

SBM- The 20 Most Important Questions about Business

Running a business on the Oregon Coast is challenging. If you are making a living here as an artist, craftsman or solo entrepreneur then hats off to you! We are all living in one of the great venues in the world.

Location, talent, beauty, good luck ... are often listed as reasons for success. Sustainable Success in making a living on the Oregon Coast is ultimately dependent on your awareness of the fundamental forces of your business environment and building a network of support and caring. To develop a framework of effective communication, we want to know what is on your mind, and where you are headed. Below are a set of challenging 20 questions to ponder. They will be shared with Misty and Ron and only with the group as you see fit, if at all. As we get to know each other better, we can explore and discuss some positive outcomes to the challenges of being a solo entrepreneur on the Oregon Coast.

- Before you start answering the question quickly review the whole document to get a feel for where we are going.
- We will be using business language and a business paradigm.
- It is best to do this exercise in word and e-mail it back to us.
- Thanks

Part One: Motivation and Goals

1. What do you need to know? What are you “educational” goals for taking this class. A year from now, what do you want to learn by taking this class?

List some things that you want to know right now.

2. Heart: What keeps you up at night? What gets you going in the morning?

Being –self employed is not for everyone. If you look at the figures in Lincoln County, only one in ten of us own and operate our own business. Talent and good luck are helpful – but the people who have determination, commitment and persistence are the people that you know who are successful. A year from now what do you want to accomplish by taking this class?

List some business/personal goals that you would like to share with all of us.

3. Do you have an artist statement? Or a mission statement? Please share it with us.

4. Knowledge: Where are you?

Honestly assess your business' strengths, weaknesses, opportunities and threats. Personally, know what you do best. Capitalize on it. Be a life-long learner. Business people are known to learn more quickly from their mistakes than the general population. Internally, don't do what someone else can do better. Externally, out-source what you can afford. Civilization is based on division of labor and trade.

Can you list your business'

Internal Strengths

Internal Weaknesses

External Opportunities

External Threats

Part Two: Making a Living on the Coast

5. We all need to have money for personal expenses. Do you have to make a living doing what you do? The first question is what do you need to "take home/consume" To keep things together on the home front:

The first big question: If you are willing to share this information, please articulate how important your financial contribution from running your business is to sustaining your ability to make it on the coast. You can answer by stating a range from extremely critical to not at all. Or you can just state a figure. I need to make \$X a month. Please include your monthly personal debt in the total monthly calculation.

6. Business Overhead: Now that you have listed your monthly personal needs.....Can you list your operational business overhead?

Some of us can work out of our homes or out in the field. Most of us at this point should have separate accounts for business personal income and expenses.

Business Operational Expenses behave in two fundamental ways. They are directly related to sales, called *sales cost*, or they are constant no matter what the level of sales, which is called *operational overhead*.

Excluding your direct materials and any outside direct labor, how much is your overhead each month? Please include your monthly debt payments and monthly equipment purchases.

7. Dealing with the Reality of Time: There are about 720 hours in a month or 8760 hours per year? How do you use them?

So starting from 8760 hours, let's take 10 hours of day (3650 hours per year) for sleeping and eating and you have about 5000 hours left. The average employee works 2000 hours a year. 40 hour week times 50 weeks. You are neither average nor an employee.

The dirty little secret about being self employed is that most of us consume those 5000 hours integrating our lives and our business. If we make a dollar per hour for each of those hours, we have a good chance of starving. If we are paid for a 1000 hours of that time, then we are on the right track.

Simple multiplication leads us to the concepts of *time management* and *bill able hours*. A thousand hours of production and marketing at \$100 per hour gives us a yearly gross sales revenue of \$100,000 to pay for materials, our business overhead and our personal expenses. 5000 hours work at \$20 an hour gets the same \$100,000. Less hours or less sales revenue means less money for business overhead, purchase of new tools, paying debt and being able to make it at home. An easy concept, a challenge in real life:

How many hours a year do you allocate for production?

How many hours a year do you allocate to marketing and delivering your product?

How many hours a year do you spend on record keeping and accounting?

How many hours of your time actually generate income?

Do you have the life you want?

Is this a helpful way of looking at what you do?

Is there a better way to manage your time and resources?

Part Three: Break Even Analysis. Putting together a marketing plan that will work for you!

After you determine your cost of living and cost of operations then you can mathematically figure out what you need to do with pricing and sales volume to cover these cost.

8. Breakeven: Can you determine your breakeven point for every month of operation?

Knowing the relationship between your sales volume, your sales margin and your operational overhead and balance sheet overhead (Your total cost structure) is the most critical finance tool that you can master. If you don't know this tool, learn it and use it. If you are running your business out of a checkbook then you are not managing your business. Every penny on a dollar that you make from the relationship between sales and cost goods sold counts in paying for operational overhead. When you are making a profit then you need to cover your balance sheet overhead. You will learn how to do a total break-even analysis in the SBM program.

Can you estimate how much sale volume do you need to break-even each month? How do you know that?

9. Sales Price and Margin: What much are you make per item sold?

What is the optimum price point for you products? Most retailers use a cost-plus method of pricing. You know your cost, and add a standard margin. For production pieces that may work for you. For one-of-a-kind pieces, you may need a different approach. (Do not include what you are paying yourself for labor that is covered by your profits after everything monthly expense is paid.) If you have employees (a few of you do) then please add in their payroll expenses into your monthly overhead, not in the sales percentage. More about that later.

The two things that you really need to know are: A) How many pennies on each dollar of revenue you have left after you pay for all the direct costs (materials) associated with that sale. That is your contribution margin or gross profit. B) What are customers willing to pay you over a sustainable future? Once you know your margin then you can take the next step to determine the volume of sales needed to cover your overhead and desired profit.

