

COMMUNITIES Unlimited

Small Business

Possibility Workbook

Newport, Arkansas Version

Business idea

Your name

Date

Introduction

If you are reading this, you have a business idea. This workbook was designed to help you make a first “go-ahead” or “re-think” decision regarding your business idea. It will help you put your business idea on paper and answer 2 questions:

1. What resources will I need to start up, and how will I be able to acquire them?
2. How much will it cost me to operate, and what will it take to cover these costs?

To do this you will need to work through the following 4 sections:

1. Business Idea Outline
2. Initial Investment and Sources of Funding
3. Fixed Costs
4. Breakeven Analysis

If you have different business ideas you want to evaluate, we encourage you to fill out one workbook for each.

1 | Business Idea Outline

In this section, you will outline your business idea. This outline should serve as a framework for the following sections. It should provide a “living” narrative of your business. This means that as you work through the booklet, you may feel that there are things in this section that need to be updated or revised. We encourage you to make these changes as you go. You may want to print out a blank version of this page every time you plan to make a significant change to your narrative. This way, you will be able to keep a version control of how the business idea develops.

Why do you think it's a good idea to start this business?

What business are you thinking of starting? Describe your business concept.

How will your business work? Describe the general flow of business.

Why do you think your business will be successful?

Who is your target customer?

What prior experience do you have that helps prepare you for business ownership?

Where do you plan to locate the business? Why do you think this is the best location?

When do you plan to start operations?

2 | Initial Investment and Sources of Funding

Do you know how much money you need to start up? In this section, you will take a detailed look at what you need to have in place in order to start and, how much it will cost you. Once you have an idea of how much you need. You will think through where this money can come from.

2.1 Investment Needs

This section will help you think through the resources you will need to have in place before you open your business.

The lists contained below should serve as a guideline. Skip anything that you feel does not apply to your business. If you see something that we missed, add it. We encourage you to make detailed lists on separate pieces of paper, if needed.

Will you need to purchase any properties? Will these properties require permanent changes made to them such as construction or remodeling? This is where you want to budget for such projects.

Land and Building	Amount
Purchase	
Construction	
Remodeling	
1. Land and Building Total	

Are you renting property? Leasehold Improvements are any permanent renovations or enhancements that you plan to make to a property you are leasing. They involve additions that you will be unable to take with you when you leave such as partitioning a space (for example, to put in dressing rooms), installing retail shelves, installing specialized lighting, etc.

Leasehold Improvements	Amount
2. Leasehold Improvements Total	

Furniture and fixtures differ from Leasehold Improvements in that they are considered personal property. These are additions to a space that you will be able to take with you when you leave such as desks and tables, chairs, bookcases or partitions, amongst other.

Furniture and Fixtures	Amount
Furniture	
Décor	
Fixtures	
3. Furniture and Fixtures Total	

If your business involves a production process, you will probably need specialized equipment to help make your product. It is otherwise likely that your budget under equipment will include computers, printers and other hardware.

Equipment	Amount
Machinery	
Computers	
Printers	
4. Equipment Total	

What type of promotion are you planning to do before you open your doors? What promotional material do you plan to get made? Will you have a logo designed? Are you going to get a sign made? Business cards, posters or flyers? Do you plan to hold a soft opening? These are all items or activities you should budget for here.

Advertising and Promotion Expenses	Amount
Signage	
Printing	
Travel/entertainment	
Webpage (Eg: Design and Domain)	
5. Advertising and Promotion Total	

What type of inventory will you need to stock up on before you open your doors? Will you need Food? Merchandise? Parts? Estimate how much you need to satisfy your initial demand, and make yourself a budget.

Opening Inventory	Amount

Opening Inventory	Amount
6. Opening Inventory Total	

There will be many other expenses to tackle before you open your doors. Rent, utility and other deposits, business license and incorporation fees, office and other supplies, tools, legal and accounting fees, all make part of this list. If you are leasing a location, you might need to pay one or more months of rent before you open. Take all of this into consideration and budget for them here.

Other Expenses	Amount
Rent Deposit	
Pre-opening rent expense (Number of months: ____)	
Utility deposits	
Pre-opening utility expense (Number of months: ____)	
Legal fees	
Accounting fees	
Prepaid insurance	
Pre-opening salaries (Number of months: ____)	
Business licenses and permits	
Office supplies	
Other supplies	
Tools	
7. Total General and Administrative Expenses	

Now add up the totals of all your lists and put the sum below.

