratio represents a comparison of the monetary risk assumed by the lender(s) in the form of debt to the risk assumed by you in the form of equity. To provide a simple example of a debt-to-equity ratio, suppose an independent trucker purchased a new tractor and trailer at a total cost of $100,000 using $25,000 of his own money for the down payment and $75,000 in dealer financing. The trucker would have a 25% equity investment in his business and a debt-to-equity ratio of 3 to 1 (i.e., the $75,000 debt is three times the owner's equity of $25,000).

Most businesses have a variety of assets financed in various ways—with differing proportions of debt and equity. By reviewing your business balance sheet and comparing your total liabilities to your owner's equity (also known as "capital" or "net worth"), financiers can calculate the overall debt-to-equity ratio of your business. If you already are in business, they will calculate your current debt-to-equity ratio and then project the ratio you would have with the requested loan to see how the loan would impact the ratio. By comparing these and other financial ratios to published financial data for businesses of similar size in the same industry, financiers can assess the relative financial strength of

Main Table of Contents

Section Table of Contents

your business and its capacity to assume additional debt. This will help them determine the relative degree of risk involved in approving your loan request.

Desired Terms of Repayment. It was noted in the discussion of collateral in Guide Three (pages 158-159) that financiers will take into consideration the "expected life" of an asset, or the period over which it can be utilized to generate income for your business. Generally a financier will extend debt payments for a period no longer than the *conservatively projected* life of an asset. Another consideration will be the financier's best guess as to the time that might be required to liquidate the asset if it were repossessed in the event of a default on the loan. For example, an equipment dealer might finance an item of heavy equipment for seven years based on its expected life of ten years and an estimated resale period of one to six months. On the other hand, a bank with less firsthand knowledge of the expected life and marketability of heavy equipment might be more conservative, offering only a five-year term of financing on the same equipment.

Business owners often seek the longest term of repayment available because it results in the lowest monthly or other periodic payment amount. Their objective is to minimize "debt service" or monthly cash outflows for interest and principal payments. However, an unnecessarily long term of repayment can increase the total cost of financing significantly. Therefore the most advantageous term of financing requires careful cash flow budgeting to determine the most desirable term of repayment and the maximum monthly payment that will be comfortably affordable.

Cost of Financing. The interest rate charged for borrowed funds is the greatest cost associated with business financing. Interest rates may vary significantly from source to source, depending upon the volume and types of loans made, the risks associated with a particular type of loan, the risk attributed to a specific borrower based upon his or her credit history, and the expected rate of return on loaned funds. For example, a mortgage company specializing in real estate loans to only the most creditworthy clientele might charge a relatively low interest rate because both the type of loan (mortgage secured by real estate) and the type of borrower (creditworthy) are considered "low risk." On the other hand, a bank specializing in loans to small businesses, including those in operation for three years or less, might charge relatively high interest rates because statistics show that 50% of new small businesses fail within three years.

Main Table of Contents

Section Table of Contents

Other factors influencing interest rates include conditions in the money market—the overall availability and cost of funds to lending institutions—and the activities of the U.S. Federal Reserve System (commonly called "the Fed"), which is the central bank of the United States. The Fed's buying and selling of securities on the open market expands and contracts the amount of funds available to the public. The Fed's "discount rate" (the interest rate charged to commercial banks for funds borrowed from Federal Reserve Banks) is perceived as an indicator of overall economic conditions in the United States and thus leads to tightening or easing of lending practices. Generally increases in the Fed's discount rate are followed by increases in commercial lending rates. The Fed's "reserve requirements" (the percentage of cash deposits that commercial banks must keep on reserve with the Fed), influence both the cost and the availability of commercial bank loans.

The best way to monitor interest rates at any given time is to review daily newspapers for the announcements by major commercial banks of their "prime rate of interest." The prime rate is the interest rate major banks charge for short-term loans to the biggest, most creditworthy businesses. A small business owner may expect to pay one to five percentage points above the prime rate, depending upon the type (proposed use) and size of loan, the requested term of repayment and the borrower's business and personal credit history.

In times of rapidly fluctuating commercial interest rates, it is relatively difficult to obtain a "fixed rate" loan except on a short-term basis. This is because of the lenders' unwillingness to take an "interest rate risk"—the risk that their cost of borrowing will increase without any means of passing the increased cost along to borrowers in order to preserve their established rates of return on loaned funds. To guard against this risk, commercial lenders charge "variable" or "adjustable" rates of interest—rates that vary with the prime rate of interest. Such interest rates typically are stated as "prime plus" a specific number of percentage points (e.g., "prime plus 2.5%"), and they usually vary on a quarterly basis.

In addition to interest, the total cost of business financing may include loan "processing fees" and "guaranty fees." Processing fees are charged by lenders as compensation for the time required to review a financial package and assist the borrower in completing any additional documentation that may be required to process the loan for approval and disbursement. Processing fees are most common when the demand for loans is high, making the commercial loan officers' time most valuable. Various lenders may charge processing fees ranging from as little

Main Table of Contents

Section Table of Contents

as $50 to as much as a few thousand dollars. In certain government-sponsored financing programs, processing fees are subject to review and specific limits.

Federal agencies charge "loan guaranty fees" when they guarantee loans by commercial lenders to small businesses. Since loans to small businesses are considered relatively high in risk, the federal government's guaranty serves as an inducement to lend by reducing the commercial lender's exposure to risk. For example, the U.S. Small Business Administration (SBA) might provide an 80% guaranty on a $200,000 bank loan to a creditworthy small business. The bank's risk then would be limited to 20% of the outstanding balance of the loan at any given time. Therefore at the time the loan is disbursed, the guaranteed portion would be $160,000 (.8 x $200,000 = $160,000) and the bank's risk would be limited to $40,000 (.2 X 200,000 = $40,000). The bank usually collects the guaranty fees from the borrower at the time the loan is disbursed. In the example above, a guaranty fee of "two percentage points" would be calculated as two percent of the guaranteed portion of the $200,000 loan (.02 x $160,000 = $3,200).

Additional Examples. Given a specific purpose for borrowing, there can be significant differences among lenders in the amounts they will loan, the terms of repayment offered and the cost of financing. To illustrate this point, a $60,000 equipment purchase might be 75% financed by the equipment dealer (on "trade credit") for a five-year term at the interest rate of "prime plus 5%," resulting in a loan of $45,000 at 10% with monthly payments of $956. A commercial bank might finance the same equipment purchase at 70% of the cost for a five-year term at "prime plus 3%," resulting in a loan of $42,000 at 8% with monthly payments of $852.

The business owner would have to decide whether it would be more desirable to minimize the down payment on the equipment and qualify for the dealer's larger loan (paying the additional $104 per month for 60 months—a difference of $6,240 over five years) or to increase the down payment by $3,000 in order to qualify for the bank's lower interest loan. Such a decision would be based on the owner's ability to raise additional equity capital at the time of purchase versus the owner's anticipated capacity to make higher debt payments in future months or years.

Main Table of Contents

Section Table of Contents

While government loans or loan guaranties sometimes result in the availability of larger loans for longer periods at advantageous interest rates—thus minimizing monthly loan payments—they also may result in a much higher cost of money over time. Using the foregoing example, the same commercial bank might have offered to finance 70% of the equipment cost for a term of eight years at the prime interest rate plus 2.25% *with an 80% guaranty of the loan by a federal agency.* This would have resulted in loan of $42,000 at 7.25% interest with monthly payments of only $578. However the extended term of repayment would result in total payments of $55,488 for the eight-year guaranteed bank loan versus total payments of $51,120 for the five-year unguaranteed bank loan.

In addition some federal agencies charge a guaranty fee equal to 2% of the guaranteed portion of the loan, which in the preceding example would amount to another $672 paid at the time of loan disbursement. A second disadvantage associated with some federally guaranteed bank loans is the government's tendency to file a blanket lien against *all* business assets to secure the loan. Here again, the business owner would have to weigh the advantages of the federally guaranteed loan—longer term, lower interest rate and minimized monthly payments—against the increased cost over time, including guaranty fee, total interest payments and expanded security requirements.

Main Table of Contents

Section Table of Contents

What Sources of Financing Are Available to Indian Entrepreneurs?

In developing this guide, it has been assumed that all possibilities for generating needed cash from internal sources have been exhausted. Such "bootstrap financing" would include cost cutting, sales of surplus assets, and collection of accounts receivable and progress payments from customers. It also has been assumed that additional equity financing cannot be raised by the business owner(s)—the sole proprietor, partners or corporate shareholders.

In addition to the sources of financing available to the larger business community, there are a few sources that specifically target the American Indian business community. The sources of financing most commonly used by Indian entrepreneurs are described on the next several pages.

Commercial Sources

Commercial Banks. Banks provide the greatest number and variety of small business loans. Whether in business or not, many people have established some type of banking relationship—checking account, savings account and/or consumer credit account. Because of its familiarity with your other financial activities and credit history, your own bank is a likely source of business financing. If your bank does not offer the type of financing or terms of repayment you need, ask for referrals to more suitable sources of financing.

Short-term financing arrangements with banks include the following:

1. **Accounts Receivable Financing.** A business that sells to customers on credit may find that most of its working capital is tied up in unpaid accounts receivable. If the collectibility of these accounts is verifiable, they can be used to secure a short-term loan or they may be "assigned" to a bank in exchange for advances of as much as 80% of their total value. When accounts receivable are used as loan security, the borrower forwards customers' payments to the bank for credit against the outstanding loan balance. When accounts receivable are assigned, customers are instructed to make payments directly to the bank. As an example, a business owner who performs contractual services for federal or state agencies that require several weeks or months to pay might use accounts receivable financing to convert approved invoices to cash for ongoing operations.

Main Table of Contents
Section Table of Contents

In accounts receivable financing arrangements, the bank applies a percentage of collected payments to the accrued interest and principal on the short-term loan and deposits the balance of payments in the borrower's business account. In this way a revolving line of credit is established based on the average value of accounts receivable, and interest is paid on the outstanding balance of the loan at any given time of payment. Arrangements for accounts receivable financing usually are made for terms of one year or less.

2. **Inventory and Commodities Loans.** A three- to six- month commercial loan may be needed when seasonal increases in sales require boosts in inventory or production activities. Such short-term loans may be unsecured or secured by inventory, raw materials, work in progress or finished goods. They usually are repaid in a lump sum at the end of the specified term. Short-term commercial loans may be used to finance the seasonal startup costs associated with agricultural and construction enterprises, as well as the temporary inventory increases associated with retail operations that have sales peaks in the late summer (back-to-school) and early winter (holiday) seasons.

3. **Inventory Flooring.** Retailers of "big ticket" or high-priced merchandise such as automobiles, boats and furniture may develop "flooring" arrangements whereby banks finance their purchases of inventory and hold a security interest in it until the debt is repaid. Loan principal is paid each time an item of merchandise is sold, and interest is charged monthly on the unpaid loan balance. As in the case of accounts receivable financing, inventory financing and flooring arrangements are basically secured lines of credit.

4. **Unsecured Lines of Credit.** The owner of a well-established, consistently profitable business that needs short-term financing periodically throughout the year and wants to avoid repeatedly applying for commercial loans may negotiate an unsecured line of credit on an annual basis. All or part of the funds available under the line of credit may be withdrawn as needed for business operations. Most banks expect the borrower to clear the balance of the established line of credit at least once each year. (The inability to do so indicates a need for secured, medium- to long-term financing.)

Main Table of Contents

Section Table of Contents

In addition to short-term financing, banks provide medium- to long-term loans for business startups, buyouts and expansions. These loans generally are used to acquire or build facilities, purchase equipment and provide working capital. Among the most common medium- to long-term financing instruments are the following:

5. **Real Estate Loans.** Banks will provide mortgages secured by commercial property in amounts up to 75% of the appraised value of the real property for periods of 10 to 30 years. Interest and principal payments generally are made monthly from the cash flows of the business.

6. **Equipment Loans**. Most banks will make loans secured by business equipment in amounts up to 70% of the retail or appraised value for periods of up to 80% of the estimated useful life of the equipment. Interest and principal payments usually are made monthly from the cash flows of the business. However the owner of a seasonal business (such as a construction or trucking firm) may opt to prorate each year's payments to a six- to nine-month schedule that corresponds with the cash receipts of the business.

When financing a business startup, buyout or expansion involving real property and equipment (and possibly accounts receivable and inventory), most banks will offer a term of repayment of 10 to 15 years, roughly comparable to the medium-term real estate loans.

Credit Unions. In recent years some credit unions have expanded their lending practices to include commercial loans, particularly medium- to long-term loans secured by real estate and equipment. As in the case of commercial banks, credit unions are considered to be conservative lenders whose financing decisions are based upon consideration of the entrepreneur's profitability, managerial strength, credit history and collateral.

Finance Companies. Commercial finance companies are less conservative lenders and often provide short- to medium-term loans to those denied financing by banks and credit unions. Finance companies will lend to new and rapidly growing small businesses with relatively high debt-to-equity ratios when high-quality collateral is offered. Finance companies typically provide accounts receivable and inventory financing, as well as equipment loans. Some finance

Main Table of Contents
Section Table of Contents

companies also provide real estate loans, including second mortgages and refinancing arrangements. However, because they deal in higher-risk loans than banks and credit unions, finance companies usually offer shorter terms of repayment and charge higher rates of interest.

In addition to short- and medium-term loans, finance companies offer accounts receivable factoring and equipment leasing arrangements. When "factoring" the finance company makes an outright purchase of accounts receivable at a discounted value, providing the business with ready cash at a cost that includes compensation to the finance company for the effort required to collect the receivables. Equipment leases may be arranged indirectly through equipment dealers or directly through finance companies. Some finance companies will purchase a business' equipment and then lease it back to the business owner, a transaction that converts equity to cash and allows the entrepreneur to continue using the previously owned equipment.

Suppliers. "Trade credit" from major suppliers is one of the most valuable sources of short-term financing for construction, retail and service businesses. Once a business has established a good payment record, many suppliers will extend up to 30 days' interest-free credit on inventory shipments. In a business that turns its inventory into cash sales within a 30-day cycle, trade credit can minimize the need for short-term working capital loans from other sources. Extended terms of credit also may be available from suppliers, subject to specified finance charges.

Another form of trade credit is "dealer financing" made available through suppliers of commercial equipment, office equipment and vehicles. Dealer financing usually is arranged indirectly through a commercial bank or finance company for the convenience of commercial customers. Because the supplier is providing services to facilitate access to financing, the interest and other costs may be higher than the purchaser normally would pay in a direct financing arrangement with a bank or other lender.

Main Table of Contents

Section Table of Contents

Government Sources

Bureau of Indian Affairs. The Indian Financing Act of 1974 (Public Law 93-262) and its 1984 and 1988 amendments (Public Law 99-449 and 100-442, respectively) authorize the U.S. Department of the Interior, Bureau of Indian Affairs, to provide direct loans, loan guaranties and non-reimbursable (equity) grants for Indian economic development projects and business ventures. Eligibility for these financial assistance programs requires that:

1. Applicants must be federally recognized Indian tribes or Alaska Native groups, individual members of such tribes or groups, or at least 51% Indian-owned corporations, partnerships or cooperatives.

2. Enterprises must be "for profit" and must provide an economic benefit to an Indian reservation; for example, employment to reservation-based Indians.

3. Applicants for direct loans and loan guaranties must contribute at least 20% equity financing to their enterprises.

4. Applicants for grants must secure at least 75% of project financing from sources other than their own resources or the Bureau of Indian Affairs (e.g., from commercial loans, trade credit, tribal loans, private parties and governmental sources).

