

The ABC's of Business

by Jackie George

Editor's Note: Last month readers got an introduction to this new series and some basic information about putting together a business plan. This month's article reviews three elements that should be included in your business plan: an advertising campaign, a budget, and a cash flow statement.

ADVERTISING

Most retailers already know the benefits of advertising. Some will even spout the old adage, "word of mouth is the best advertising". There is a reason

why this is an old adage: it's an old way of thinking. Advertising isn't an afterthought for successful retailers. It's no longer what stores can afford to do when times are good. It's a necessity. A recent cartoon pointed out the value of advertising. Two business partners are lamenting the lack of sales, when one comes up with the idea to cut back overhead. "We'll cut out our advertising, and save tons of money!" he says. Six months later they are shown in a store filled with "going out of business"

FIGURE 1
SAMPLE BUDGET FOR YEAR END 199_

Income

Sales	\$135,000.00	
Less Returns and Allowances	\$ 800.00	
Net Sales		\$134,200.00

Cost of Goods Sold

Beginning Inventory (January 1)	\$50,000.00	
Plus Purchases	\$60,000.00	
Less Returns and Allowances	\$ 600.00	
Cost of Goods Available for Sale		\$109,000.00

Less Ending Inventory (December 31)	\$54,000.00	
Cost of Goods Sold		\$55,400.00
Gross Profit		\$78,800.00

Operating Expenses

Wages	\$36,100.00	
Rent	\$12,000.00	
Telephone	\$ 800.00	
Supplies	\$ 3,026.00	
Insurance	\$ 960.00	
Advertising	\$ 4,100.00	
Depreciation on Fixtures	\$ 800.00	
Total Operating Expense		\$57,786.00
Net Profit		\$21,014.00

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banners and final clearance signs. They are swamped with customers. Regretfully, one partner says to the other, "Isn't it amazing how great business is when you tell your customer what you're doing?" Advertising is not a luxury to businesses. Unfortunately, when times get tough, the advertising budget is usually the first item to get trimmed. What many retailers fail to understand is that when times are good, it pays to advertise. But when business is down, you must advertise. Studies of

the last six recessions have proven that businesses which increased their advertising in tough times have shown greater profit increases than those who cut back. But before you can plan your ad campaign, it's important to have something to say. Let's start by examining what you want to sell about your business. You can begin by listing three things that set you apart from other stores that offer similar merchandise or services. Once you've got these written down, you've composed your

FIGURE 2
CURRENT BALANCE SHEET SAMPLE

Assets		
Current Assets		
Cash	\$ _____	
Accounts Receivable	\$ _____	
Inventory	\$ _____	
Total Current Assets		\$ _____
Fixed Assets		
Fixtures	\$ _____	
Building	\$ _____	
Land	\$ _____	
Equipment	\$ _____	
Total	\$ _____	
Less Depreciation	\$ _____	
Total Fixed Assets		\$ _____
Total Assets		\$ _____
Liabilities		
Accounts Payable	\$ _____	
Bank Loan	\$ _____	
Accrued Expenses	\$ _____	
Total Liabilities		\$ _____
Net Worth (Assets Minus Liabilities)		\$ _____

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message. But where should you send it? After all, the name of the game is getting your message to the right audience: target marketing. For most independent retailers, this will involve direct mail. According to a recent HIA (Hobby Industry Association) Consumer Study, 21% of consumers said that a sales circular/mail most influences their decision where to shop. Another 17% said a sales circular/newspaper most influences their

decision; 12% said it was a discount coupon in the mail that influenced them most; and newspapers, magazines, and TV ads came in at 11%, 10%, and 3% respectively. There is certainly a variety of ways to advertise. Many small, independent stores use a local newspaper ad. Radio advertising isn't a very popular medium at the time, but television is growing. Along with infomercial programming and home shopping programs, there are ready-

FIGURE 3
SIX MONTH CASH FLOW STATEMENT

Month	Jan	Feb	Mar	Apr	May	Jun
Opening Balance						
Receipts						
Sales						
Other						
Total						
Disbursements						
Rent						
Salaries						
Utilities						
Inventory						
Insurance						
Advertising						
Bank and Credit Card Charges						
Office Supplies/Postage						
Telephone						
Subscriptions/Assoc. Fees						
Legal/Accountant						
Bank Loan/Interest						
Other						
Total						
Closing Balance						

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made TV ads that are available from associations and suppliers in the industry that can be customized for your use. No matter how you decide to advertise, make sure you don't rely on selling product in your ads. That's not what your customers are buying. Instead, sell the idea of what the product can do for the customer. People are buying mats, moulding, and glazing. They are buying new interior design trends and home decorating ideas. Sell the benefits first and the product sales will follow. How much should you budget for your advertising program? The average retail operation spends 3% of their gross sales on advertising. It's not a matter of whether you should advertise. Rather, you should consider how much your advertising budget will be, what your message is, and how you will deliver that message to your customers.

BUDGETING

A budget is a statement of estimated income and expenses for a future period of time. It is a statement of financial goals for an upcoming period. An income statement is a statement of actual income and expenditures. It is also referred to as a profit and loss statement. By preparing your budget along with an income statement, using the same time period, you would have a tool to evaluate how your business is measuring up to your goals. A balance sheet shows everything a business owns (assets), everything the business owes (liabilities), and the owner's claim (equity or capital) in the business. Like the income statement, this is calculated using actual figures derived from the running or ending balance from the previous statement. Federal income tax laws require both a balance sheet and an income statement at least once a year for the purposes of reporting income tax. Your budget and your income statement will roughly follow the same format. Figures 1 and 2 show samples of each. Remember, a budget is esti-

mated. A statement of income is a similar format to your budget, but the actual figures, which will be determined by the records you keep, are used. A budget is prepared on projected figures. An income statement or profit and loss statement is calculated using sales and expense figures. Comparing the two will show you where your business is headed and if you are on the right track. Budgeting is a tool to plan and live by in business. It helps you turn expectations into realities.

CASH FLOW

Think of cash as the fuel that runs your business. It's cash that flows out to pay for inventory. It's cash that fuels your operating expenses. And because it's cash flow which allows you to meet your obligations, it's wise to "check the gauge" regularly. After all, your intake must be equal to, or greater than, your outflow if you want to go forward. Cash flow deals only with sales. It's not the same as profits. Cash flow only comes from the sale of goods or services. Only when someone pays for something is there cash flow. Your cash flow is your deposits in the bank, minus the checks you have written; in other words, your total receipts less your total disbursements. The total result is your net cash. That's the total amount of cash you have to work with. Your cash flow statement will be similar to balancing a checkbook (see Figure 3). Expanding on your statement will enable you to determine a cash flow forecast that will tell you where you're going. It's a way to evaluate future bank balances by showing when cash comes in and when it goes out. It only makes sense that you can better manage your working capital by knowing your peak periods and down times. ■

Jackie George is well-respected as a consultant to retailers. She authors core courses for HIA's Retailer University Program, is editor of AHSCA Retailer Newsletter, and is trade editor of the Rubber Stamper. She has served as past education director of CCHA and is past president of MATCH. Consulting services and transcripts of her seminars are available.