	Amount
8. Total Initial Investment Required (Add totals 1-7)	

2.2 Funding Sources

Now that you know how much you are going to need to set up your business (Total Line 8). You can think about where this money is going to come from.

Personal Resources

You will want to start by looking at resources you have available. You might have savings that you have been accumulating for an occasion such as this. You may have some other assets you can sell for cash to fund your business.

How much money will you have available to contribute towards the Total Initial Investment Required (Total Line 8)?

	Value
Owner's investment capacity	

Other Funding

After considering the funds you will be able to contribute, how much more funding will you need to start up?

	Value
Funds required? (Total Line 8 – Total Line 9)	

Where do you plan to look for these funds?

You have several options when it comes to obtaining funding for your business. You can choose to look into a single source of funding (for example a loan) or you can choose a combination of sources that is right for you (for example, friends or family will be able to contribute a portion of the funds required and you can start a crowd-sourcing campaign for the rest or you can pursue a bank loan).

Family and friends

Borrowing from friends and family can be a quick and easy source of funding. However, having a well thought out plan, a clear and explicit understanding of expectations, requirements, and maintaining clear and constant communication will be key to happy relationships.

If you are going to borrow or receive an investment from family and friends:

How much will you be asking for and from whom?

When do they need to get their money back?

How will you arrange to pay them back?

Lender	Amount	Terms

Lender	Amount	Terms

Crowdfunding

Platforms like Kiva and Kickstarter allow businesses to pool small contributions from a number of small investors. The terms on these investments vary. Some allow companies to receive investment in return for prizes or products. Some are structured as debt where businesses are required to slowly pay back the amount they receive. Others are structured as equity by which the investor(s) gain access to a portion of the company.

Crowd-funding will require significant work in social media marketing. You will need to tell your story, and justify your venture in order to build a solid network of supporters.

Before choosing a platform make sure to read in detail about the terms, fees and requirements. This will affect the amount of money you are entitled to receive, when you receive it, and how much it will cost you to have access to it.

If you are considering crowdfunding:

What platform(s) are you considering?

How much will you be asking for?

What are the terms under which you can receive the funds?

What are you required to offer as a return?

Platform	Amount	Terms

Loan

Pursuing a loan from a traditional financial institution or a micro-lender, such as Communities Unlimited, is also a way to fund your business. Financial institutions will take a look at your personal credit history and your global cash flow to make a lending decision. Micro-lending institutions will make smaller loans than traditional banks.

If you are considering a loan, shop around. Understand what different institutions are willing to offer you.

If you are going to apply for a loan:

What financial institution will you pursue a loan from?

How much are you looking to borrow?

What terms does the financial institution offer you (length of loan and interest rate)?

Institution	Amount	Terms

Credit Cards

Credit cards are one of the most readily available ways to finance a business. Minimum monthly payments are low and manageable. However, credit card interest rates are elevated, making them a very costly source of funding. If not strictly managed, credit cards can become burdensome to your credit and your business debt service in general.

If you are going to use credit cards to finance your business:

How much of your Initial Investment Required would you finance with credit cards?

How much is your credit card interest rate?

How much time will it take you to pay off?

Amount	Interest Rate	Time (months)

Investors

Investors are people that are looking to give a business money in exchange for a return in a set period of time. Often times, this return involves acquiring a stake in the company. Investors will look for a solid business plan with good growth potential and agreements with them will contain rigorous terms. On the flip side, they can often bring expertise and connections that can be extremely advantageous to their investee.

If you plan to seek funding from Investors consider the following:

How much will you be asking for and from whom?

From whom will you be seeking funding?

What will they want in return?

When will they need their money back?

How are they expected to be paid back?

Are they interested in equity? If so, how much and under what conditions?

When do you expect to know whether they will fund you or not?

Investor	Amount	Terms

2.3 Summary

Investment Required

	Amount
Total Startup Expenses (Line 8, Section 2.1.)	

Funding Summary

Go back through Section 2.2. and use the table below to summarize your sources of funding:

Source	Amount to be Funded Note 1	Term (months) Note 2	Interest Rate / Rate of Return Note 3	Payment Note 4

Note 1: The amount you plan to borrow or receive from the funding source.