Annual appropriations of funds for the Bureau of Indian Affairs (BIA) Direct Loan, Loan Guaranty and Indian Business Development Grant Programs vary, and in recent years the greatest activity has been in the Loan Guaranty Program. In 1993 Indian Business Development Grants were limited to 25% of total project costs up to a maximum of $100,000 for individual Indian applicants and $250,000 for Indian tribes and Alaska Native groups. Although the law does not specify a maximum loan amount, direct loans to individuals currently are limited to $500,000, and the policy limit for Indian tribes and Alaska Regional Corporations is $5.5 million. Direct and guaranteed loans to tribes are considered on a case-by-case basis.

Main Table of Contents

Section Table of Contents

The BIA Direct Loan Program is designed to meet the needs of Indians who cannot obtain financing with reasonable terms and costs from other sources. The term of repayment for a direct loan depends upon the proposed use(s) of the funds and the repayment ability of the borrower, subject to a 30-year maximum term. The interest rate is fixed for the full term of the loan based upon the prevailing U.S. Treasury Bill interest rate for the month in which the loan is disbursed. As a "lender of last resort" the BIA generally loans larger amounts of funds for longer terms of repayment at lower interest rates than any other source available to eligible Indian-owned business enterprises.

In order to induce commercial lenders to finance Indian-owned businesses the BIA will provide loan guaranties of up to 90%. The term of repayment and interest rate for BIA-guaranteed loans are established by the participating lender, subject to certain BIA limits. The maximum interest rate for a 90% guaranteed loan is 2.75% above the New York prime rate. If the borrower demonstrates a need, the BIA also will subsidize the interest paid by the Indian borrower to the participating lender. The interest subsidy is based on the difference between the participating lender's interest rate and the U.S. Treasury Bill interest rate. Thus the subsidy reduces the borrower's effective interest rate on a BIA-guaranteed bank loan to the BIA's direct loan interest rate. The BIA interest subsidy rate is fixed for a specified term, and the borrower's continued need for the subsidy is reviewed periodically.

For additional information about BIA financing programs or application forms, contact the Area Credit Office nearest you.

Main Table of Contents

Section Table of Contents

Bureau of Indian Affairs Area Credit Offices

Aberdeen Area Office
Federal Building
115 4th Avenue, SE
Aberdeen, SD 57401-4382
(605) 226-7381 - voice
(605) 226-7392 - fax

Albuquerque Area Office
Post Office Box 26567
Plaza Maya Building
615 1st Street, NW
Albuquerque, NM 87125-6567
(505) 346-7581 - voice
(505) 346-7530 - fax

Anadarko Area Office
Post Office Box 368
Anadarko, OK 73005
(405) 247-6673 ext 240 - voice
(405) 247-9240 - fax

Anchorage Area Office
3601 C Street
Suite 1100
Anchorage, AK 99503
(907) 271-4018 - voice
(907) 271-1750 - fax

Rocky Mountain Area Office
316 North 26th Street
Billings, MT 59101
(406) 247-7963 - voice
(406) 247-7978 - fax

Eastern Area Office
545 Marriot Drive
Suite 700
Nashville, TN 37214
(615) 564-6700 - voice

Midwest Regional Office
Bishop Henry Whipple
Federal Building
One Federal Drive, Room 550
Fort Snelling, MN 55111
(612) 713-4400 ext 1181 - voice
(612) 713-4453 - fax

Muskogee Area Office
101 North 5th Street
Muskogee, OK 74401-6206
(918) 781-4622 - voice
(918) 781-4624 - fax

Navajo Area Office
Post Office Box 1060
Gallup, NM 87305
(505) 863-8336 - voice
(505) 863-8342 - fax

Phoenix Area Office
Post Office Box 10
Phoenix, AZ 85001
(602) 379-6624 - voice
(602) 379-6765 - fax

Portland Area Office
911 NE 11th Avenue
Portland, OR 97232-4169
(503) 231-6754 - voice
(503) 231-6731 - fax

Sacramento Area Office
Federal Office Building
2800 Cottage Way
Sacramento, CA 95825
(916) 978-6050 - voice
(916) 978-6055 - fax

Main Table of Contents
Section Table of Contents

Farm Service Agency. The Farm Service Agency (FSA) is an agency of the U.S. Department of Agriculture that offers loans and loan guaranties to family farms and rural economic development ventures (in addition to financing rural housing and community facilities projects). The FSA makes direct and guaranteed farm ownership (FO) and operating loans (OL) to family-size farmers and ranchers who cannot obtain commercial credit from a bank, Farm Credit System institution, or other conventional lender. FSA loans can be used to purchase land, livestock, equipment, feed, seed, and supplies. The loans also can be used to construct buildings or make farm improvements. FSA loan programs are described below.

- **Direct Farm Ownership** loans are provided to assist family farms with land acquisitions, soil and/or water conservation projects, and building construction or improvements. The maximum loan amount is $200,000, and loan terms can extend to a maximum of 40 years.
- **Beginning Farmer Down Payment Farm Ownership Loans** provide first-time farmers or ranchers assistance in securing part of the financing for their business. Loans are for a 15-year term at a low interest rate.
- **Direct Operating Loans** can be used to purchase livestock, equipment, or supplies. These short-term loans (1-7 years) are available in amounts up to $200,000.
- **Direct Emergency Loans** are provided to assist family farms in recovering from natural disasters. Applications must be filed within eight months of federal designation of eligibility for disaster relief. Loans can be for up to 100% of actual losses with a maximum of $500,000, and loan terms can be for up to 40 years on actual physical losses (non-real estate).
- **Indian Tribal Loans** are provided to enable Indian tribes to purchase privately owned lands within their reservations and restore them to use by residents of the reservation. Loan funds may not be used for development of the land following purchase.
- **Nonfarm Enterprise Loans** may be used to develop and operate nonagricultural businesses that will supplement farm income.
- **Youth Project Loans** can be used by youths under 21 years of age who are participating in organized, supervised and income-generating projects. Cosigners may be required.

Main Table of Contents

Section Table of Contents

For more information about FSA financing programs, including current loan limits, interest rates and terms of repayment, contact the nearest county or district FSA office. Your local telephone directory will list that office under "U.S. Government, Department of Agriculture, Farm Service Agency." Office listings also are available from the national office of the U.S. Department of Agriculture, Farm Service Agency, 1400 Independence Avenue, S.W., STOP 0506, Washington, DC 20250-0506. The telephone number is (202) 720-7809.

Rural Development. The Rural Development (RD) branch of the USDA provides Rural Business Enterprise Grants and Rural Business Opportunity Grants. These grants provide funds, along with technical assistance and training, to help improve economic development in rural areas. RD programs include the following:

- **Business and Industry (B & I**) Guaranteed Loans help create jobs and stimulate rural economies by providing financial backing for rural businesses. The B & I Guaranteed Loan Program provides guaranties on up to 80% of a loan made by a commercial lender. Loan proceeds may be used for working capital, machinery and equipment, buildings and real estate, and certain types of debt refinancing. The primary purpose is to create and maintain employment and improve the economic climate in rural communities. This is achieved by expanding the lending capability of private lenders in rural areas, helping them make and service quality loans that provide lasting community benefits.

  Assistance under the B&I Guaranteed Loan Program is available to virtually any legally organized entity, including a cooperative, corporation, partnership, trust or other profit or nonprofit entity, Indian tribe or federally recognized tribal group, municipality, county, or other political subdivision of a state. Applicants must have been denied credit elsewhere to be eligible for this program.

  The maximum aggregate B&I Guaranteed Loan amount that can be offered to any one borrower under this program is $25 million. A maximum of 10% of program funding is available to value-added cooperative organizations for loans above $25 million to a maximum aggregate of $40 million.

Main Table of Contents

Section Table of Contents

- **Intermediary Relending Program (IRP)** finances business facilities and community development projects in rural areas. This is achieved through loans made by the Rural Business-Cooperative Service (RBS) to intermediaries. Intermediaries re-lend funds to ultimate recipients for business facilities or community development. Intermediaries establish revolving loan funds so that principal payments collected from loan recipients can be re-loaned to new borrowers.

- **Rural Business Enterprise Grants (RBEGs)** are grants to public bodies, private nonprofit corporations, and federally recognized Indian Tribes to finance and facilitate development of small and emerging private business enterprises located in any area other than a city or town that has a population greater than 50,000 inhabitants, including the urbanized area contiguous and adjacent to such a city or town. The public bodies, private non-profit corporations and federally recognized Indian tribes receive such grants to assist a business. Grant funds do not go directly to the business.

- **Rural Business Opportunity Grants (RBOGs)** promote sustainable economic development in rural communities with exceptional needs. This is accomplished by making grants to pay the costs of providing economic planning for rural communities, technical assistance for rural businesses, or training for rural entrepreneurs or economic development officials.

- **Rural Economic Development Loans (REDLs)** are zero-interest loans to electric and telephone utilities financed by the Rural Utilities Service (RUS), an agency of the U.S. Department of Agriculture, to promote sustainable rural economic development and job creation projects.

- **Rural Economic Development Grants (REDGs)** provide grant funds to electric and telephone utilities financed by the Rural Utilities Service (RUS), an agency of the U.S. Department of Agriculture, to promote sustainable rural economic development and job creation projects through the operation of a revolving loan fund program. Grants can be made, at the discretion of the Administrator of the Rural Business-Cooperative Service (RBS), to any RUS electric or telephone utility that is not in bankruptcy proceedings or delinquent on any federal debt.

Main Table of Contents

Section Table of Contents

- **Renewable Energy and Energy Efficiency Program (REEEP)** is a new program that currently is undergoing the regulation development process. It aims to encourage rural communities to develop renewable energy resource businesses, such as wind or solar energy power plants.

For more information about Rural Development financing programs, including current loan limits, interest rates and terms of repayment, contact the nearest county or district Rural Development office, or contact the national office at:

USDA Rural Development
Room 206-W, Mail Stop 0107
1400 Independence Avenue SW
Washington, DC 20250-0107
(202) 720-4581
TTY: (800) 877-8339

Small Business Administration. The U.S. Small Business Administration (SBA) provides loan guaranties and a very limited number of direct loans to enterprises that fit the agency's criteria for a "small business" within a given industry classification. Eligibility criteria include gross annual receipts and number of employees, and the industry-specific standards are such that most businesses will be considered "small." As examples, depending upon the specific industry or product:

- a "small" agricultural enterprise may have average annual receipts ranging from $1 million to $3.5 million,
- a "small" construction firm may have average annual receipts ranging from $9.5 million to $28.5 million, and a special trade construction firm may have average annual receipts ranging up to $12 million,
- a "small" manufacturing company may employ 500 to 1,500 people,
- a "small" retail operation may have average annual sales ranging from $6 million to $24.5 million,
- "small" service industries may have $6 million in average annual receipts; computer programming, data processing and systems design firms may have average annual sales of $21 million, and
- a "small" wholesaling operation may employ up to 500 people.

Main Table of Contents
Section Table of Contents

The SBA guarantees loans through participating banks and other private lenders up to 85% on loans of $150,000 or less and 75% on loans from $150,001 to $1,333,333. The SBA's maximum guaranteed portion is $1,000,000; $2,000,000 is the maximum gross 7(a) loan amount with a 50% SBA guarantee. As with other federal loan guaranty programs (including BIA and FSA programs), the SBA-guaranteed loan program operates largely through participating banks. Interest rates and terms of repayment are negotiated with lenders based upon the amount and purpose of each loan, subject to certain federal limits. The borrower submits a loan application to the lender of choice; following an initial determination of acceptability, the lender forwards the loan application and its own credit analysis to the federal agency with a request for approval of a loan guaranty. Following approval, the lender disburses the loan, and the borrower makes loan payments to the lender.

In addition to guaranteeing general business loans, the SBA provides the following specialized loan guaranty programs:

- community economic development loans,
- economic injury and physical disaster loans,
- export revolving lines of credit,
- international trade loans,
- pollution control financing,
- seasonal lines of credit,
- small general contractor financing, and
- surety bonds for contractors.

While available on a nondiscriminatory basis, the SBA also guarantees "small loans" designed specifically to meet the needs of women and minorities. This program allows lenders to keep half of the SBA's 2% guaranty fee when making loans of $50,000 or less with maturities exceeding one year. The lender has the option of passing the savings along to the borrower. As with other SBA loan programs, the borrower is expected to contribute at least 30% equity and provide collateral adequate for the loan amount.

Main Table of Contents

Section Table of Contents

The SBA also charters private, for-profit corporations known as "Small Business Investment Companies" to provide loans, venture capital and/or equity investments to small businesses. Some of these companies specifically target enterprises owned by socially or economically disadvantaged persons and Vietnam-era veterans. In certain situations Small Business Investment Companies will enhance the business owner's borrowing capacity by subordinating their loans to other debts (thereby encouraging the participation of other lenders) and/or deferring loan amortization for a period during which the business can develop comfortable cash reserves.

The SBA makes a very limited number of direct loans in amounts up to $150,000 to applicants who cannot secure SBA-guaranteed loans. Generally these loans are available only to low-income business owners, Vietnam-era or disabled veterans, handicapped individuals, businesses in high-unemployment areas and participants in the SBA's 8(a) Business Development (BD) Program.

As an inducement to make loans to those small businesses that require small amounts of financing, the SBA supports "microloan" programs offered through non-profit organizations such as local development corporations. These programs offer loans ranging from a few hundred dollars to $25,000 for terms not to exceed six years at interest rates no higher than the New York Prime rate plus 4%. Loan terms vary depending on the size of the loan, the planned use of the funds, and the needs of the small business borrower. Microloan funds may be used to purchase equipment, furniture, inventory, machinery and supplies or to provide working capital. Assets purchased with microloans are taken as collateral, and personal guaranties also may be required.

For more detailed information about the financing and management assistance programs of the SBA, consult the "U.S. Government" section of your telephone directory or call the agency's toll-free telephone number: 1-800-8-ASK-SBA. The TDD number for the hearing impaired is (202) 205-7333, and the FAX number is (202) 205-7064.

Main Table of Contents

Section Table of Contents

Other Federal Sources. Indian tribes and Alaska Native groups have unique access to capital for business and economic development projects through a number of other federal agencies, including the following:

- the U.S. Department of Agriculture, Rural Development, which offers Rural Business Enterprise Grants that can be used for economic development projects;
- the U.S. Department of Commerce, Economic Development Administration (EDA), which offers grants and guaranteed loans to alleviate unemployment and underemployment in economically distressed areas;
- the U.S. Department of Health and Human Services, Administration for Children and Families, Administration for Native Americans (ANA), which offers grants to promote tribal self-sufficiency through support of social and economic development strategies and strengthening of local governance capabilities; and
- the U.S. Department of Housing and Urban Development, Office of Native American Programs (HUD-ONAP), which offers Indian Community Development Block Grants and Economic Development Grants that can be used for qualifying economic development projects.

