

Oregon Coast Community College
Small Business Development Center
SMALL BUSINESS MANAGEMENT PROGRAM
The 20 Most Important Questions about Business



Oregon Coast SBDC SBM Program

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 all live in one of the most spectacular places in the world.

Location, talent, beauty, good luck ... all of these are oft-cited 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 20 challenging questions for you to ponder.

Your responses will be shared *only* with Misty and Ron, or with the group as you see fit, if at all. As we get to better know each other, we can explore and discuss some positive outcomes to the challenges of being a solo entrepreneur on the Oregon Coast.

- Before you start answering these questions, at least scan 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 on your computer and e-mail it back to us.
- Thanks!

Part One: Motivation and Goals

1. What do you need to know? What are your “educational” goals for taking this class. A year from now, what do you want to have learned 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 10 of us owns and operates their own business. Talent and luck are helpful, but the people who have determination, commitment and persistence are the people who will be successful. A year from now, what do you want to have accomplished by enrolling in this program?

List some business and 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's strengths, weaknesses, opportunities and threats. You 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's strengths, weaknesses, opportunities & threats?

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?

If you're willing to share this information, please let us know how important the earnings from your business are to sustaining your ability to live on the coast. You can answer by stating a range from extremely critical to not at all. Or, you can just state a figure. Ex: "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 income and expenses, and 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 8,760 hours per year: How do you use these hours?

So starting from 8,760 hours, let's deduct 10 hours of each day (3,650 hours per year) for sleeping and eating. This leaves us with about 5,000 hours. The average employee works 2,000 hours a year – 40 hours per week times 50 weeks. As a Lincoln County creative, *you* are neither **average** nor an **employee**.

The dirty little secret about being self-employed is that most of us consume those 5,000 hours integrating our lives and our businesses. If we make a dollar per hour for each of those hours, we have a good chance of starving. If we are paid for 1,000 hours of that time, then we are on the right track.

Simple multiplication leads us to the concepts of *time management* and *billable 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. Working 5,000 hours at \$20 per hour yields the same \$100,000. Fewer hours or lower 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 to write about, but a daunting challenge in real life.

Given this preface, answer these questions:

- 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 recordkeeping and accounting?
- How many hours of your time will 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

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 costs.

8. Break-even:

Can you determine your break-even 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 already employ this tool, this year's program will help you 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 of 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 sales volume you will need to break even each month?

If so, how do you know that?

9. Sales Price and Margin: How much do you make per item sold?

What is the optimum price point for your products? Most retailers use a cost-plus method of pricing. You know your cost, so add a standard margin. For mass-produced pieces, this may work for you. For one-of-a-kind items, 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, or need, what you have to sell?

Entrepreneurs are convinced that people will want what they create or sell. 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? And, if so, 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?

11. Sales Distinction: There is no doubt that you are special and doing 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. 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 had 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 your products are not unique, then you may be selling a commodity. If your customer will not be willing to pay a premium for what you are offering, then you might very well be selling a commodity product with low margins.

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



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

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?

**13. Sales: Can you attract a local following and build a community of support?
Are you engaged in 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 businesses. People are willing to support you, even if you really aren’t objectively all that special, if you are doing something special for 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 every day? 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 in a way that exceeds expectations. Do you have underutilized assets? Are your expense percentages too high? Can you handle your debts? And, are 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 four ways to get money and four ways to spend it. The best cash is from revenues. Positive cash flow means that you are managing your accounts receivable (AR) and accounts payable (AP) properly so that you have enough cash to pay for operational and overhead. Not having enough working capital is a business killer. You need to know what assets and equipment you need to survive. “Right size” your assets to your cash flow. On a monthly basis, you need simple and 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 which 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?

When you need money for your business 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,” just ask! It may be the most important financial concept you can learn. Consider carefully any partnerships before you create them, as many turn out to be disastrous. Make certain that any loan you may pursue is one 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 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? If not, why not?

19. 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. Are you building a salable entity?

The wonderful work many coastal artists and creators do can be hard to translate into a business that can be sold, but 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 salable 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 salable entity? Do you have a plan for your later years in life?