Note 2: This is the amount of time you have to pay back funds you borrowed or receive. Please express this in number of months.

Note 3: Interest or Rate of Return is the annual percentage which you will be charged by the source.

Note 4: Use an online payment calculator such as: <http://www.bankrate.com/calculators/mortgages/loan-calculator.aspx> to get a quick estimation of what your monthly payments for each source of financing will be.

3 | Fixed Costs

Fixed costs represent all day to day expenses that result from the operation of your business. They include items such as rent, loan payments, insurance, etc.

The objective of this section is to help you put together an operating expense budget. An operating expense budget represents the sum of all your fixed cost items for a set period of time, for example a year or a month. Work through the sections taking into account those that apply to your business. Skip those that do not.

3.1 Salaries and Wages

Who will be working in your business? Think of the different roles that need to be fulfilled.

As you think through the roles you will need to fulfill in your business, make sure to do some research on the type of employment opportunities you can generate. You can visit the IRS website at <https://www.irs.gov/taxtopics/tc512.html> for more information.

Fill out the table below to see how much your payroll is going to cost.

EXAMPLE

Role	Hourly Wage Note 1	Hours per Week Note 2	Pay per Week Note 3	Yearly Pay Note 4	Avg. Monthly Pay Note 5	Taxes & Fees (15%) Note 6	Total Wages & Fees Note 7
Manager	\$20.00	40	\$800.00	\$41,600	\$3,466.67	\$520.00	\$3,986.67
Cook 1	\$15.00	25	\$375.00	\$19,500	\$1,625.00	\$243.75	\$1,868.75
Cook 2	\$13.00	15	\$195.00	\$10,140	\$845.00	\$126.75	\$971.75
TOTAL					\$5,936.67	\$890.50	\$6,827.17

Role	Hourly Wage Note 1	Hours per Week Note 2	Pay per Week Note 3	Yearly Pay Note 4	Avg. Monthly Pay Note 5	Taxes & Fees (15%) Note 6	Total Wages & Fees Note 7
TOTAL							

Note 1: If you are planning to pay the person in this role an annual salary instead of an hourly rate, enter the annual salary in the 5th column - "Yearly Pay" and continue with the instructions in Note 5.

Note 2: A full time employee works more than 30 hours per week.

Note 3: $\text{Pay per Week} = \text{Hourly Wage} \times \text{Work Hours per Week}$

Note 4: $\text{Yearly Pay} = \text{Pay per Week} \times 52$

Note 5: $\text{Average Monthly Pay} = \text{Yearly Pay} \div 12$

Note 6: Taxes and fees involved in salaries and wages will vary depending on the employee, their circumstances and references. For the purpose of this exercise, we will use 15% to budget conservatively for them. ($\text{Taxes \& Fees} = \text{Average Monthly Pay} \times 0.15$)

Note 7: This is the amount it will cost you to retain this employee. ($\text{Total Wages \& Fees} = \text{Average Monthly Pay} + \text{Taxes \& Fees}$)

3.2 Advertising and Promotion

How do you plan to advertise your business and promote your products or services to your customers and other key partners?

For each item above:

EXAMPLE

Medium	Concept	Amount	Frequency
Webpage	Hosting	\$70.00	Annual
Business Cards	Printing 500	\$22.00	Semester
Facebook Adds	Post	\$5.00	Monthly

Medium	Concept	Amount	Frequency

3.3 Automobile Expenses

Will you be using a vehicle for business purposes? For example, will you need to visit clients or make deliveries?

If yes, continue to answer the questions in this section, if no, move on to the next section.

Will you use a vehicle(s) you already own? Or do you plan to purchase a vehicle or multiple vehicles?

	Make	Model	Year	Value
Vehicle A				
Vehicle B				
Vehicle C				

Will you pay or have you paid for this vehicle(s) out right, or will you finance or have you financed them?

	Amount financed	Term (months)	Interest rate	Amount still owed *	Months left to pay *
Vehicle A					
Vehicle B					
Vehicle C					

* If you already own your vehicle(s) and are still paying them off.

What is the maintenance budget for your vehicle(s)?

	Monthly fuel budget	Service & repair: amount	Service & repair: frequency
Vehicle A			

	Monthly fuel budget	Service & repair: amount	Service & repair: frequency
Vehicle B			
Vehicle C			

3.4 Insurance Expense

“Business insurance protects your investment by minimizing financial risks associated with unexpected events such as a death of a partner, an injured employee, a lawsuit, or a natural disaster. Unless you are an employer, business insurance is generally not required by law, however, it is common practice to purchase enough insurance to cover your assets.”