Applications for these grants and guaranteed loans must be submitted in specifically prescribed formats according to deadlines established by each federal agency for each fiscal year. As with other applications for business financing, a well-researched business plan will be a key component of the application package. To request regional contacts for more information about grants and guaranteed loans available to Indian tribes and Alaska Native groups, write or call:

U.S. Department of Agriculture
Rural Development
Room 206-W
Mail Stop 0107
1400 Independence Avenue SW
Washington, DC 20250-0107
Phone: (202) 720-4581
TTY: (800) 877-8339 (Federal Information Relay Service)
Fax: (202) 720-2080

Main Table of Contents

Section Table of Contents

U.S. Department of Commerce
Economic Development Administration
1401Constitution Avenue, N.W.
Washington, DC 20230
(202) 482-2000

U.S. Department of Health and Human Services
Administration for Children and Families
Administration for Native Americans
Mail Stop: 8th Fl. West Aerospace Center
370 L'Enfant Promenade
Washington, D.C. 20447-0002
(877) 922-9262

U.S. Department of Housing and Urban Development
Office of Native American Programs
451 Seventh Street, Room 4126
Washington, D.C. 20410
Phone: (202) 401-7914, 401-7915, 401-7916
Fax: (202) 401-7909

State, Local and Tribal Sources. Many states have established community-based, nonprofit small business development corporations that offer direct loan and loan guaranty programs to small business owners. Some of these organizations also provide management and technical assistance, including financial packaging services, to facilitate small business owners' access to capital from other public and private sources. An increasing number offer microloans especially designed to meet the needs of prospective new business owners, as well as women and minority entrepreneurs. Generally state and local government sources of small business financing and technical assistance are listed in telephone directories under the headings "business consultants," "business development," "business finance" and "business management."

Main Table of Contents

Section Table of Contents

Some Indian tribes and Alaska Native groups have established their own lending programs to promote business and economic development on and near reservations and other Indian lands. These programs have been used successfully as sole sources of financing and in combination with BIA Indian Business Development Grants, to secure low-interest, medium- to long-term loans with minimum equity requirements. If you are a member of an organized tribal group, you may wish to contact its headquarters office to inquire about the availability of tribal loans for small business development.

Main Table of Contents

Section Table of Contents

What Information Will Be Needed for Your Financial Package?

As noted at the beginning of this guide, your financial package will consist of application forms required by your prospective financier(s), your business plan and supporting documents. If you have followed the guidelines prescribed in Guide Three, *The Indian Business Owner's Guide to Preparing a Business Plan*, you already will have most of the information required for your financial package. Generally speaking the application forms used by various federal agencies and commercial lenders can be completed simply by transferring information from your completed business plan to the appropriate blanks in the forms. Thus the principal challenge of financial packaging is met by preparing a well-researched, comprehensive and fully documented business plan.

The BIA's Indian Business Development Grant and Direct Loan application forms are relatively short and straightforward. If you expect to finance your business with a BIA grant or loan, you should contact the nearest Bureau of Indian Affairs Area Credit Office to ascertain the availability of funds and request application forms during the early stages of your business planning effort. Your completed application forms will be returned to the BIA with your comprehensive business plan so that they can be reviewed together.

Similarly if you expect to finance your business with *unguaranteed* commercial financing from a bank, credit union, finance company or supplier, you should contact the prospective lender to determine the availability and terms of financing—and request application forms or procedures—when you begin preparing your business plan. Most of these application forms are reasonably simple and can be completed in a few hours or less for submission with your business plan.

If you expect to finance your business with a BIA-guaranteed bank loan, you will not be required to complete any federal forms; instead you will submit your business plan to the prospective lender and provide the name, address and telephone number of the nearest BIA Area Credit Office. If the lender is receptive to providing the requested loan with a BIA guaranty, the Area Credit Officer will be asked to forward the necessary forms directly to the lending institution.

Main Table of Contents

Section Table of Contents

Participation in other federal loan and loan guaranty programs, such as the SBA loan programs, usually requires more extensive paperwork, including:

- Application for Loan (SBA Form 4, 4I);
- Statement of Personal History (SBA Form 912);
- Personal Financial Statement (SBA Form 413);
- Detailed, signed Balance Sheet and Profit & Loss Statement (current within 90 days of application), as well as complete financial statements for the previous three fiscal years; supplemental schedules are required on current financial statements;
- Detailed one-year projection of Income and Expenses;
- A list of names and addresses of any subsidiaries and affiliates, including concerns in which the applicant holds a controlling (but not necessarily a majority) interest and other concerns that may be affiliated by stock ownership, franchise, proposed merger or otherwise with the applicant;
- Certificate of Doing Business (SBA Form 4 section 12);
- Signed business federal income tax returns for previous three years;
- Signed personal federal income tax returns of principals in the business for the previous three years;
- Personal resume, including business experience of each principal;
- Brief history of the business;
- Copy of Business Lease (or note from landlord giving terms of proposed lease);
- For purchase of an existing business: Current Balance Sheet and Profit and Loss Statement of business to be purchased, previous two (2) years' Federal Income Tax Returns of the business, Proposed Bill of Sale, including terms of sale, and asking price, and schedules of inventory, machinery and equipment, and furniture and fixtures.

Main Table of Contents

Section Table of Contents

Because the completion of these forms can be quite time consuming—and the information requested on the forms is readily recognizable in business plans prepared according to the outline prescribed in Guide Three (pages 161-163)—it is permissible to defer completion of the federal loan application forms until your prospective lender has reviewed your business plan and indicated interest in meeting your request for financing, with or without a federal guaranty. Having established an interest in financing your business, some lenders will make referrals to professional financial packagers who can assist you in completing the necessary application forms in an expeditious manner.

If you have not yet completed your business plan, you will need to begin by gathering the personal, market and business information itemized on the checklist entitled "Information Needed for a Business Plan" on the next page. If you are confident that your character, capabilities and credit history will meet the expectations of prospective financiers, your approach to business plan development should begin with the gathering of market information. Once you have determined that there is an unmet need or "market demand" for the products or services you plan to offer, you will need to estimate the "market share" or sales volume you realistically expect to achieve. The process of determining market demand and estimating market share is explained in depth in Guide One, *The Indian Business Owner's Guide to Developing a Marketing Plan.*

Next you will need to determine the economic feasibility of your planned business, given the realistically attainable volume of sales. Your feasibility analysis will be based upon estimates of the startup and operating costs, including the cost of any debt financing. If you will depend on your business for a livelihood, its projected profits will have to be sufficient to cover your monthly cash withdrawals in addition to the financial obligations of the business. The step-by-step process of determining the financial feasibility of a business is described in detail in Guide Two, *The Indian Business Owner's Guide to Performing a Preliminary Feasibility Study*.

Once you have completed your market and financial feasibility analyses, you can draw from the personal information you have collected to make critical decisions about the management and organization of your business. Finally you will be ready to write a clear, concise and complete business plan according to the outline prescribed in Guide Three, *The Indian Business Owner's Guide to Preparing a Business Plan.*

Main Table of Contents

Section Table of Contents

Information Needed for a Business Plan

A. PERSONAL INFORMATION

_____ Current Personal Financial Statements of Owner(s) (Balance Sheet and Monthly Income & Expense Statement)

_____ Personal Credit Profile(s) of Owner(s)

_____ Most Recent Federal Income Tax Return(s) of Owner(s)

_____ Personal Resumes of Owner(s) and Key Personnel

B. MARKET INFORMATION

_____ Brief Product/Service Description (including photographs and technical specifications, if available)

_____ Industry Information (from *U.S. Industrial Outlook, Standard and Poor's Industry Surveys*, trade references)

_____ List of Major Customers (existing and/or prospective)

_____ Contracts in Hand or in Progress; Letters of Intent to Hire or Do Business

_____ Franchise or Marketing Agreements

_____ List of Major Competitors

_____ Map of Target Market Area (indicate where you and your competitors are located)

_____ Brief Description of Your "Competitive Edge" or Strategy for Competing Successfully

_____ Copies of Promotional Materials (ads, brochures, mailers, if available)

C. BUSINESS INFORMATION

(Note: Business financial records will not be available for new startups).

_____ Current Balance Sheet (list of assets and liabilities)

_____ Statement of Operations (Profit/Loss) for the Current Year

_____ Schedules of Accounts Receivable and Accounts Payable

_____ Statements of Operations (Profit/Loss) for the Past 3 Years

_____ Most Recent Federal Income Tax Return of Business

_____ Equipment Inventory (or Depreciation Schedule from Federal Income Tax Return)

_____ Appraisal(s) of, and Deed(s) to, Real Property Owned

_____ List of Equipment or Other Property To Be Purchased

_____ Supplier Quotations on Equipment To Be Purchased

_____ Tentative Buy/Sell Agreement for Commercial Property To Be Purchased

_____ Appraisal of Commercial Property To Be Purchased

_____ Contractor's Quotations on Building or Leasehold Improvements to Be Constructed

_____ Lease Agreements (equipment, space, vehicles)

_____ Insurance Quotations for Complete Business Coverage (e.g., real property, equipment, inventory, liability, vehicles and worker's compensation)

_____ Contracts Payable, Loans Payable and Notes Payable

_____ Organizational Documents (Partnership, Joint Venture or Cooperative Agreement; Articles of Incorporation and Bylaws)

How Should You Prepare Your Business Plan?

Let's review the process involved in preparing the Sample Business Plan for Humboldt Alfalfa Yard (Guide Three, pages 209-236), emphasizing the impressions it is intended to make on prospective financiers. (This Business Plan has been prepared according to the Outline presented in Guide Three, pages 161-163.)

Main Table of Contents

Section Table of Contents

Review of the Sample Business Plan

The Cover Sheet of your financial package should tell the lender it is a "Business Plan" or "Business Plan and Financing Proposal." It should provide needed contact information, including the name of the business, name(s) of the owner(s), mailing address and telephone number. It should be dated on the day of submission to the lender. Although the primary purpose of the Cover Sheet is to provide quick contact information, use of a business logo or simple graphic design will enhance its attractiveness and distinguish it from other business financing proposals.

The Statement of Purpose (also called a "Request for Financing" in business plans prepared solely for financing purposes) is a brief statement of your business and/or financing objectives, including the amount, type, terms and proposed uses of financing requested. It orients the lender to your goals and provides an important first impression of your business planning and organizational skills.

Illustration 1
Business Plan Cover

Illustration 2
Statement of Purpose

Main Table of Contents
Section Table of Contents


Table of Contents

STATEMENT OF PURPOSE 1
I. EXECUTIVE SUMMARY 3
II. DESCRIPTION OF BUSINESS 4-7
A. Business Concept 4
B. Product/Service Description 4
C. Key Production Factors 4
D. Location and Physical Facilities 5
E. Tribal and Other Local Benefits 6
F. Relationship to Tribal Economic Development Strategy 7
III. MARKET ANALYSIS 8-9
A. Market Description 8
B. General Market Trends 8
C. Competition 9
D. Market Projections 9
IV. ORGANIZATION AND MANAGEMENT 11-12
A. Legal Form of Organization 11
B. Management and Training Plans 11
V. FINANCIAL ANALYSIS 13-26
A. Capital Requirements 13
B. Structure of Financing 13
C. Financial Forecasts 15
Forecasted Balance Sheets, April 1, 1994 – April 1, 1997 16
Forecasted Statements of Operations, 1994-1995 (Month-by-Month) 17
Forecasted Statements of Cash Flows, 1994-1995 (Month-by-Month) 18
Forecasted Statements of Operations, 1994-1997 (Annualized) 19
Forecasted Statements of Cash Flows, 1994-1997 (Annualized) 20
D. Explanatory Notes to Financial Forecasts 21
E. Key Financial Ratios and Measures of Performance 25
F. Break-even Analysis 26
VI. SUPPORTING DOCUMENTS 27

Illustration 3
Table of Contents


I. EXECUTIVE SUMMARY

Ernest Farmer will begin doing business as "Humboldt Alfalfa Yard" on April 1, 1994 when he undertakes the production of high-quality alfalfa hay on 160 acres of personally owned property in Klamath, California. The value of the proposed site, including a storage facility, is $280,000. Additional capital requirements totaling $308,000 include $23,000 for site development, $150,000 for irrigation, farm, business and office equipment, $15,000 for supplies, and $9,500 for working capital. It is proposed that these capital requirements will be met by a special agricultural loan from the revolving loan fund of the Local Indian Tribe.

The demand for alfalfa hay in the targeted market region of Humboldt and Del Norte Counties is demonstrated by the 25,000-ton volume of alfalfa imported annually. The imported alfalfa is transported by rail and truck from central California locations 100 to 250 miles away. A recent market survey indicates that 5,000 tons of alfalfa hay are purchased annually within a 50-mile radius of the proposed alfalfa growing site. By competing on the multiple bases of quality price and service, it is anticipated that Humboldt Alfalfa Yard will capture 1,000 tons (20%) of that market segment by the second year of operation.

Humboldt Alfalfa Yard will be a sole proprietorship, 100% owned by Ernest Farmer, who is a member of the Local Indian Tribe. As a federally recognized Indian residing on the Local Indian Reservation, Mr. Farmer will be exempt from state sales tax on capital equipment and other retail purchases, as well as from state income tax on the net profits of his business. Mr. Farmer will employ one tribal member in a seasonal farm laborer position.

The financial forecasts included in this business plan demonstrate the potential of the proposed alfalfa project to earn profits of $10,449, $65,359, and $82,080 in the first three years, respectively. In the same three-year period, the cash balance of the business will grow from the $26,500 originally borrowed for supplies and working capital to an ending balance of $182,210—an overall growth of 680% – even after owner's withdrawals of $90,000. At the same time, owner's equity in the business will increase from $280,000 (50%) to $518,449 (88%).

A break-even analysis indicates that the planned enterprise would be successful at only 71.7% of the realistically projected sales volume, and therefore it is considered relatively low in risk. According to the forecasted financial statements, the leverage, coverage and operating ratios also are expected to be highly favorable.

Illustration 4
I. Executive Summary

The Table of Contents provides the lender with an overview of the essential components of your financial package. It reinforces the lender's first impression of your business planning and organizational skills. In addition, it offers a quick-reference guide to those sections of the financial package of greatest interest to the lender. As a time-saving alternative to reading the entire package from cover to cover, the lender might scan the Table of Contents, read the following Executive Summary and then skip to the Financial Analysis section. If interest remains moderate to high, the lender will take a "second look" at the rest of the package.

The Executive Summary provides an overview of key points and major findings in the financial package. It is your opportunity to solidify the lender's interest in reviewing the entire package. Use the Executive Summary to entice your lender by highlighting your business and financing objectives, your market analysis, your managerial and organizational skills, and your forecasted sales, profits, cash flows and increasing equity. Put your lender at ease by noting your break-even analysis indicates your business is relatively low in risk and your projected financial ratios also are favorable.

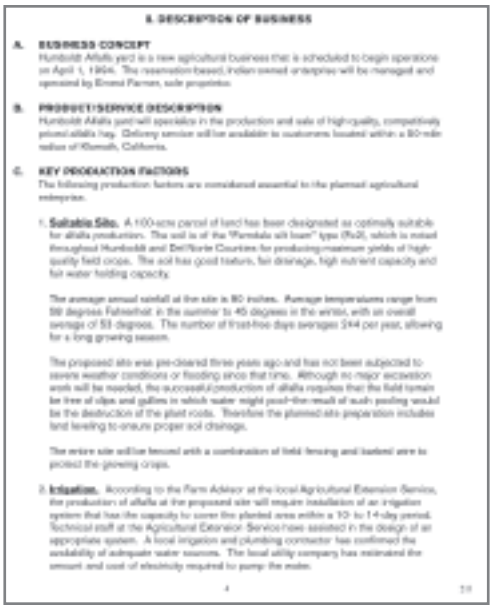
Main Table of Contents

Section Table of Contents

In the Description of Business section of your financial package you will introduce the lender to your business by type (e.g., agricultural, construction, manufacturing, retail or service), current status (startup, expansion or buyout), and form of ownership (proprietorship, partnership, corporation, joint venture or cooperative).