Do you know your cost of goods sold percentage? What is it?

Part 4; Marketing Strategies

10. Sales Volume: Are there enough customers that want (need) what you have to sell?

Entrepreneurs are convinced that people will want what they do. The question is: How many people, and where are they? Is there a viable market? Can you attract other people's money? If a market doesn't yet exist for your product or service, can you create one? Why hasn't anyone else?

What sales volume do you think you need to stay in business? To thrive? How did you determine that number?

10. Sales Distinction: There is no doubt that you are special and doing something something truly unique? Are you stuck selling a commodity product? How can you add value to what you are doing and get a better return on your efforts. Is there enough market to specialize?

Do your customers really need your product? Without a need, there is no incentive for customers to pay. And without sales, you have no business. Period. What separates you from the competition? If you are a country store, then it may be your location. If you are in a competitive environment, then it better be something of more value. If you want to win in business, you need to offer something tangibly valuable that the competition doesn't. That's called *differentiation*. If you can't simply explain why customers need your product, you do not have a "unique value proposition." If you are not unique, then you are a commodity. If your customer will not be willing to pay a premium for what you are offering, then you might very well be a "commodity" product with low margins and less than wonderful opportunity to market what you make.

What can you do be special and command the best price and the largest share of your potential market? State three excellent things that you do that distinguishes from the crowd.

11. Sales Distribution: How are you marketing your product?

Remember ... advertising is paid communication. Marketing is everything that you do to find and keep customers. We all know that what counts is what is "delivered," not what is promised. Advertising may bring potential customers in, but "delivery" brings them back. There is no one-size-fits-all solution to delivering to customers. The whole concept

of buying low and selling higher is based on adding value by timely “delivery.” Most small business people concentrate on their product or service and forget the best way to deliver it to their customers. Something as simple as consistency of hours can make or break a business. Think about your “sales channel.” Think about your customers. Are you processing them, servicing them or engaging them in a real experience?

What do you think is your most powerful marketing tool or activity?

12. Sales: Can you attract a local following and build a community of support?

Are you engaged in a building a defined community?

You might think that it is all about being better than your competition but really, it is more about being your friends’ number-one choice. The most competitive businesses are the ones that cooperate with their defined community to procure, build and deliver *the goods*. The intangibles of friendliness, love, meaning and caring go a long way in small business. People are willing to support you, even if you really aren’t objectively all that special, if you are doing something special from them, making their world a better place and building your shared community.

How do you engage your customers to build your business and community?

Part 4: Operations and Cash Flow:

14. Operations: Are you improving everyday? In America if you are not improving every day then you are going backwards. Learn a new skill, develop a new recipe. Quality is in the eyes of the consumer. Branding is developing an Expectation and Engagement is delivering on that promise that exceeds the expectation. Do you have underutilized Assets? Are your expenses percentages too high? Can you handle your debts? And you taking enough money home?

List something that you have done this year operationally that has made you more efficient and saved you money

15. Cash Flow: How much cash and credit do you need?

There are 4 ways to get money and 4 ways to spend it. The best cash is from revenues. Positive cash flow means that you are managing your account receivable and payables properly to have enough cash to pay for operational and balance sheet overhead. Not having enough working capital, is a business killer. You need to know what asset, plant and equipment/ tools you need to survive. “Right size” your assets to your cash flow. On a monthly basis, you need simple accurate answers to these three questions: Is my business profitable so that I can buy assets, pay loans and take draws? Are we using those profits to build wealth in a sellable business or at the very least to cover the cost of living at home? Have we reached the point at where we have finally recuperated our time and initial investment in the business?

Are you generating free cash through profits to build wealth? Buy Assets? Pay Debt or Afford a good life?

16. Loans: How do you finance your business? What is your interest rate?

You have many choices: A rich uncle, credit cards (dangerous), “friends”, angel investors, and – if you're really onto something – venture capital. A bank loan comes from cash flowing in a positive direction, great credit and a lot of bankable assets. If you plan on borrowing money, consider how much equity and control you're willing to give up. Know what it will cost you to borrow. If you do not know about interest compounding, and the Rule of 72, ask! It may be the most important financial concept you can learn. Seriously consider any partnerships, as many turn out to be disasters. Make sure that you are receiving a loan that you will not regret.

Do you have financing?

17. Loans: What is your credit score?

Your credit card score is your adult report card. How much do you know about compounding and interest? Have you heard of the “Rule of 72”? The earlier in life that you understand the effects of compounding interest, the greater the chance you have of accumulating wealth and having a better life.

Do you know your credit score? Yes or No

Part Five: Building a Community of Support and Caring

18. Personnel: How do you attract and keep working with great people.

All the above is done through and with people. You can readily complain that Lincoln County does not have the world's greatest labor pool, and you might be right. The reality is that the best business people are able to attract and pay for the best the contract employees or out sourced professional services. Can you?

Do you work with great people? Why not?

19. Purpose: Do you know why you are successful? Are you building a “conscious” business and teaching those skills to key people that are helping you?

It is entirely possible to run a successful business and not know why it is successful. What are the elements of your success?

20. Purpose: Are you building a sellable entity?

Of course your talent is hard to translate into a business that can be sold. It has been done. There is nothing wrong with wanting to own a lifestyle business. A lifestyle business that builds personal wealth over time is even sweeter.

Can you build a sellable entity?

Can you build wealth outside your business with retirement plans and investments?

Is it feasible to buy and own the Real Estate where you operate?

Over time, are you making a living, building wealth and planning for your retirement?

If you are, congratulations ... and let's keep on learning!

Do you want to build a sellable entity? Do you have a plan for your later years in life?