Arkansas requires “businesses with employees to pay for workers' compensation insurance, unemployment insurance, and state disability insurance. Your state may require insurance of specific business activities. For example, if you own a car or truck and use it for business purposes, you may be required to purchase commercial auto insurance. Finally, your financial lender or investors may require you to maintain life, business interruption, fire, flood or other types of insurance to protect their investments”

Type of insurance	Premium	How often will you pay the premium?
Worker's Compensation		
Unemployment		
Disability		
Auto Insurance		
General Liability		
Property Owner's or Renter's		

For more information visit:

<https://www.sba.gov/managing-business/running-business/insurance/business-insurance>

3.5 Internet and Telephone Expense

Shop around! See who will offer you the best deal!

Who will you purchase internet and telephone expenses from?

What are the terms of your service?

Item	Monthly budget
Internet	
Land line	

Item	Monthly budget
Cell phone (talk, text, data)	

3.6 Licenses and Permits

Type of license	Amount	How often will you need to renew it?
Business License		
Professional License, Certification or Permit		

Examples of other licenses you may need to consider are: Certified Public Accountant Licenses, Food Permits, Alcoholic Beverage Sales Permits, Cosmetologist Certification, etc.

For more information on federal and state licenses you can visit:

<http://www.arkansas.gov/services/list/category/business-professional-licensing>

<https://www.sba.gov/starting-business/business-licenses-permits/federal-licenses-permits>

3.7 Meals and Entertainment

Business-related meals and the entertainment expenses, otherwise for business purposes are part of different business models. Give yourself a budget.

	Monthly budget
Meals and Entertainment Expense	

For more information visit:

<https://www.irs.gov/taxtopics/tc512.html>

3.8 Professional Fees

Will you work with a CPA (not in-house)? Will you retain a lawyer? Will you contract a web designer? Will you work with a consultant? These are all expenses that fit into the professional fee category.

Shop around for rates. Get quotes and include them in your operating budget.

Type of service	Amount	Frequency of payment
CPA		
Lawyer		

Type of service	Amount	Frequency of payment
Web designer		
Consultant		

See final appendix for a list of local accountants, lawyers and other professionals.

3.9 Rent Expense

Remember to always read your rent contracts very carefully to make sure you understand all the terms outlined within.

How often will you pay your rent?

	Monthly amount
Rent Expense	

3.10 Repairs and Maintenance

The physical space in which your business operates and your equipment may need to undergo repairs or maintenance at some point. Give yourself an annual budget.

	Annual budget
Computer maintenance	
Machinery maintenance	
General repairs	
TOTAL	

At what time of the year are these expenses likely to happen?

3.11 Office Supplies

These are items you use for what you would think of as “office work”. This includes things such as paper, ink, pens, post-its, paper clips, envelopes, postage, etc. It can also include staplers, telephones, calculators and other small tools or equipment. Some business models will use and deplete Office Supplies quicker than others. Think about your type of business.

To open your business, you may need to visit your local office goods supply store. Make yourself a list of what you need to purchase to “stock up” on office supplies and make yourself a budget. You may have already done so in Section 3 under General and Administrative Expenses.

	Total
Initial Office Supply Budget	

Think about how much you will need to spend to re-stock your office supplies as they deplete during every-day work.

	Monthly budget
Office Supply Expense	

3.12 Other Supplies

Items that you use to carry out your day to day operations but that are not an intrinsic part of your product fall into this category. It can include small tools such as drill bits and screwdrivers as well as depleting objects such as sand paper, hangers, paper towels and cleaning supplies.

Like office supplies you will likely need to purchase an initial bunch of supplies and then spend money on these items periodically.

Think about the different categories of supplies you will need to purchase to begin operations. If you need more than 5 categories or want to make an itemized list instead, feel free to use an extra piece of paper.

	Budget
TOTAL	

3.13 Travel Expense

If your business requires you and/or your employees to travel by air, stay at hotels, use rental cars, etc., make sure to give yourself a budget for it.

Think about how often and when these expenses are likely to take place throughout the year.