Your major products and/or services will be described in terms of the customers' needs that will be satisfied, indicating that you have a well-developed marketing strategy.

Then the key production factors of your business and industry will be identified (e.g., raw resources, technical and equipment requirements, environmental and safety considerations, and labor and transportation availability). This is your opportunity to convince the lender that you are experienced in your line of business and knowledgeable about key production methods and activities. Use this section of your package to make clear, concise statements about your opportunities for success, as well as your strategies for overcoming identified obstacles.



II. DESCRIPTION OF BUSINESS

A. BUSINESS CONCEPT
Humboldt Alfalfa yard is a new agricultural business that is scheduled to begin operations on April 1, 1994. The reservation-based, Indian-owned enterprise will be managed and operated by Emma Farmer, sole proprietor.

B. PRODUCT/SERVICE DESCRIPTION
Humboldt Alfalfa yard will specialize in the production and sale of high-quality, competitively priced alfalfa hay. Delivery service will be available to customers located within a 80-mile radius of Klamath, California.

C. KEY PRODUCTION FACTORS
The following production factors are considered essential to the planned agricultural enterprise.

1. **Suitable Site.** A 100-acre parcel of land has been designated as optimally suitable for alfalfa production. The soil is of the "Ramdale silt loam" type (RsB), which is noted throughout Humboldt and Del Norte Counties for producing maximum yields of high-quality field crops. The soil has good texture, fair drainage, high nutrient capacity and fair water holding capacity.

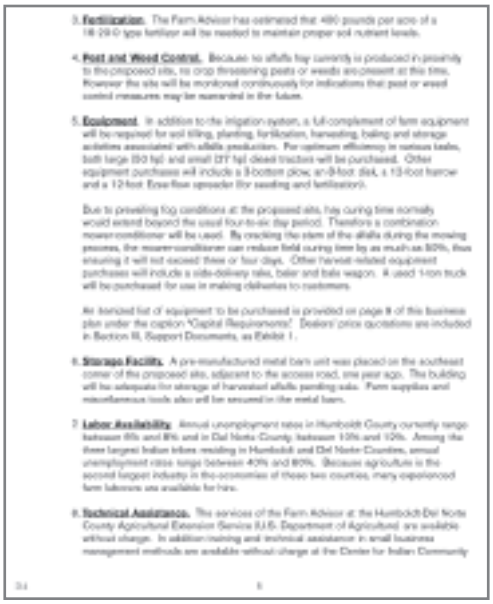
   The average annual rainfall at the site is 80 inches. Average temperatures range from 59 degrees Fahrenheit in the summer to 45 degrees in the winter, with an overall average of 53 degrees. The number of frost-free days averages 244 per year, allowing for a long growing season.

   The proposed site was pre-cleared three years ago and has not been subjected to severe weather conditions or flooding since that time. Although no major excavation work will be needed, the successful production of alfalfa requires that the field remain be free of clips and gullies in which water might pool—the result of such pooling would be the destruction of the plant roots. Therefore the planned site preparation includes land leveling to ensure proper soil drainage.

   The entire site will be fenced with a combination of field fencing and barbed wire to protect the growing crops.

2. **Irrigation.** According to the Farm Advisor at the local Agricultural Extension Service, the production of alfalfa at the proposed site will require installation of an irrigation system that has the capacity to cover the planted area within a 10- to 14-day period. Technical staff at the Agricultural Extension Service have assisted in the design of an appropriate system. A local irrigation and plumbing contractor has confirmed the availability of adequate water sources. The local utility company has estimated the amount and cost of electricity required to pump the water.

Illustration 5
II. Description of Business, Parts A through C



3. **Fertilization.** The Farm Advisor has estimated that 480 pounds per acre of a 16-20-0 type fertilizer will be needed to maintain proper soil nutrient levels.

4. **Pest and Weed Control.** Because no alfalfa hay currently is produced in proximity to the proposed site, no crop threatening pests or weeds are present at this time. However the site will be monitored continuously for indications that pest or weed control measures may be warranted in the future.

5. **Equipment.** In addition to the irrigation system, a full complement of farm equipment will be required for soil tilling, planting, fertilization, harvesting, baling and storage activities associated with alfalfa production. For optimum efficiency in various tasks, both large (50 hp) and small (27 hp) diesel tractors will be purchased. Other equipment purchases will include a 3-bottom plow, an 8-foot disk, a 13-foot harrow and a 12-foot Ever-flow spreader (for seeding and fertilization).

   Due to prevailing fog conditions at the proposed site, hay curing time normally would extend beyond the usual four-to-six day period. Therefore a combination mower-conditioner will be used. By cracking the stem of the alfalfa during the mowing process, the mower-conditioner can reduce field curing time by as much as 50%, thus ensuring it will not exceed three or four days. Other harvest-related equipment purchases will include a side-delivery rake, baler and bale wagon. A used 1-ton truck will be purchased for use in making deliveries to customers.

   An itemized list of equipment to be purchased is provided on page 8 of this business plan under the caption "Capital Requirements." Dealers' price quotations are included in Section III, Support Documents, as Exhibit 1.

6. **Storage Facility.** A pre-manufactured metal barn unit was placed on the southeast corner of the proposed site, adjacent to the access road, one year ago. The building will be adequate for storage of harvested alfalfa pending sale. Farm supplies and miscellaneous tools also will be secured in the metal barn.

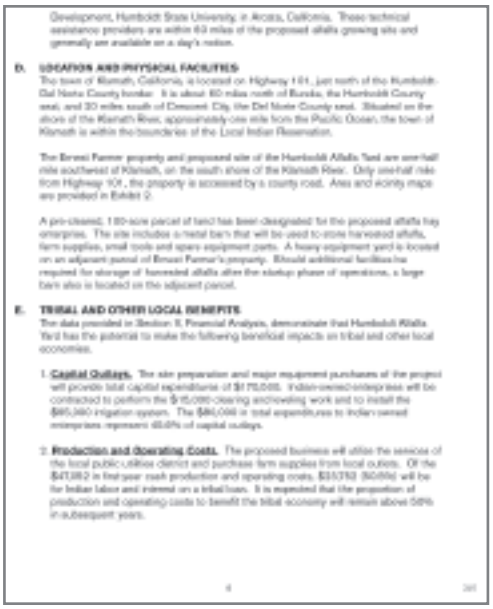
7. **Labor Availability.** Annual unemployment rates in Humboldt County currently range between 6% and 8% and in Del Norte County, between 10% and 12%. Among the three largest Indian tribes residing in Humboldt and Del Norte Counties, annual unemployment rates range between 40% and 80%. Because agriculture is the second largest industry in the economies of these two counties, many experienced farm laborers are available for hire.

8. **Technical Assistance.** The services of the Farm Advisor at the Humboldt-Del Norte County Agricultural Extension Service (U.S. Department of Agriculture) are available without charge. In addition training and technical assistance in small business management methods are available without charge at the Center for Indian Community

Illustration 6
II. Description of Business, Part C (continued)

Main Table of Contents

Section Table of Contents



Development, Humboldt State University, in Arcata, California. These technical assistance providers are within 63 miles of the proposed alfalfa growing site and generally are available on a day's notice.

D. LOCATION AND PHYSICAL FACILITIES

The town of Klamath, California, is located on Highway 101, just north of the Humboldt-Del Norte County border. It is about 60 miles north of Eureka, the Humboldt County seat, and 30 miles south of Crescent City, the Del Norte County seat. Situated on the shore of the Klamath River, approximately one mile from the Pacific Ocean, the town of Klamath is within the boundaries of the Local Indian Reservation.

The Ernest Farmer property and proposed site of the Humboldt Alfalfa Yard are one-half mile southwest of Klamath, on the south shore of the Klamath River. Only one-half mile from Highway 101, the property is accessed by a county road. Area and vicinity maps are provided in Exhibit 2.

A pre-cleared, 180-acre parcel of land has been designated for the proposed alfalfa hay enterprise. The site includes a metal barn that will be used to store harvested alfalfa, farm supplies, small tools and spare equipment parts. A heavy equipment yard is located on an adjacent parcel of Ernest Farmer's property. Should additional facilities be required for storage of harvested alfalfa after the startup phase of operations, a large barn also is located on the adjacent parcel.

E. TRIBAL AND OTHER LOCAL BENEFITS

The data provided in Section II, Financial Analysis, demonstrate that Humboldt Alfalfa Yard has the potential to make the following beneficial impacts on tribal and other local economies.

1. **Capital Outlays.** The site preparation and major equipment purchases of the project will provide total capital expenditures of $175,000. Indian-owned enterprises will be contracted to perform the $15,000 clearing and leveling work and to install the $85,360 irrigation system. The $80,000 in total expenditures to Indian-owned enterprises represent 45.0% of capital outlays.

2. **Production and Operating Costs.** The proposed business will utilize the services of the local public utilities district and purchase farm supplies from local outlets. Of the $47,082 in first-year cash production and operating costs, $33,753 (50.0%) will be for Indian labor and interest on a tribal loan. It is expected that the proportion of production and operating costs to benefit the tribal economy will remain above 50% in subsequent years.

Illustration 7
II. Description of Business,
Parts D and E

F. RELATIONSHIP TO TRIBAL ECONOMIC DEVELOPMENT STRATEGY

The current ten-year economic development plan of the Local Indian Tribe establishes a high priority for development of agricultural and related businesses. To support that priority, the tribal revolving loan fund has developed a special agricultural loan program that offers low-interest, long-term loans to tribal members who wish to start, expand or buy out businesses related to the agricultural industry. The business plan for Humboldt Alfalfa Yard is based upon the availability of financing from the Local Indian Tribe.

Illustration 8
II. Description of Business,
Part F

You should describe the regional, local and site specific location factors impacting your success in business so that your lender can "place it" in terms of familiar points of reference. Next discuss the existing or proposed physical facilities or structures that will be essential to your business operation. Your lender will be interested in your business site and facilities not only as they may impact your production and marketing efforts, but also as potential sources of collateral.

If you are requesting business financing from a source whose objective is to assist Indian business and economic development projects, you will need to describe the expected tribal and other local benefits in terms of revenues, employment and other positive economic impacts. If your intended source of financing is the ANA, BIA, FSA, HUD or a local tribe, you will want to emphasize the relationship of your planned enterprise to the local tribe's overall economic development strategy.

Main Table of Contents

Section Table of Contents

In the Market Analysis section of your business plan you will summarize the key points of your marketing strategy and plan. You will begin by describing the total demand for your products or services within a defined market region and then discuss market trends in your overall industry and specific business. Your objective will be to inform the lender that you are knowledgeable about past, present and probable future market conditions, and realistic in your expectations about future profitability.

Your lender will want to know how you expect to compete with others in your line of business and market region (e.g., on the basis of price, quality, service, method of delivery or other key market determinants). Emphasize the competitive strengths of your business in comparison to the nearest or most successful competitors. Demonstrate that you know "what you're up against" and you have developed a "competitive edge."

Your description of overall market demands, market trends and bases for competition should facilitate the lender's conviction that your market projections are realistically attainable. Your forecasted sales should derive directly from the conclusions logically drawn in your market analysis.

III. MARKET ANALYSIS

A. MARKET DESCRIPTION

In the overall market region of Humboldt and Del Norte Counties, agriculture is the second largest industry. The largest industry is comprised of timber and related products.) In the coastal areas of the region, the growing season is year-round. Primary agricultural products include dairy products (80%), livestock and poultry (10%), field crops (18%), nursery products (9%) and vegetables and other produce (2%).

Local economists estimate the value of Humboldt County's milk production at $69 million per year. More than 150 of the county's dairy producers are members of the Humboldt Creamery Association, which produces a variety of dairy products, such as butter, fluid milk, powdered milk and cream products. Sixty percent of these products are shipped by rail and truck throughout California, and the remaining 40% are shipped as far away as Kansas and the East Coast.

According to data available from the Agricultural Extension Service, U.S. Department of Agriculture, in Eureka, California, 28,800 tons of alfalfa hay are imported annually to meet the needs of Humboldt-Del Norte County dairy farmers. These hay shipments originate 180 to 950 miles south of the two-county region and are sold at a current price of $2.95 to $3.50 per ton. In lesser quantities than a ton, the prices at local outlets are even higher.

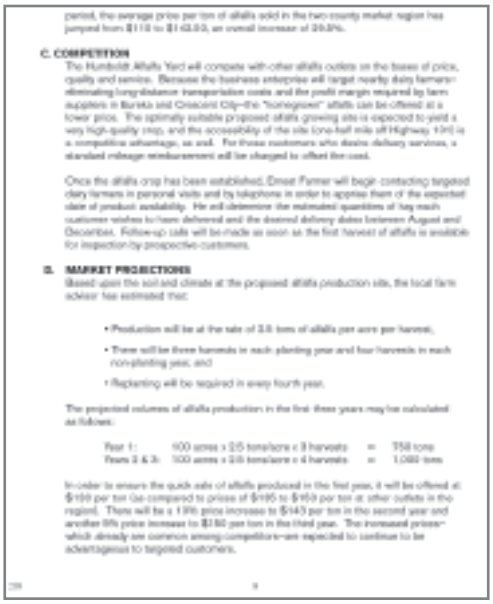
The specific target market of Humboldt Alfalfa Yard has been defined as those dairy farmers located within a 50-mile radius of the Ernest Farmer property. A market survey conducted in December of 1993 (appended as Exhibit X) revealed that 5,008 tons of alfalfa hay are purchased annually within the targeted market segment. Respondents were enthusiastic about the prospect of purchasing alfalfa from a local producer, particularly if the hay were of comparable quality and less expensive than the imported alfalfa. Targeted dairy farmers also indicated they sometimes are cut off from central California sources of alfalfa when severe winter weather conditions at intermediate points along Highway 101 result in road closures. The accessibility of a local alfalfa producer would be especially advantageous at those times.

B. GENERAL MARKET TRENDS

Although statistics published by the Humboldt County Department of Agriculture indicate that the total value of agricultural production declined from 1987 to 1992 the industry has grown continuously since 1988. As a primary component of the agricultural industry, dairy products have produced stable profits for Humboldt County farmers for the past ten years.

Data available from the Agricultural Extension Service confirm that the volume of alfalfa hay imported to Humboldt and Del Norte Counties has grown from 20,000 tons to 28,008 tons in the past ten years, an overall increase of 35%. In the same ten-year

Illustration 9
III. Market Analysis,
Parts A and B



period, the average price per ton of alfalfa sold in the two-county market region has jumped from $110 to $140.00, an overall increase of 26.8%.

C. COMPETITION

The Humboldt Alfalfa Yard will compete with other alfalfa outlets on the bases of price, quality and service. Because the business enterprise will target nearby dairy farmers—eliminating long-distance transportation costs and the profit margin required by farm suppliers in Eureka and Crescent City—the "homegrown" alfalfa can be offered at a lower price. The optimally suitable proposed alfalfa growing site is expected to yield a very high-quality crop, and the accessibility of the site (one-half mile off Highway 101) is a competitive advantage, as well. For those customers who desire delivery services, a standard mileage reimbursement will be charged to offset the cost.

Once the alfalfa crop has been established, Ernest Farmer will begin contacting targeted dairy farmers in personal visits and by telephone in order to apprise them of the expected date of product availability. He will determine the estimated quantities of hay each customer wishes to have delivered and the desired delivery dates between August and December. Follow-up calls will be made as soon as the first harvest of alfalfa is available for inspection by prospective customers.

D. MARKET PROJECTIONS

Based upon the soil and climate at the proposed alfalfa production site, the local farm advisor has estimated that:

- Production will be at the rate of 3.0 tons of alfalfa per acre per harvest;
- There will be three harvests in each planting year and four harvests in each non-planting year; and
- Replanting will be required in every fourth year.

The projected volumes of alfalfa production in the first three years may be calculated as follows:

Year 1:	100 acres x 2.5 tons/acre x 3 harvests	=	750 tons
Years 2 & 3:	100 acres x 2.5 tons/acre x 4 harvests	=	1,000 tons

In order to ensure the quick sale of alfalfa produced in the first year, it will be offered at $159 per ton (as compared to prices of $195 to $159 per ton at other outlets in the region). There will be a 10% price increase to $143 per ton in the second year and another 8% price increase to $150 per ton in the third year. The increased prices—which already are common among competitors—are expected to continue to be advantageous to targeted customers.

Illustration 10
III. Market Analysis,
Parts C and D

Main Table of Contents

Section Table of Contents

IV. ORGANIZATION AND MANAGEMENT

A. LEGAL FORM OF ORGANIZATION

Humboldt Alfalfa Yard will be organized as a sole proprietorship. It will be 100% owned by Ernest Farmer, who is a member of the Local Indian Tribe. As a federally-recognized Indian residing on the Local Indian Reservation, Mr. Farmer is exempt from certain sales and income taxes. For example, by having his capital equipment purchases delivered to his property on the reservation, Mr. Farmer will be exempted from the 7.25% state sales tax on a total of $150,000—a savings of $11,063. In addition, he will be exempt from state income tax on the net profits of his business.

As a tribal member starting an agricultural enterprise that will benefit the reservation economy, Mr. Farmer is eligible to apply to the Local Indian Tribe for a special long-term (10-year, low-interest 8%) business development loan. His eligibility to use this special loan program to secure a $200,000 loan will save $53,143 in interest that would have been charged for a 15-year commercial loan at the current interest rate of 12%.

B. MANAGEMENT AND TRAINING PLANS

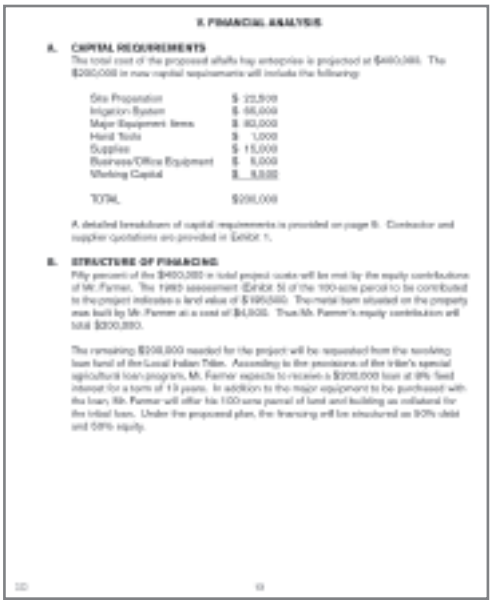
A resident of the Local Indian Reservation for the past 30 years, Ernest Farmer has worked in the agricultural industry since his honorable discharge from the U.S. Army 10 years ago. He worked for three years (1983-1985) on a neighboring farm where field crops, including cut hay, were produced. For the last three years (1986-1988), Mr. Farmer worked as a diesel mechanic in a privately owned repair shop in Crescent City. The business specialized in the repair and maintenance of heavy equipment, including farm equipment.

For the past five years (1989-1993), Mr. Farmer has been employed at a farm supply company in Eureka. Initially hired as a stock and sales clerk, he presently is the assistant manager of the business. In that capacity, Mr. Farmer is responsible for inventory management and stock orders, supervision of stock and sales clerks, management of cash receipts and disbursements, and store security. He also provides direct services to preferred customers and works closely with the store's accountant.

A complete resume of Mr. Farmer's education, military training and employment experience is appended as Exhibit 4. His past experience in field crop production, diesel equipment repair and retail store management has prepared him for many of the management, marketing and production tasks that will be undertaken in his new alfalfa growing enterprise. He will receive additional training in small business management methods from the staff of the Center for Indian Community Development at Humboldt State University. He also will receive technical assistance from the local farm advisor.

One seasonal farm laborer will be required to assist Mr. Farmer in the production of alfalfa hay, including soil preparation, fertilization, planting, irrigation, harvesting, baling

Illustration 11
IV. Organization and Management, Parts A and B



V. FINANCIAL ANALYSIS

A. CAPITAL REQUIREMENTS

The total cost of the proposed alfalfa hay enterprise is projected at $460,000. The $200,000 in new capital requirements will include the following:

Site Preparation	$ 22,500
Irrigation System	$ 65,000
Major Equipment Items	$ 80,000
Hand Tools	$ 1,000
Supplies	$ 15,000
Business/Office Equipment	$ 8,000
Working Capital	$ 8,500
TOTAL	$200,000

A detailed breakdown of capital requirements is provided on page 6. Contractor and supplier quotations are provided in Exhibit 1.

B. STRUCTURE OF FINANCING

Fifty percent of the $460,000 in total project costs will be met by the equity contributions of Mr. Farmer. The 1993 assessment (Exhibit 5) of the 100-acre parcel to be contributed to the project indicates a land value of $195,000. The metal barn situated on the property was built by Mr. Farmer at a cost of $4,000. Thus Mr. Farmer's equity contribution will total $300,000.

The remaining $200,000 needed for the project will be requested from the revolving loan fund of the Local Indian Tribe. According to the provisions of the tribe's special agricultural loan program, Mr. Farmer expects to receive a $200,000 loan at 8% fixed interest for a term of 10 years. In addition to the major equipment to be purchased with the loan, Mr. Farmer will offer his 100-acre parcel of land and building as collateral for the tribal loan. Under the proposed plan, the financing will be structured as 50% debt and 50% equity.

Illustration 12
V. Financial Analysis, Parts A and B

In the Organization and Management section of your financial package you will describe the legal form of your business emphasizing the financial and legal implications of Indian ownership. Many lenders are unfamiliar with federal laws and special financing programs designed to promote Indian business ownership. You might introduce pertinent laws and programs in this section and provide additional information in the Supporting Documents section.

Your management and training plan should provide an overview of all training and employment experiences that will enhance your success in business, as well as the qualifications of other key personnel. It should refer the lender to complete resumes and job descriptions provided in the Supporting Documents section.

The introductory page(s) of the Financial Analysis section will provide an itemized breakdown of capital requirements for the startup, expansion or buyout of your business, as well as your proposed structure of financing (i.e., combination of equity and debt financing). It should reflect your knowledge of the types and terms of financing most appropriate to your needs. It should demonstrate that you meet the lender's equity requirements and are prepared to commit business and/or personal assets to secure requested financing.

Main Table of Contents

Section Table of Contents

If the capitalization requirements of your business are extensive, you may wish to list them on a separate page for quick reference by the lender. Your inclusion of supplier names and cost quotations will indicate to the lender that you are providing verifiable estimates of capital costs.

The financial forecasts presented in your financial package should be introduced with summary statements that draw the lender's attention to (a) the "reasonable assumptions" you made while developing your forecasted financial statements (summarized in the explanatory notes following your statements) and (b) your anticipated profits, cash flows and increases in equity based upon the forecasted financial statements. This is your opportunity to focus the lender's attention on the financial strengths of your planned business, as well as to convince the lender that you are capable of performing the cash budgeting and financial management tasks associated with business success.

Illustration 13
V. Financial Analysis
Capitalization Requirements

Illustration 14
V. Financial Analysis,
Part C – Financial Forecasts

Main Table of Contents

Section Table of Contents

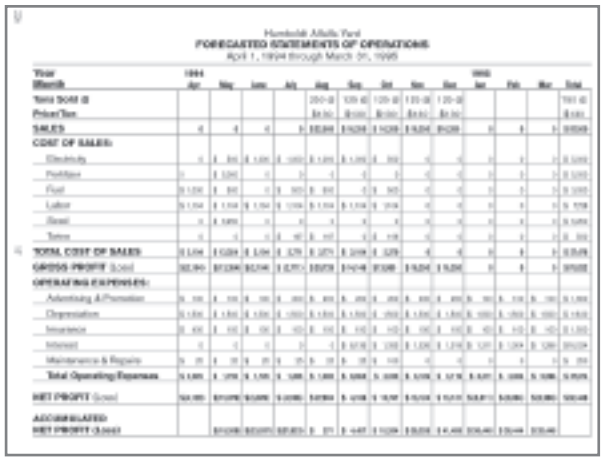
Humboldt Alfalfa Yard
FORECASTED BALANCE SHEETS

	April 1 1994	April 1 1995	April 1 1996	April 1 1997
ASSETS				
Current Assets				
Cash	$ 24,000	$ 44,278	$ 103,483	$ 163,210
Total Current Assets	$ 24,000	$ 44,278	$ 103,483	$ 163,210
Fixed Assets				
Land	$ 100,000	$ 100,000	$ 100,000	$ 100,000
Site Improvements	$ 20,500	$ 20,250	$ 18,000	$ 15,750
Building	$ 4,500	$ 4,050	$ 3,600	$ 3,150
Equipment	$ 183,000	$ 132,750	$ 123,400	$ 123,300
Total Fixed Assets	$ 308,000	$ 257,050	$ 245,000	$ 242,200
TOTAL ASSETS	$ 332,000	$ 301,328	$ 348,483	$ 405,410
LIABILITIES AND OWNER'S EQUITY				
Current Liabilities				
Current Portion of Long-term Debt	$ 6,470	$ 14,188	$ 19,340	$ 16,870
Total Current Liabilities	$ 6,470	$ 14,188	$ 19,340	$ 16,870
Long-Term Liabilities	$ 100,000	$ 179,188	$ 163,830	$ 141,210
TOTAL LIABILITIES	$ 200,000	$ 193,200	$ 176,900	$ 158,000
OWNER'S EQUITY	$ 200,000	$ 200,448	$ 265,677	$ 247,480
TOTAL LIABILITIES AND OWNER'S EQUITY	$ 400,000	$ 401,778	$ 442,583	$ 405,710

Illustration 15
V. Financial Analysis
Forecasted Balance Sheets

Your forecasted balance sheets should be formatted according to examples provided in Guides Two and Three or other standard formats. Beginning and year-end cash balances should be consistent with the balances on the forecasted cash flow statements that follow. Generally cash balances are expected to increase from year to year, while total fixed assets often decrease as a result of depreciation. Lenders will expect to see an increase in owner's equity from year to year, as the proportionate amount of debt financing decreases.

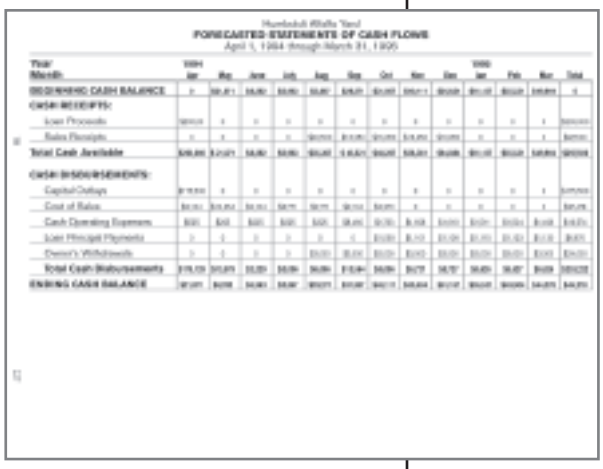
The first year's forecasted statements of operations and cash flows should be done on a month-by-month basis so that the lender can determine the point at which your enterprise will attain profitability and be able to sustain a positive cash flow. Month-by-month statements also reflect your awareness of seasonal peaks and slumps in sales, as well as your cash budgeting capabilities.



Humboldt Alfalfa Yard
FORECASTED STATEMENTS OF OPERATIONS
April 1, 1994 through March 31, 1995

Year	1994									1995			
Month	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Total Sold @					250-@	125-@	125-@	125-@	125-@				750-@
Price/Ton					$ 30	$ 300	$ 300	$ 300	$ 300				$ 300
SALES	0	0	0	0	$ 10,500	$ 10,500	$ 10,500	$ 10,500	$ 10,500	0	0	0	$ 63,000
COST OF SALES:													
Electricity	0	$ 300	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 300	0	0	0	0	0	$ 3,600
Fertilizer	0	$ 1,000	0	0	0	0	0	0	0	0	0	0	$ 1,000
Fuel	$ 1,000	$ 300	0	$ 300	$ 300	0	$ 300	0	0	0	0	0	$ 2,200
Labor	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 500	0	0	0	0	0	$ 9,000
Seed	0	$ 1,000	0	0	0	0	0	0	0	0	0	0	$ 1,000
Taxes	0	0	0	$ 40	$ 40	0	$ 40	0	0	0	0	0	$ 80
TOTAL COST OF SALES	$ 2,500	$ 3,100	$ 2,500	$ 2,840	$ 2,840	$ 2,500	$ 1,140	0	0	0	0	0	$ 16,880
GROSS PROFIT (Loss)	$(2,500)	$(3,100)	$(2,500)	$(2,840)	$ 7,660	$ 8,000	$ 9,360	$ 10,500	$ 10,500	0	0	0	$ 46,120
OPERATING EXPENSES:													
Advertising & Promotion	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 100	$ 1,200
Depreciation	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 18,000
Insurance	$ 400	$ 400	$ 400	$ 400	$ 400	$ 400	$ 400	$ 400	$ 400	$ 400	$ 400	$ 400	$ 4,800
Interest	0	0	0	0	0	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 10,000
Maintenance & Repairs	$ 20	$ 20	$ 20	$ 20	$ 20	$ 20	$ 20	0	0	0	0	0	$ 200
Total Operating Expenses	$ 1,800	$ 1,800	$ 1,800	$ 1,800	$ 1,800	$ 3,800	$ 3,800	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 34,200
NET PROFIT (Loss)	$(4,300)	$(4,900)	$(4,300)	$(4,640)	$(5,860)	$ 4,200	$ 5,560	$ 7,500	$ 7,500	$(3,000)	$(3,000)	$(3,000)	$ 11,920
ACCUMULATED NET PROFIT (Loss)		$(9,200)	$(13,500)	$(18,140)	$ 271	$ 4,471	$ 10,031	$ 17,531	$ 25,031	$ 22,031	$ 19,031	$ 16,031	

Illustration 16
V. Financial Analysis
Forecasted Statements of Operations
(Month-by-Month)



Humboldt Alfalfa Yard
FORECASTED STATEMENTS OF CASH FLOWS
April 1, 1994 through March 31, 1995

Year	1994									1995			
Month	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
BEGINNING CASH BALANCE	0	$ 20,411	$ 16,061	$ 11,761	$ 6,487	$ 10,615	$ 14,815	$ 19,111	$ 23,511	$ 23,511	$ 23,511	$ 23,511	0
CASH RECEIPTS:													
Loan Proceeds	$ 20,000	0	0	0	0	0	0	0	0	0	0	0	$ 20,000
Sales Receipts	0	0	0	0	$ 10,500	$ 10,500	$ 10,500	$ 10,500	$ 10,500	0	0	0	$ 63,000
Total Cash Available	$ 20,000	$ 20,411	$ 16,061	$ 11,761	$ 16,987	$ 21,115	$ 25,315	$ 29,611	$ 34,011	$ 23,511	$ 23,511	$ 23,511	$ 83,000
CASH DISBURSEMENTS:													
Capital Outlays	$ 18,000	0	0	0	0	0	0	0	0	0	0	0	$ 18,000
Cost of Sales	$ 2,500	$ 3,100	$ 2,500	$ 2,840	$ 2,840	$ 2,500	$ 1,140	0	0	0	0	0	$ 16,880
Cash Operating Expenses	$ 800	$ 800	$ 800	$ 800	$ 800	$ 800	$ 800	$ 800	$ 800	$ 800	$ 800	$ 800	$ 9,600
Loan Principal Payments	0	0	0	0	0	0	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 15,000
Owner's Withdrawals	0	0	0	0	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 20,000
Total Cash Disbursements	$ 19,300	$ 20,900	$ 16,300	$ 16,500	$ 16,500	$ 16,300	$ 16,700	$ 16,700	$ 16,800	$ 16,800	$ 16,800	$ 16,800	$ 199,500
ENDING CASH BALANCE	$ 20,411	$ 16,061	$ 11,761	$ 6,487	$ 10,615	$ 14,815	$ 19,111	$ 23,511	$ 27,911	$ 23,511	$ 23,511	$ 23,511	$ 23,511

Illustration 17
V. Financial Analysis
Forecasted Statements of Cash Flows
(Month-by-Month)

Main Table of Contents

Section Table of Contents

Forecasted statements of operations and cash flows for a three-year period can be presented in three-column formats to facilitate the lender's assessment of improvements expected over time.