Category	Budget	Frequency
Air Travel		
Car Rental		
Hotel		

3.14 Utilities

How much do you expect to pay in water, electricity and/or gas? You can call your local utility companies to get estimated budgets if you need to.

	Budget
TOTAL	

3.15 Cost of Financing

Refer back to Section 2.3. in which you made a summary of all your sources of financing and estimated monthly payments.

Please summarize and calculate your annual cost of financing:

Source of Funding	Monthly Payment	Annual Payment (Multiply Monthly Payment by 12)

3.16 Reserves

Setting aside cash reserves is crucial to starting and maintaining any business. Without them, a business owner may be ill-equipped to handle unexpected or emergency expenses. Cash reserves can buy business owners time in case they need to re-adjust strategy. In many cases, experts recommend business owners sacrifice some personal income to invest in cash reserves for business use.

Think about your total operating budget.

How many months' worth of operating expenses would you like your reserves to cover? This still represent your total savings goal.

	Total
Total Reserve Goal	

Now think about how much you would like to save per month.

	Monthly Budget
Monthly Savings Goal for Reserve	

You should plan to put this amount of money back every month until you have completed your total reserve goal. Make sure this money is stored safely away where it won't be spent accidentally.

	Annual Budget
Total Contribution to Reserves in first 12 months of operations	

3.17 Personal Budget

Before starting a business, it is important to understand what your personal financial needs are so that you can make sure they are met.

Do you know what your monthly household budget is? How much of that budget are you responsible for?

	Value
Monthly Household Budget	

How do you plan to cover your financial needs? Are you able to cover them from alternative sources, or will you need to cover them with business revenue?

If you will need to rely on business revenue, will you need to cover the entirety or only a portion of it? How much?

	Value
Required income from business	

3.18 Operating Expense Budget

In this section, the goal is to summarize sections 3.1. – 3.17. and figure out, if you have not already, what the annual budget for each budget item would be. Please use the table below.

Budget Item	Annual Budget
Salaries and Wages	
Advertising and Promotion	
Automobile Expenses	
Insurance Expense	

Budget Item	Annual Budget
Internet and Telephone Expense	
Licenses and Permits	
Meals and Entertainment	
Professional Fees	
Rent Expense	
Repairs and Maintenance	
Office Supplies	
Other Supplies	
Travel Expenses	
Utility Expense	
Cost of Financing	
Reserves	
Personal Budget	
Total	

Did we leave anything out? Can you think of anything else? Make sure to add it!

4 | Breakeven Point

You have done a lot of work up to this point. You now know:

- How much it is going to cost you to start up
- You have an idea of where you are going to look for the funds you need to start up
- You also have an estimate of how much it is going to cost you to operate your business

The objective of this section is to help you conclude your initial “go-ahead” or “re-think” decision by helping you figure out the level of sales you will need to generate in order to cover the operating expense budget you put together in Section 3. This is called calculating your breakeven point (If revenue is equal to your breakeven point you will be making neither a profit nor a loss. If revenue is higher than breakeven you will be making a profit but if it is lower, you will be generating a loss.)

The components of a breakeven point calculation are:

- The operating expense budget or fixed costs
- Gross margin ratio or the difference between your average sales and your average variable costs for a given period of time expressed as a percentage of sales. Gross margin can also be calculated by looking at the difference between price per unit and variable cost per unit.

4.1 Thoughts on Price and Variable Costs

Price

Price is the value that is assigned to a product or service. Price multiplied by the number of units of products or services you sell in a given period of time will make up your sales, and thus is a very important element of your overall operating budget.

What we definitely know about price is that, at minimum, it should cover the cost you incurred to purchase or make the products or services you offer as well as the cost you incurred to sell them. This means that knowing your true variable cost is very important.

When determining price, you will also need to take into account that you will need to cover all of the expenses outlined in section 3 and you will want to consider the profit margin (the amount by which revenue from sales exceeds all costs and expenses) you want or need to be able to sustain and grow your business.

Other things to consider when determining price include:

- Customer's willingness to pay: a customer's choice to purchase or not to purchase is largely driven by how much they are willing to pay for a product or service. For example, some people will not be willing to pay a few additional cents per gallon of gasoline, especially if there is a station with a lower price nearby. However, some customers are more sensitive to price than others. Some might feel that having to drive further for the lower gasoline is not worth their time.
- The similarity of product or service features with competitors.

Variable Costs

Variable costs are those that are affected by your production and sales volume. In other words, the more you produce and sell, the higher these costs will be. These variable costs can also be referred to as the Cost of Goods Sold or the Cost of Revenue (for service-based businesses).

Typically, variable costs are comprised of:

Direct Materials

These are the materials that are used to produce your product, and therefore become an intrinsic part of it. For example, if you plan to make chairs direct materials would include things like wood, screws and fabric. Service-based businesses may not have any direct materials to consider.

What materials do you need to make your products? How much will it cost to make one single unit of product? E.g. 1 quilt, 1 pie, 1 serving of chicken, 1 onion. If you produce more than one product, we encourage you to fill out a costing table for each product in your portfolio.

If you are not a producer, but rather a retailer you will need to know what the wholesale cost of the products you offer will be. Make sure to include all of the products in your portfolio in your calculation.

Feel free to use a scrap piece of paper if needed.

Item	Amount Needed	Cost
TOTAL		

Where will you acquire these materials? If your business idea is retail, who will you purchase your products from?

Direct Labor

These are the wages paid to employees for the time they spend producing your products or services. For example, if you plan to open up a restaurant, the wages you would pay your cooks would make part of your direct labor.

If you have already accounted for these roles in Section 3.1. you are set. If not, using that same example fill out the following for your direct labor:

Role	Hourly Wage Note 1	Hours per Week Note 2	Pay per Week Note 3	Yearly Pay Note 4	Avg. Monthly Pay Note 5	Taxes & Fees (15%) Note 6	Total Wages & Fees Note 7

Role	Hourly Wage Note 1	Hours per Week Note 2	Pay per Week Note 3	Yearly Pay Note 4	Avg. Monthly Pay Note 5	Taxes & Fees (15%) Note 6	Total Wages & Fees Note 7

Shipping

If you deliver your products to your customer, the cost of delivery (what you would pay a delivery person, the cost of fuel or what FedEx might charge you) would be included here.

Do you plan to ship merchandise to your clients?

If so, take a look at your options. Who would you use to ship? FedEx? UPS? USPS? Do you plan to do your own delivery?

Are you able to give yourself a budget for shipping? If so, what is it? If not, think about what information you need to be able to do this.

Commissions

Will you pay out commissions? If so, what percentage of sales do you plan to pay in commissions? Under what circumstances?

Credit Card Processing Fees

If you plan on receiving payments with credit cards, you will be subject to fees by the company that you choose to process these payments with. These charges can be considered part of your variable costs. It is important for you to shop around. Understand what these fees are and what the terms of service include.

Who will you purchase Merchant Services from (Eg. Directly from your bank, Square Space, QuickBooks, etc)? List your top 3 options.

For each option stated above, list fixed fees involved with the service, percentages that will be charged per transaction, and any other terms involved with the service. Use this to compare and assess your options.

Provider	Fixed Fees	% of Transaction Fees	Other Terms of Service

Provider	Fixed Fees	% of Transaction Fees	Other Terms of Service

What percent of sales do you think you will make with a credit card?

4.2 Gross Margin Ratio and Breakeven Point

After going through Section 4.1., you may find that because of the type of business you are looking to start you are able to calculate your gross margin per unit by looking at the difference between the price per unit and the variable cost per unit of your product or service (express it as a percentage of sales). If this is not the case, for example because you are planning to start a retail shop and have a wide range of products, or you are planning to start a restaurant and have several menu items, then it is time to do some research.

You will want to identify what industry your business belongs to. You may find that your business can fit into more than one industry or industry types. Once you have done this you will need to research what the gross margin for that industry or those industries is. You can use the internet, you can try to contact the Small Business Administration for information in this regard you can try talking to other business owners in your industry and/or you can try contacting your industry's association. Think outside the box and make note of your findings below. Note: Even if you are able to calculate your gross margin with price per unit and variable cost per unit numbers, we encourage to do the research anyway. It will be a good way for you to compare, and test out your assumptions.

EXAMPLE

Industry	Gross Margin (%)	Gross Margin (Decimals)
Health and Personal Care Stores	39.13%	0.3913
Health Food Stores	36.06%	0.3606

Industry	Gross Margin (%)	Gross Margin (Decimals)

If you have found more than one gross margin that makes sense for you, you are welcome to use an average to calculate your breakeven point, or you can calculate different breakeven points for the different gross margin numbers.