The three-year forecasted statements of operations will highlight anticipated growth in sales and profits from year to year and provide two- and three-year totals of profits.

The three-year forecasted statements of cash flows will show amounts paid on the principal portion of debt, as well as planned owner's withdrawals, and demonstrate the ability of your business to sustain increasing positive cash flows.


Humboldt Alfalfa Yard
FORECASTED STATEMENTS OF OPERATIONS

Year	1994-1995	1995-1996	1996-1997
Tons Sold	750	1,000	1,000
Price/Ton	$ 120	$ 143	$ 150
SALES	$ 97,500	$ 143,000	$150,000
COST OF SALES			
Electricity	$ 5,000	$ 5,400	$ 5,000
Fertilizer	$ 6,000	$ 6,250	$ 6,500
Fuel	$ 3,000	$ 1,875	$ 1,664
Labor	$ 7,728	$ 6,000	$ 2,000
Seed	$ 6,250	$ 0	$ 0
Twine	$ 500	$ 500	$ 581
TOTAL COST OF SALES	$ 27,478	$ 18,725	$ 20,853
GROSS PROFIT	$ 70,022	$ 125,275	$129,147
OPERATING EXPENSES			
Administrative & General	$ 1,800	$ 1,890	$ 1,985
Depreciation	$ 18,000	$ 18,000	$ 18,000
Insurance	$ 1,500	$ 1,650	$ 1,815
Interest	$ 16,024	$ 14,956	$ 13,779
Maintenance & Repairs	$ 250	$ 1,430	$ 1,500
Total Operating Expenses	$ 37,574	$ 37,926	$ 37,079
NET PROFIT	$ 32,448	$ 87,349	$ 92,068
ACCUMULATED NET PROFIT		$ 117,817	$209,885

Illustration 18
V. Financial Analysis
Forecasted Statements of Operations
(Comparative Annual)

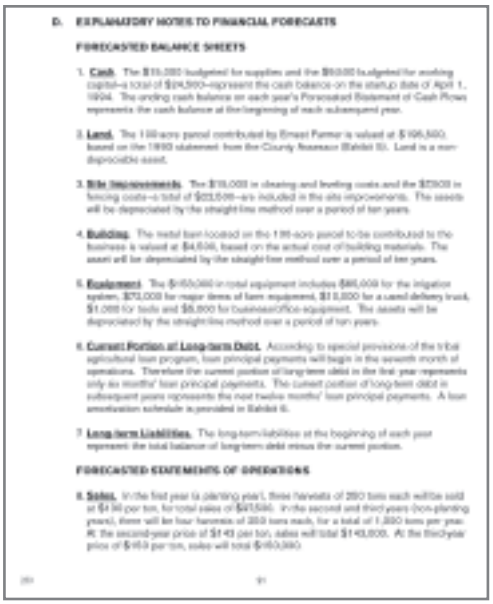

Humboldt Alfalfa Yard
FORECASTED STATEMENTS OF CASH FLOWS

Year	1994-1995	1995-1996	1996-1997
BEGINNING CASH BALANCE	$ 0	$ 44,374	$ 132,462
CASH RECEIPTS:			
Loan Proceeds	$ 300,00	$ 0	$ 0
Sales Receipts	$ 97,500	$ 143,00	$ 150,00
Total Cash Available	$ 397,500	$ 187,374	$ 282,462
CASH DISBURSEMENTS:			
Capital Outlays	$ 175,500	$ 0	$ 0
Cost of Sales	$ 27,478	$ 18,725	$ 20,853
Cash Operating Expenses	$ 19,574	$ 19,926	$ 19,079
Loan Principal Payments	$ 8,870	$ 14,185	$ 15,340
Owner's Withdrawals	$ 24,000	$ 30,000	$ 36,000
Total Cash Disbursements	$ 353,221	$ 82,796	$ 91,372
ENDING CASH BALANCE	$ 44,374	$ 132,462	$ 192,219

Illustration 19
V. Financial Analysis
Forecasted Statements of Cash Flows
(Comparative Annual)

Main Table of Contents

Section Table of Contents



D. EXPLANATORY NOTES TO FINANCIAL FORECASTS

FORECASTED BALANCE SHEETS

1. **Cash.** The $15,000 budgeted for supplies and the $9,000 budgeted for working capital—a total of $24,000—represent the cash balance on the startup date of April 1, 1994. The ending cash balance on each year's Forecasted Statement of Cash Flows represents the cash balance at the beginning of each subsequent year.

2. **Land.** The 118-acre parcel contributed by Ernest Farmer is valued at $196,500, based on the 1993 statement from the County Assessor (Exhibit G). Land is a non-depreciable asset.

3. **Site Improvements.** The $15,000 in clearing and leveling costs and the $7,500 in fencing costs—a total of $22,500—are included in the site improvements. The assets will be depreciated by the straight-line method over a period of ten years.

4. **Building.** The metal barn located on the 118-acre parcel to be contributed to the business is valued at $4,500, based on the actual cost of building materials. The asset will be depreciated by the straight-line method over a period of ten years.

5. **Equipment.** The $155,000 in total equipment includes $85,000 for the irrigation system, $70,000 for major items of farm equipment, $1,000 for a used delivery truck, $1,000 for tools and $8,000 for business/office equipment. The assets will be depreciated by the straight-line method over a period of ten years.

6. **Current Portion of Long-term Debt.** According to special provisions of the tribal agricultural loan program, loan principal payments will begin in the seventh month of operations. Therefore the current portion of long-term debt in the first year represents only six months' loan principal payments. The current portion of long-term debt in subsequent years represents the next twelve months' loan principal payments. A loan amortization schedule is provided in Exhibit G.

7. **Long-term Liabilities.** The long-term liabilities at the beginning of each year represent the total balance of long-term debt minus the current portion.

FORECASTED STATEMENTS OF OPERATIONS

8. **Sales.** In the first year (a planting year), three harvests of 250 tons each will be sold at $41.00 per ton, for total sales of $615,000. In the second and third years (non-planting years), there will be four harvests of 250 tons each, for a total of 1,000 tons per year. At the second-year price of $141 per ton, sales will total $140,000. At the third-year price of $163 per ton, sales will total $160,000.

Illustration 20
V. Financial Analysis
Part D – Explanatory Notes: Forcasted Balance Sheets and Forecasted Statements of Operations

b. **Cost of Sales**–Total costs of electricity, fertilizer, fuel, labor, seed and twine, as shown on the Forecasted Statements of Operations.

c. **Cash Operating Expenses**–Total Operating Expenses (as shown on the Forecasted Statements of Operations), less depreciation, a non-cash expense.

d. **Loan Principal Payments**–Monthly and annual loan principal payments were calculated by a local accountant based on the loan terms offered by the Local Indian Tribe ($200,000 at 8% fixed interest for a term of 10 years). A loan amortization schedule is provided in Exhibit G.

e. **Owner's Withdrawals**–The owner has personal savings sufficient to meet his personal expenses until the business generates a positive cash flow from sales in August. He will withdraw $24,000 in the latter eight months of the first year, $10,000 over twelve months in the second year and $26,800 in the third year.

10. **Ending Cash Balance.** The ending cash balance is the amount of funds available to meet unforeseen costs (such as pest or weed control) and provide for business growth. The ending cash balance in one period becomes the beginning cash balance in the next.

It is important to note that the first-year ending cash balance of $44,378 will be sufficient to cover production costs and operating expenses in the startup months of the second year. If the first cutting of alfalfa in the second year is completed by the end of June, sales could begin in July. Cash required for the months of April through July are estimated as follows:

Cost of Sales:		
Electricity	$ 2,708	
Fertilizer	$ 5,958	
Fuel	$ 928	
Labor	$ 2,478	$ 11,968
Operating Expenses:		
Administrative & General	$ 928	
Insurance	$ 778	
Maintenance & Repairs	$ 407	$ 1,772
Other Cash Requirements:		
Loan Payments (4 @ $3,420/month)		$ 13,708
Owner's Withdrawals (4 @ $2,500/month)		$ 10,000
TOTAL CASH REQUIRED:		**$ 37,448**

Illustration 21
V. Financial Analysis
Part E

The explanatory notes to your financial forecasts will convince the lender that you have done your homework and made reasonable assumptions based upon verifiable market data and cost quotations. The notes provide you an opportunity to demonstrate your accounting, financial management and business planning skills.

Careful attention to details is essential. Your primary objective is to provide a rational basis for every figure included in your forecasted financial statements and to back it up with references to documents provided as exhibits in the Supporting Documents section of the financial package.

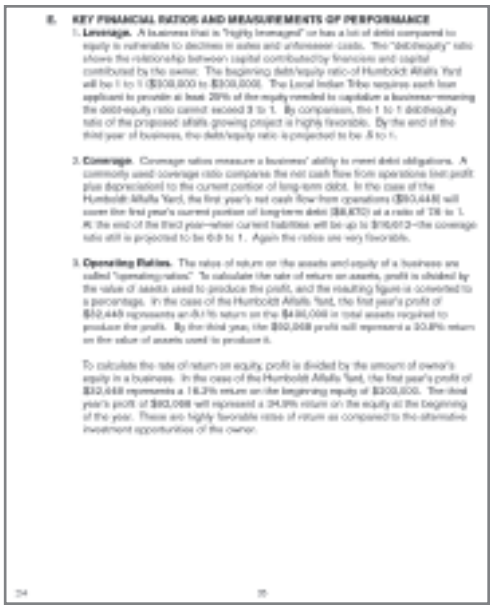
If your financial forecasts require interpretation based on special insights, you may wish to assist the lender in reaching your desired conclusions by providing an in-depth explanation. In this example, the business owner wants to be sure the lender realizes the cash balance at the end of the first year of operation will be sufficient to sustain the business during the "off season" and to cover production costs and operating expenses during the start-up months of the following year. By itemizing and calculating the startup costs of the second year for the lender's ready comparison to the cash balance at the end of the first year, the loan applicant has facilitated the lender's appreciation that the operation will become self-sustaining in one year (i.e., no additional debt will be needed).

Main Table of Contents

Section Table of Contents

Lenders routinely analyze forecasted financial statements by calculating key financial ratios, including leverage, coverage and operating ratios. By calculating these ratios for the lender, you not only can reduce the time required for credit analysis but also can demonstrate your understanding of ratio analysis and your appreciation of its importance to lenders.

Lenders also routinely calculate the break-even sales volume of a business as a tool for assessing the relative degree of risk associated with requested financing. Again, by calculating the break-even sales volume for the lender you not only can reduce the time spent in risk assessment but also can demonstrate your appreciation of break-even analysis as a financial management and planning tool.



E. KEY FINANCIAL RATIOS AND MEASUREMENTS OF PERFORMANCE

1. **Leverage.** A business that is "highly leveraged" or has a lot of debt compared to equity is vulnerable to declines in sales and unforeseen costs. The "debt/equity" ratio shows the relationship between capital contributed by financers and capital contributed by the owner. The beginning debt/equity ratio of Humboldt Alfalfa Yard will be 1 to 1 ($308,800 to $308,800). The Local Indian Tribe requires each loan applicant to provide at least 20% of the equity needed to capitalize a business—meaning the debt-equity ratio cannot exceed 3 to 1. By comparison, the 1 to 1 debt/equity ratio of the proposed alfalfa growing project is highly favorable. By the end of the third year of business, the debt/equity ratio is projected to be .5 to 1.

2. **Coverage.** Coverage ratios measure a business' ability to meet debt obligations. A commonly used coverage ratio compares the net cash flow from operations (net profit plus depreciation) to the current portion of long-term debt. In the case of the Humboldt Alfalfa Yard, the first year's net cash flow from operations ($60,448) will cover the first year's current portion of long-term debt ($8,870) at a ratio of 7.8 to 1. At the end of the third year—when current liabilities will be up to $100,013—the coverage ratio still is projected to be 6.0 to 1. Again the ratios are very favorable.

3. **Operating Ratios.** The ratios of return on the assets and equity of a business are called "operating ratios." To calculate the rate of return on assets, profit is divided by the value of assets used to produce the profit, and the resulting figure is converted to a percentage. In the case of the Humboldt Alfalfa Yard, the first year's profit of $52,448 represents an 8.1% return on the $646,066 in total assets required to produce the profit. By the third year, the $92,068 profit will represent a 20.8% return on the value of assets used to produce it.

To calculate the rate of return on equity, profit is divided by the amount of owner's equity in a business. In the case of the Humboldt Alfalfa Yard, the first year's profit of $52,448 represents a 16.3% return on the beginning equity of $320,800. The third year's profit of $92,068 will represent a 34.9% return on the equity at the beginning of the year. These are highly favorable rates of return as compared to the alternative investment opportunities of the owner.

24 25

Illustration 22
V. Financial Analysis
Part E – Key Financial Ratios

F. BREAK-EVEN ANALYSIS

The formula for calculating a break-even sales volume is:

BES = VC + FC, where BES = Break-even sales
VC = Variable Costs (as a % of Sales),
and FC = Fixed Costs (as a dollar amount)

The first-year variable and fixed costs of the Humboldt Alfalfa Yard (including loan principal payments and owner's withdrawals) are as follows:

Variable Costs	% of Sales	Fixed Costs	Amount
Cost of Sales	28.0%	Admin. & General	$ 1,600
Maintenance & Repairs	.5%	Insurance	1,000
		Interest	16,024
		Loan Principal	8,870
		Owner's Withdrawals	24,000
TOTAL:	28.5%	TOTAL:	$49,494

By substituting these figures into the break-even analysis formula, the break-even sales volume may be calculated as follows:

BES = 28.5% of Sales + $49,494
BES = .285S + $49,494
.715S = $49,494
BES = $69,922 (71.7% of the forecasted sales of $97,500).