To calculate your breakeven point remind yourself what your operating budget is by looking back at the end of Section 3 and make a note of the total from Section 3.17.

EXAMPLE

	Annual Budget
Operating Expense Budget	\$29,500

	Annual Budget
--	---------------

Operating Expense Budget	
--------------------------	--

Now take this number and divide it by your gross margin in decimals.

EXAMPLE

Breakeven Point (Annual Sales) = Operating Expense Budget ÷ Gross Margin

Breakeven Point (Annual Sales) = \$29,500 ÷ 0.3913

Breakeven Point (Annual Sales) = \$75,390

Now **calculate yours**. Enter your gross margin below — your breakeven point will calculate automatically from your Operating Expense Budget above.

Your Gross Margin (in decimals, e.g. 0.39)	
Breakeven Point — Annual Sales	
Average Monthly Sales needed (/ 12)	
Average Weekly Sales needed (/ 52)	
Average Daily Sales needed (/ 365)	

Now break this number down so that you can absorb it:

- If you divide your Breakeven Point (Annual Sales) by 12, you will get the average monthly sales you will need to generate in order to cover your fixed costs.
- If you divide it by 52, you will get the average weekly sales you need to generate in order to cover all your fixed costs.
- If you divide it by 365, you will get the average daily sales you need to generate in order to cover all your fixed costs.

Do these numbers seem reasonable?

Will you be able to generate a large enough customer base in order to surpass these numbers and grow your profits and your business?

What would happen if your operating expense budget was 50% higher? Would you still be able to make it?

Think about how much time you think it will take you to actually begin making this level of sales. How much cash will you need to make up for the loss you will be generating while you grow? It will be important to add this number into the amount of startup money you calculated in Section 2.1.

Glossary

Asset — A resource that you own that has economic value.

Breakeven Point — The point at which revenue or income equals expenses. At breakeven businesses do not make a profit but they do not incur a loss.

Cost of Goods Sold — Refers to the sum of your variable costs in proportion to the volume of sales.

Cost of Revenue — The same as Cost of Goods Sold but is used to describe the cost of sales of a service rather than of a physical product.

Debt — Refers to money that has been borrowed and is to be paid back at a later date, usually with interest.

Debt Service — Cash that is required to cover the repayment of interest and principal on a debt in a given period of time.

Equity — Refers to a portion of ownership in an asset after all debts associated with the asset have been paid off. It also refers to the portion of ownership an individual or incorporation has in a business.

Fixed Cost — Represent all expenses that a business has to incur independently of how much they sell or produce. It includes things such as rent, insurance, wages, etc.

Furniture and Fixtures — Additions to a space that you will be able to take with you when you leave such as desks and tables, chairs, bookcases or partitions, amongst others. Unlike leasehold improvements, furniture and fixtures are considered personal property.

Global Cash Flow — Considers a person or incorporation's sources of cash inflows for a given period and compares it to the volume of debt payments for the same period to figure out whether the amount of cash available to that person or incorporation sufficiently covers current and new/oncoming debt.

Gross Margin — The difference between revenue or income and your variable cost.

Gross Margin Ratio — Your gross margin expressed as a percentage of revenue or income.

Interest — The cost of borrowing money. It is normally expressed in terms of annual percentage rate charged in terms of the amount of money borrowed.

Leasehold Improvements — Permanent renovations or enhancements made to a property you are leasing. They involve additions that you will be unable to take with you when you leave such as partitioning a space (for example, to put in dressing rooms), installing retail shelves, installing specialized lighting, etc.)

Operating Expense Budget — An estimation of a business' expenses for a given period of time.

Price — The amount of money charged in payment for something. Price multiplied by number of units of product or service sold equals revenue or income.

Price per unit — The amount of money charged for one unit of product or service.

Profit Margin — The amount by which revenue from sales exceeds all costs and expenses. It can be expressed as a percentage of revenue or income.

Stake — Refers to the portion of ownership one holds in a company.

Variable Cost — Represents how much it cost you to produce and deliver each unit of product or service your business sell. The usage of these costs depends on how much product you produce or sell.

Variable Cost per Unit — The cost of one single unit of product or service. For example, the cost of making 1 chair, making 1 hamburger or providing 1 hour of service.

Local Resources Appendix

Local professionals and organizations that can help you plan, start, and fund your business.