Assuming the sales forecast is realistic, the business venture may be regarded as relatively low in risk in light of the $27,578 (28.3%) margin identified by the break-even analysis. It also is interesting to note that if unforeseen past and usual control costs of $5,000 increased the variable costs to 33.8% of sales, the recalculated break-even sales volume would be only $75,390—still 22.8% below the projected sales of $97,500.

26 27

Illustration 23
V. Financial Analysis
Part F – Break-even Analysis

Main Table of Contents

Section Table of Contents

VI. SUPPORTING DOCUMENTS

EXHIBIT 1: Contractor, Dealer and Supplier Quotations on Capital Requirements.

EXHIBIT 2: Humboldt-Del Norte County Area Map; Klamath Vicinity Map.

EXHIBIT 3: Market Survey of Targeted Dairy Farmers–December 1995.

EXHIBIT 4: Personal Resume of Ernest Farmer; Job Description for Seasonal Farm Laborers; Organizational Chart.

EXHIBIT 5: County Assessment of Business Property (1995).

EXHIBIT 6: Loan Amortization Schedule.

EXHIBIT 7: Personal Financial Statements and Credit Profile of Ernest Farmer, January 1, 1996.

EXHIBIT 8: Federal Income Tax Return of Ernest Farmer (1995).

Illustration 24
VI. Supporting Documents

For the lender's ease in accessing the exhibits provided in the Supporting Documents section of your financial package, provide a summary index page labeled "Supporting Documents" or "Exhibits." Place the supporting documents behind numerically tabbed index pages.

Main Table of Contents

Section Table of Contents

When Will Your Financial Package Be "Complete"?

Your financial package will be "complete" when it includes all the information needed to convince an objective financier that *you can sell products or services at competitive prices and make sufficient profits to repay business debts, sustain the growth of your business and support yourself.* Since it will be impossible for you to be objective about your own written presentation, you will need to ask someone to help you evaluate it. Before submitting your business plan to prospective financiers, it's a good idea to have a few friends or acquaintances read it and give you some feedback. Ask the following questions:

- **Is it clear and convincing?** Your business plan and financing proposal should be written in "plain English." Its primary purpose is to impress prospective financiers with your knowledge of your business and the market environment within which it operates, your management and organizational skills, and your probability of success in business. A secondary objective will be to impress prospective lenders with your honest and forthright manner. The preferred writing style will be simple and straightforward, with a marked absence of embellishment. Ask your readers whether your package inspires confidence in you—and if not, *why not.*

- **Is it concise and well organized?** When it comes to technical writing in general, and financial packages in particular, *more is not necessarily better.* Unless your business is of a very specialized nature, your business plan should not be more than 20 to 25 pages long (excluding exhibits). Many plans can be completed in fewer than 15 pages. Say what needs to be said—no more and no less. Organize your package with tabbed and clearly labeled index pages so that readers easily can access any major section or exhibit.

- **What is most and least impressive about it?** Many readers are reluctant to make negative comments—even for constructive purposes—*unless specifically asked to do so.* One way to facilitate negative comments is to ask for impressions of both strengths and weaknesses—the good and bad points taken together. This is your opportunity to find out what "works" and what doesn't in the original draft of your financial package. Knowing that will help you build upon strengths while remedying the weaknesses in your written presentation.

Main Table of Contents

Section Table of Contents

Will You Need Professional Assistance?

If the nonprofessional feedback on original and subsequent drafts of your business plan is "not good news," you will want to seek professional advice or assistance. Not every business owner is an expert in business planning and technical writing. Large companies routinely seek help from professional consultants, and you should not hesitate to do so when you need assistance. In addition to specializing in business planning and finance, a professional financial packager can lend a fresh approach, an objective viewpoint and the wisdom of experience to your financing effort.

Private consultants generally are listed in the yellow pages of local telephone directories under the headings "business consultants," "business development," "business finance" and "business management." Approaches to, and fees for, business planning and financial packaging vary widely. It's a good idea to request a description of the approach and estimate of fees from three or four prospective consultants before retaining one. If you have decided on a prospective lender, ask for the names of consultants they recommend.

Free and low-cost business planning assistance is available from the U.S. Small Business Administration through its Service Corps of Retired Executives (SCORE) program and its national networks of Small Business Development Centers (SBDCs), Tribal Business Information Centers (TBICs) and university-based Small Business Institutes. The U.S. Department of Commerce, Minority Business Development Agency (MBDA), assists Indian and other minority business owners through its national network of Indian and Minority Business Development Centers. These organizations are designed specifically to help existing and prospective business owners develop management skills, access business capital, and increase sales and profits. You can contact the nearest SCORE, SBDC, TBIC or Small Business Institute by calling the SBA's toll-free telephone number: 1-800-8-ASK-SBA. For the number of the nearest Indian or Minority Business Development Center, call the U.S. Department of Commerce at (202) 482-2000.

Many states, counties and tribes have established economic development corporations to assist in planning, financing, starting and expanding small business enterprises. Many of these corporations offer direct or indirect (referral) services that include business planning and financial packaging assistance, and most offer extensive informational resources for small business owners. You will find their contact information in local telephone directories under the appropriate local government listings.

Main Table of Contents

Section Table of Contents

How Should You Present Your Completed Financial Package?

Whenever possible your financial package should be presented to prospective financier(s) in a personal visit. Your best opportunity to secure financing will be afforded by making an appointment for an "initial interview" during which you will introduce yourself and your business plan to the loan (or grant) officer. Describe the research you have done to determine the capitalization requirements of your project and demonstrate its feasibility. Then present your financial package and review the key points contained in the Executive Summary. Refer the loan officer to the Table of Contents so that it will be apparent the information essential to credit decisions is being presented in an organized fashion.

Ask whether the lender would prefer to discuss the details of the package immediately, or review it first and discuss it in a follow-up visit. Although you should be prepared to discuss your financial package fully on the first visit, in most cases the lender will appreciate your willingness to return at a later time. Be sure to ask whether the lender can anticipate any needs for additional information before your return, and leave a business card if you have one.

The initial visit with your prospective financier may be as short as 10 to 15 minutes or as long as an hour. You will want to appear calm and confident. If you are unaccustomed to one-on-one meetings and oral presentations, you might want to rehearse in a mirror, with a friend or with a consultant. While consultants sometimes accompany clients during visits with prospective financiers, they should not appear "to speak for" their clients. You will want to demonstrate that you are competent and conversant in your line of business, and that your consultant serves in an appropriate advisory capacity.

If you must present your financial package by mail, you will need to prepare a letter of transmittal that serves the same function as an initial interview. Your letter should introduce you and your business plan, emphasizing the research you have done to determine the capital requirements and feasibility of your project. Indicate that you will follow up with a call to the loan (or grant) officer on a specified morning or afternoon in order to arrange a personal or telephone visit regarding your financial package—and then make your call at the specified time. Your letter also should provide your home, office and message telephone numbers in case the time of your intended follow-up call will be inconvenient for the lender.

Main Table of Contents

Section Table of Contents

If the lender's review of your financial package results in a request for clarification, additional information or more supporting documents, acknowledge the request immediately and respond as promptly as possible. If the information is not readily available, provide the lender with an estimated date of delivery and make a follow-up call when you are prepared to deliver. Your prompt and thorough response to the lender's requests for information and documents will demonstrate a high level of motivation, organization and overall preparation for the challenges of business ownership. Strive to cultivate a relationship with your lender that is characterized by cooperation and honesty. With your lender "on your team," you will have the optimum opportunity to secure financing in an expeditious manner.

Main Table of Contents

Section Table of Contents

How Can You Overcome Obstacles to Financing?

Any foreseeable obstacles to the success of your business also may be regarded as an obstacle to securing financing. *The Indian Business Owner's Guides to Developing a Marketing Plan, Performing a Preliminary Feasibility Study and Preparing a Business Plan* have been designed to assist you in minimizing the risks of business ownership by anticipating problems and developing solutions during the planning stage. Throughout *The Indian Business Owner's Guides* you have been encouraged to discuss your business concept with people who might have "inside information"—accountants, attorneys, bankers, business owners, chambers of commerce, consultants, economists, insurance agents, licensing bureaus, local planning departments, real estate brokers, suppliers and trade associations. It will be especially important to ask these people what obstacles to success they might foresee and what remedies they might suggest.

Many of the potential obstacles to success relate directly to the nature of a given business and the market environment within which it operates. For example, it is difficult to finance the major assets of a video rental business because they consist primarily of videotapes and DVDs that leave the premises each day with customers who may or may not return them. Few lenders are willing to secure a debt with collateral that is entrusted to unknown parties on a daily basis. Knowing that, the prospective business owner might offer unencumbered personal assets as collateral or request participation in a federal loan guaranty program.

Even if you have prepared a realistic and well-documented business plan, your initial attempt to secure financing may not be successful. Experienced financial packagers can attest to the fact that sometimes more is learned from a denial of financing than from an approval. The key to ultimate success is to refrain from taking the initial denial personally—seek an opportunity to explore the reasons for the denial. Tell the financier you respect his or her judgment and you need to know under what (if any) circumstances your request for financing would be approved. By proceeding in this manner, you can enlist the financier's help in overcoming the identified obstacles to financing.

Main Table of Contents

Section Table of Contents

As you consider the financier's reasons for denying your request for financing, it may help to categorize them according to the "6 C's of Success" discussed in Guide Three (pages 152-159) and Guide Four (pages 249-250). In most instances, a given category of problems will demand the same category of solutions. As examples:

- If your credit history or employment references cast doubts about your ***character***, you will need to explore solutions that reflect positively upon your character. While long-range solutions might involve building up good credit and employment references over a period of several years, there may be short-term remedies as well—e.g., a business partner or co-signer in whom the financier has more confidence.

- If your business and related employment experience is deemed too limited, the financier may be concerned about your ***capability*** to operate a business successfully. Again the long-range solutions might include gaining more experience in your specific line of business, while short-term strategies might include a partner, employee or subcontractor with capabilities that complement your own.

- If ***conditions*** in the market place are considered generally unpredictable, you might need to secure letters of intent to hire, purchase orders or contracts for services so that your prospective financier can see that your market is assured. If other environmental conditions (e.g., the availability of raw materials essential to your business) are uncertain, you may need to provide other kinds of assurances (e.g., a supplier's commitment to deliver raw materials, contingent upon your ability to secure the requested financing).

- If your investment of ***cash*** does not meet the financier's minimum equity requirement, or the forecasted ***cash flows*** of your business do not afford a comfortable cushion after debt service, you might need to restructure the financing of your business so there is proportionately more equity and less debt. You might generate more equity through a general or limited partnership, by incorporating and selling ownership shares in your business, or by seeking a seed capital grant from a federal or private agency.

Main Table of Contents

Section Table of Contents

- If your ***credit*** history is limited, you may need to identify a credit worthy co-signer or request participation in a federal loan guaranty program. (If you credit history is negative, you will need to explore the remedies proposed for character-related obstacles.)
- If your business assets are considered insufficient or poor quality ***collateral***, review your personal balance sheet to determine whether you have unencumbered personal assets that can be pledged as security for business financing. As an alternative, you might request participation in a federal loan guaranty program for which your business and/or personal assets are considered adequate collateral.

Occasionally a lender's denial of financing will be based more on its internal operating policies than assessments of your business plan *per se*. For example, if a bank's commercial loan portfolio is heavily concentrated in one industry—especially a declining or slow-growth industry—it may forego additional loans to businesses related to that industry. The idea is to diversify loan risks by avoiding a situation in which the bank "has all its eggs in one basket." If a prospective lender cites "policy" as the reason for denying your request for financing, ask for a referral to another source. If no referral is given, seek the advice of a professional financial packager.

In many instances, overcoming obstacles to financing is a matter of effective negotiation and perseverance. Sometimes all that is needed is a willingness to modify the proposed loan amount, terms or security. Sometimes what is unacceptable to one lender may be acceptable to another. If you embrace the challenge of securing business financing as a step-by-step process of overcoming obstacles by "fine tuning" your financial package and locating the most appropriate source(s) of financing, you will minimize your frustration and maximize your chances of succeeding in due course.

Main Table of Contents

Section Table of Contents

Supplemental Electronic Resources

Catalog of Federal Domestic Assistance

General Services Administration
1800 F street N.W.
Room 4041
Washington, DC 20405
Telephone: 202-208-1582

The online Catalog of Federal Domestic Assistance gives you access to a database of all federal programs available to state and local governments (including the District of Columbia); federally-recognized Indian tribal governments; territories (and possessions) of the United States; domestic public, quasi-public, and private profit and nonprofit organizations and institutions; specialized groups; and individuals. You can search this database for assistance programs that meet your needs and for which you are eligible. You then can contact the office that administers the program and find out how to apply. Also available on this site are several aids to guide you in preparing an application for assistance. The site has many downloadable forms that are common for federal grant applications, such as the SF 424, SF 424A and SF 424B.
http://www.cfda.gov

Food and Drug Administration (FDA)

Small Business Program
Room 2074, HFA230
5600 Fishers Lane, Rockville, MD 20857
Telephone: 301-827-7211
Fax: 301-827-7228

This program is designed to help small businesses participate in the agency's procurement and contract activities. The program's goal is to seek out and encourage small, disadvantaged, women-owned and HUBZone small businesses to provide the agency with needed products and services. Procurement activities include the purchase of animals for research, animal feed, bedding, cages, laboratory glassware, chemicals and supplies, research studies, conference support, training, computer support services, facilities support, and other related products and services.
http://www.fda.gov/oc/ofacs/fdasbo/default.html

Main Table of Contents

Section Table of Contents

GRANTS.GOV
Grants.gov allows organizations to electronically find and apply for competitive grants from all federal grant-making agencies. Grants.gov is the single access point for over 900 grant programs offered by 26 Federal grant-making agencies. This site is an excellent "first stop" when looking for grants (not loans) for your business. The site also has downloadable application packages and forms and is updated almost daily.
http://www.grants.gov/

Small Business Administration
"Applying for a Loan"
http://www.sba.gov/starting_business/financing/applyloan.html

"Loan Package Checklist"
http://www.sba.gov/starting_business/financing/loanpackagechecklist.html

"Preparing and Presenting a Loan Proposal"
http://www.sba.gov/starting_business/financing/loanproposal.html

"Local SBA Resources"
To find your local certified/preferred lenders, contact the SBA district office and ask for the list of lenders participating in the program. To locate the SBA district office serving your area, visit the website below and click on your state.
http://www.sba.gov/regions/states.html

"Basic 7(a) Loan Program"
http://www.sba.gov/financing/sbaloan/7a.html

"Application for Business Loan"
http://www.sba.gov/sbaforms/sba4.pdf

"Certified Development Company (504) Loan Program"
http://www.sba.gov/financing/sbaloan/cdc504.html

"Micro-Loans"
http://www.sba.gov/financing/sbaloan/microloans.html

The SBA offers an online tutorial on financing programs available through the SBA and other government agencies. Start the tutorial at:
http://www.sbaonline.sba.gov/managing/financing/growth.html

Main Table of Contents

Section Table of Contents

U.S. Department of Agriculture (USDA)
12th Street and Independence Avenue, SW
Washington, DC 20250

Cooperative State Research, Education, and Extension Service
The USDA Cooperative State Research, Education, and Extension Service offers a variety of funding opportunities on its website.
http://www.csrees.usda.gov/fo/funding.cfm

You also can find more information about your local extension office at:
http://www.csrees.usda.gov/Extension/index.html