Accountants and Bookkeeping

Bonds, Charles E. PA

Phone: 870-523-4900

Address: 407 Walnut Street, Newport, AR 72112

Carraway and Carraway CPA

Phone: 870-523-8934

Address: 117 Walnut Street, Newport, AR 72112

Debra Thompson CPA

Phone: 870-523-3689

Address: 912 Hwy 367, Newport, AR 72112

Lewallen & Company, LTD

Phone: 870-523-6764

Address: 412 Third Street, Newport, AR 72112

Turner Bookkeeping & Tax Service

Phone: 870-523-2823

Address: 2119 Malcolm Ave, Suite 243, Newport, AR 72112

Turner, Michael N. CPA

Phone: 870-523-3940

Address: 2802 Stegall Road, Suite B, Newport, AR 72112

Whitmire, Robinson and Cummings

Phone: 870-523-4346

Address: 200 PSE Road, Newport, AR 72112

Attorneys

Boyce and Boyce

Phone: 870-523-5242

Address: 515 Second Street, Newport, AR 72112

James and James

Phone: 870-523-3614

Address: 501 Second Street, Newport, AR 72112

McLarty, James

Phone: 870-523-2403

Address: 114 Main Street, Newport, AR 72112

Nance, C. Scott

Phone: 870-523-8557

Address: 415 Second Street, Newport, AR 72112

Pettie and Meitzen, PLLC

Phone: 870-201-1600

Address: 111 Laurel Street, Newport, AR 72112

Rudisill, Randall S.

Phone: 870-523-3677

Address: 903 Malcolm Avenue, Newport, AR 72112

Watson and Watson

Phone: 870-523-8420

Address: 209 Walnut Street, Newport, AR 72112

Winningham, Ronald L.

Phone: 870-523-6516

Address: 1513 Hines Street, Newport, AR 72112

Business Start-Up and Development Resources**Arkansas Small Business & Technology Development Center**

Web: <https://www.astate.edu/a/sbtdc/>

Email: asusbtdc@astate.edu

Phone: 870-972-3517

Address: 319 University Loop West, Jonesboro, AR 72401

The Arkansas Small Business and Technology Development Center (ASBTDC) is a university-based economic development program that assists entrepreneurs, both new and seasoned. Part of the College of Business, the center at Arkansas State University serves start-up and existing businesses in 16 counties in Northeast and North-Central Arkansas and operates as a regional office of the ASBTDC statewide network. ASBTDC works with all types of for-profit businesses, from home-based to high-tech and helps with every aspect of business creation, management, and operation.

Communities Unlimited

Web: <https://www.communitiesu.org/>

Email: Jon.Rollins@communitiesu.org

Phone: 479-443-2700

Address: 3 Colt Square Drive, Fayetteville, AR 72703

Communities Unlimited is a non-profit organization with a unique approach to delivering small business services. Since 1998, they have helped almost 4,000 small businesses grow, offer jobs and create wealth, primarily in Delta communities. Their on-site in-depth consulting services combined with their innovative lending programs help their clients to solve problems and start or grow their businesses.

Business Funding and Financing Resources

Arkansas Small Business & Technology Development Center (SBA Loans)

Web: <https://www.astate.edu/a/sbtdc/>
Email: asusbtcd@astate.edu
Phone: 870-972-3517
Address: 319 University Loop West, Jonesboro, AR 72401

Communities Unlimited

Web: <https://www.communitiesu.org/>
Email: Jon.Rollins@communitiesu.org
Phone: 479-443-2700
Address: 3 Colt Square Drive, Fayetteville, AR 72703

Iberiabank

Web: <https://www.iberiabank.com>
Phone: 870-523-3611
Address: 200 Olivia Drive, Newport, AR 72112

Jackson County Community and Economic Development Agency

Phone: 870-523-4631
Address: 208 Main Street, Newport, AR 72112

Merchants and Planters Bank

Web: www.mandpbank.com
Phone: 870-523-3601
Address: 120 Hazel Street, Newport, AR 72112

Newport Economic Development Commission

Web: www.newportaredc.org
Phone: 870-523-1009
Address: 201 Hazel Street, Newport, AR 72112

Regions Bank

Web: www.regions.com
Phone: 870-523-3800
Address: 2153 Malcolm Avenue, Newport, AR 72112