Farm Service Agency *Online*
The USDA FSA makes direct and guaranteed farm ownership (FO) and operating loans (OL) to family-size farmers and ranchers who cannot obtain commercial credit from a bank, Farm Credit System institution, or other lender. FSA loans can be used to purchase land, livestock, equipment, feed, seed, and supplies.
http://www.fsa.usda.gov/dafl/default.htm

U.S. Department of Commerce (DOC)
Office of Business Liaison
14th Street and Constitution Avenue, NW
Room 5898C
Washington, DC 20230

DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.
www.commerce.gov

"Grant Opportunities"
http://www.commerce.gov/grants.html

Main Table of Contents

Section Table of Contents

Minority Business Development Agency
1401 Constitution Avenue, NW
Washington, DC 20230
Toll Free: 888-324-1551
help@mbda.gov

Directory to local offices:
http://www.mbda.gov/?section_id=1&parent_bucket_id=151&content_id=2264

Resource Locator:
http://www.mbda.gov/index.cfm?fuseaction=rls.search

"Phoenix Database"
The Phoenix Database is a listing of minority-owned enterprises doing business in the United States; it is maintained by the Minority Business Development Agency (MBDA) of the US Department of Commerce. MBDA uses the Phoenix Database in conjunction with the "Opportunity Database" to inform and refer listed minority companies via email and fax regarding contract and other business opportunities. This is a *free* service provided by the Department of Commerce's MBDA and is available to all qualifying MBDA clients. You must create an MBDA account (free) and then register (free) with the Phoenix Database. Phoenix matches the listed minority-owned firms' products and services with upcoming federal and non-federal requirements or requests for proposals and notifies the firms of these procurement opportunities by either email or fax.
http://www.mbda.gov/index.php?section_id=1&tools=3

U.S. Department of Energy
Weatherization and Intergovernmental Program
Tribal Energy Program
The Tribal Energy Program solicits, awards, administers, and manages financial assistance agreements for renewable energy and energy efficiency on Tribal lands. For a general overview of the financial assistance process and a guide to obtaining financial assistance through the U.S. Department of Energy, visit
http://www.eere.energy.gov/tribalenergy/financial.html

Main Table of Contents

Section Table of Contents

U.S. Department of Housing and Urban Development (HUD)
Office of Community Planning and Development
451 7th Street S.W.,
Washington, DC 20410
Telephone: 202-708-1112
TTY: 202-708-1455

"Economic Development Programs"
This site provides a summary of the various programs and initiatives in the Office of Economic Development and links to related federal economic development programs.
http://www.hud.gov/offices/cpd/economicdevelopment/programs/index.cfm

U.S. Department of Health and Human Services (DHHS)
200 Independence Avenue, S.W.
Washington, D.C. 20201
Telephone: 202-619-0257
Toll Free: 877-696-6775

The department includes more than 300 programs covering a wide spectrum of activities. Some highlights include health and social science research, assuring food and drug safety, improving maternal and infant health, and medical preparedness for emergencies, including potential terrorism.
http://www.dhhs.gov

"Grants and Funding"
http://www.hhs.gov/grants/index.shtml

U.S. Department of Labor (DOL)
Employment and Training Administration
Frances Perkins Building
200 Constitution Avenue, NW
Washington, DC 20210

"Government Incentives & Assistance"
Learn about the government programs to help your business. The programs below are available to help you reduce costs and/or assist you with your employees.
http://www.doleta.gov/business/Incentives/

Main Table of Contents
Section Table of Contents

U.S. Department of Treasury (DOT)
Community Development Financial Institution (CDFI) Fund
601 13th Street, NW
Suite 200, South
Washington, DC 20005
Telephone: 202-622-8662
Fax: 202-622-7754

The CDFI Fund provides relatively small infusions of capital to institutions that serve distressed communities and low-income individuals. The Fund's activities leverage private-sector investments from banks, foundations, and other funding sources. Since the Fund's creation, it has made more than $534 million in awards to community development organizations and financial institutions.
http://www.cdfifund.gov/

U.S. Department of Commerce
Economic Development Administration (EDA)
14th Street & Constitution Ave., N.W.
Washington, DC 20230

The Economic Development Administration (EDA) provides grants for infrastructure development, local capacity building, and business development to help communities alleviate conditions of substantial and persistent unemployment and underemployment in economically distressed areas and regions.

"Funding Opportunities"
http://www.eda.gov/InvestmentsGrants/Investments.xml

U.S. Environmental Protection Agency (EPA)
Ariel Rios Building
1200 Pennsylvania Avenue, N.W.
Washington, DC 20460
Telephone: 202-272-0167

In recent years, between 40 and 50 percent of EPA's enacted budgets have provided direct support through grants to environmental programs. EPA grants to states, non-profits and educational institutions support high-quality research that will improve the scientific basis for decisions on national environmental issues and help EPA achieve its goals.
http://www.epa.gov/ogd/

Main Table of Contents
Section Table of Contents

References

Bank of America NT&SA, "Small Business Reporter: Financing Small Business" (Marketing Public Relations, Department #3120), March 1985.

Bureau of Indian Affairs, Division of Financial Assistance, U.S. Department of the Interior, "Financial Assistance for Indian Economic Development Projects" (U.S. Government Printing Office: 1991-298-682 [40681]).

Commission for Economic Development, State of California, "Starting & Succeeding in Business: A Guide for California Entrepreneurs" (California Commission for Economic Development and Pacific Bell Directory),1991.

U.S. Small Business Administration, "Business Loans & The SBA," OPC-6, September 1991.

U.S. Small Business Administration, "When A Little Can Go A Long Way: Microloan Program," 50-00.28, January 1992.

U.S. Small Business Administration, Office of Veteran's Affairs, "Veteran's Handbook," OVA 90-00.50, 1989.

Cathy Walters, Executive Editor, "How To Prepare A Loan Package," *Small Business Success*, IV: 4-6 (Pacific Bell Directory), 1991.

Cathy Walters, Executive Editor, "Financing Options for Small Business," *Small Business Success*, IV: 708 (Pacific Bell Directory), 1991.

J. Fred Weston and Eugene F. Brigham, *Managerial Finance*, Sixth Edition (Hinsdale, IL: The Dryden Press), 1978.

Main Table of Contents

Section Table of Contents

Glossary of Terms

Accounts receivable. Amounts owed to a business for sales made on a credit basis.

Advertising media. Methods and modes of communication used to promote products or services and generate sales; e.g., radio, television, telephone, printed ads, signs, mailings, novelty items and directory listings.

Assets. Cash and ownership interests in business or personal property (e.g., land, buildings, equipment, fixtures, furniture, leasehold improvements, machinery, patents, retirement accounts, trusts and vehicles).

Billable days (or hours). The time during which a business generates revenues for services rendered; "billable" time excludes time spent in administrative, marketing and training activities, as well as holidays and leaves.

Business plan. A written statement of business goals, proposed marketing activities, intended methods of production, identified managerial and technical strengths, and expected financial results over a specified period of business operation.

Break-even analysis. A mathematical tool used to determine what volume of sales (in units or dollars) will enable a business to exactly cover its costs and, therefore, "break even." Break-even analysis can be used to set prices and to assess financial risks.

Capital. The cash and other assets needed to start or operate a business; also called "capitalization requirements."

Cash flow(s). The cash moving into and out of a business; income received and payments made out.

Collateral. Assets pledged as security for loans and other debts.

Competitive edge. Any advantage, improvement, innovation or other beneficial characteristic that enables consumers to distinguish between the products or services of competing businesses.

Main Table of Contents

Corporation. An organization chartered by a federal, state or tribal government for the purpose of conducting specified for-profit or non-profit activities according to rules of operation ("bylaws") approved by the chartering agency. A business corporation is recognized as a legal entity that is separate and distinct from its owners ("shareholders").

Co-signer (Guarantor). A person who promises to pay another's debt obligation if that person fails to pay in the agreed-upon manner.

Cream-skimming. A pricing strategy that emphasizes sales to a select group of customers who willingly pay more for higher value.

Current assets. Cash and other assets that can be converted to cash within a short period of time, usually less than one year; e.g., accounts receivable and inventory.

Current liabilities. Financial obligations that are due and payable within one year or less; e.g., accounts payable, accrued expenses payable and the total of principal payments that will be due on long-term debts within one year.

Debt financing. Funds borrowed to start or operate a business. When debt financing is "secured" a creditor has recourse against specific property assets ("collateral") as a secondary source of payment; i.e., the creditor could gain possession of the property and sell it to recover all or part of the outstanding debt. When debt financing is "unsecured" a creditor relies solely on the borrower's promise to pay; i.e., no collateral is provided.

Disbursement. Cash paid out of a business.

Economic feasibility. The ability of a business to sell products or services at competitive prices and realize sufficient revenues to cover its operating costs, repay its debts, sustain its growth and support its owner(s); also known as "financial" and "market" feasibility.

Encumbered assets. Assets used to collateralize debts; property with a lien, claim or liability resulting from a mortgage or other security agreement.

Main Table of Contents

Equity. Ownership interest in a business; shares of stock in a corporation; the difference between the total value of assets and the total amount of liabilities; also called "net worth."

Expected life (of an asset). The period of time during which an asset can be utilized to generate income for a business.

Feasibility study. The process of exploring the financial and human potential of a business idea through concept formation, resource identification, information gathering, sales forecasting, financial analysis and risk assessment.

Financial package. A set of written documents developed for the purpose of obtaining business financing; the "package" typically consists of application forms required by the prospective financier(s), a business plan and supporting documents.

Financial statements. Reports that summarize the financial condition and performance of a business; e.g., balance sheet, statement of operations and statement of cash flows. "Forecasted" financial statements predict the future financial condition and performance of a business.

5 P's of marketing. People, product, price, place and promotion; these key market factors interact to determine the market share that can be captured by a business.

Fixed costs. Business costs that are incurred and must be paid in fixed amounts and at regular intervals.

Factoring. An arrangement whereby a finance company makes an outright purchase of a business' accounts receivable at a discounted value, providing the business with ready cash at a cost that includes compensation to the finance company for the effort required to collect the receivables.

Flooring. An arrangement whereby a lender finances the high-priced merchandise inventory of a business and holds a security interest in the inventory until the debt is repaid; flooring arrangements are basically secured lines of credit.

Main Table of Contents

Income. Gross receipts of a business ("sales revenues"); the difference between a business' sales revenues and all direct and indirect costs of operation ("net income" or "profit"). "Personal income" includes all taxable and nontaxable funds received from salaries and wages, tips, dividends, public assistance, retirement accounts, gifts and inheritances.

Interest, prime rate of. The interest rate major banks charge for short-term loans to the biggest, most creditworthy businesses.

Interest, rate of. The amount charged for the use of borrowed funds. A "fixed" rate of interest does not change during the term of debt repayment; a "variable" or "adjustable" rate of interest varies in a specified relationship with the prime rate of interest, usually on a quarterly basis.

Interest rate risk. The risk that a lender's cost of borrowing funds will increase without any means of passing the increased cost along to borrowers in order to preserve the lender's established rate of return on loaned funds.

Job description. A written description of the qualifications, duties, responsibilities and reporting relationships of an employee.

Lease. An arrangement by which a specified amount of money is paid for the use of property assets during a given period of time.

Letter of intent. A letter or other document from a contracting agency or customer indicating an intention to purchase from a business.

Liabilities. Amounts owed to others ("debts"); "current liabilities" are financial obligations that are due and payable within one year or less, and "long-term liabilities" are debts with terms of repayment extending beyond one year.

Liquidity. A business' ability to convert accounts receivable, inventory and other property assets into cash quickly and easily.

Loan amortization schedule. The schedule according to which specified amounts of principal and interest will be paid until a loan or other debt is retired; also called "mortgage schedule."

Main Table of Contents

Loan terms. The conditions for repayment of a loan; e.g., rate of interest charged, repayment schedule (amount, frequency and total number of payments), security required (if any) and actions to be taken in the event of a "default" (nonpayment or late payments).

Managerial feasibility. The capability of a business' owner(s) to plan, organize, direct and control the various management functions of a business, including accounting, finance, marketing, employee development and recordkeeping.

Market. The total demand of potential buyers for your product or service, also known as "market demand."

Market demand. People with unsatisfied needs or wants (potential buyers), money to spend (purchasing power) and a willingness to spend (motivation to buy).

Market penetration (maximum). A pricing strategy aimed at achieving the highest possible volume of sales by offering the same products or services as competitors, but at lower prices.

Market projections. Estimated future sales or "forecasted sales."

Market research. Gathering and analyzing primary and secondary market data for the purpose of forecasting sales and predicting related buyer behaviors.

Market segmentation. Classifying "target markets" or consumer groups on the bases of demographics (e.g., population distribution, age, sex, stage in family life cycle, education, occupation, ethnic group, religion and special needs), distribution of disposable income and buyer behaviors.

Market share. The percentage or proportion of the total available market to be captured by a business.

Market value. The price that a prudent buyer would agree to pay and a prudent seller would agree to accept in a sale of property subject to prevailing market conditions.

Net worth. The total ownership interest in a business; the difference between the total value of assets and the total amount of liabilities; also called "equity."

Main Table of Contents

Organization. The legal form of business ownership and operation; e.g., sole proprietorship, partnership, corporation, subchapter S corporation and joint venture.

Organizational chart. A graphic depiction of an organization's "chain of command" or internal reporting relationship among persons, departments or other functional divisions.

Owner's draws (withdrawals). Cash withdrawn by the owner of a business as compensation for self-employment.

Partnership. A business operated by two or more owners subject to the terms of an oral or written agreement.

Profit. The difference between a business' sales revenues and cost of goods sold ("gross profit") or between a business' sales revenues and all direct and indirect costs of operation ("net profit").

Promotional activities. Advertising, signs, window displays, store exhibits, free samples, coupon sales, personal selling, public relations, stationery, business cards and other activities used to generate sales of products or services. "Advertising" attracts people to a business, "merchandising" heightens their interest in buying after they arrive, and "sales presentations" may be required to "make the sale."

Real property (real estate). Land and everything that is connected or permanently attached to it (e.g., structures and growing crops).

Receipts. Cash paid into a business for its products or services; cash sales and cash payments on accounts receivable.

Site selection criteria. Characteristics of a business location that impact its ability to generate sales and profits; e.g., accessibility, attractiveness, complementary neighboring business, lease/purchase price, lighting, number of/distance to competitors, parking facilities, population distribution/purchasing power, visibility, windows and signs, and volume of car and foot traffic.

Main Table of Contents

6 C's of success in business. Character, capability, conditions (in the market environment), cash, credit and collateral; these are key factors in the success potential of a business as well as its ability to access capital.

Sole proprietorship. A business owned and operated by one person.

Structure of financing. The combination of owner's equity and debt used to fund the startup and operation of a business; the ratio or proportion of financing derived from owner's equity and debt.

Target market. A "market segment" or consumer group whose specific needs a product or service is designed to meet.

Technical feasibility. The capacity of a business to utilize resources and technology efficiently in order to produce goods or services cost-effectively—without adverse impact on the human or physical environment.

Trade credit. Short-term financing offered by suppliers to credit-worthy businesses.

Unit contribution. The difference between the sale price and the variable cost of providing a product or service; the amount from each unit sold that is contributed toward coverage of fixed costs.

Variable costs. Business costs that fluctuate up and down ("vary") according to fluctuations in sales and production activities.

Working capital. The cash available to support the ongoing operations of a business.

Main Table of Contents

Subject Index

Main Table of Contents

F

G

H

I

Main Table of Contents

Main Table of Contents

Main Table of Contents