SAM / MBRS

# PROJECT FOR THE CONSERVATION AND SUSTAINABLE USE OF THE MESOAMERICAN BARRIER REEF SYSTEM (MBRS)

Belize – Guatemala – Honduras - Mexico

# Training Manual for Small Business Management

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**PROLOGUE**

The constant degradation of marine and coastal ecosystems creates the urgent need to establish reserves and marine protected areas which allow the conservation of biodiversity as well as improve the living conditions of the human communities which depend directly on them.

Conservation actions related to the establishment of Marine Protected Areas (MPS's), habitat protection and fishing site closures in the MBRS region have led to socio-economic displacements within human communities that are dependent on exploitation of the resources targeted for conservation. Such circumstances create additional economic constraints on these communities by diminishing the capital resources they have available for investing in sustainable alternative forms of livelihood.

It is precisely for this reason that the MBRS Project promotes both the conservation of marine and coastal resources and supports sustainable development in those coastal communities, whose main source of income is the harvesting of marine resources.

In the search for a balance between conservation and economic sustainability, the MBRS sub-program for Sustainable Fisheries Management has identified a series of alternatives for economic income to help cushion the impacts of the changes these coastal communities face. In particular, these alternatives include guide-tourism related activities such as terrestrial wildlife appreciation, snorkeling, SCUBA diving, sport-fishing and canoeing/kayaking.

For this reason, the Mesoamerican Barrier Reef System Project organized and coordinated regional training courses to improve the capacity of marine coastal communities and fisheries associations in the MBRS region to access these alternatives forms of livelihood through training in tour-guiding, business management, and product design, marketing, promotion and diversification. During this training, support material was provided based on existing experiences. This material was enriched by the input from delegates of the two countries (Mexico and Belize) in the MBRS region, which ultimately resulted in the creation of the current document in the form of a manual.

The process involved the participation of local experts who prepared the initial training material, conducted the training, collected the input from the participants and developed the final version of this manual, incorporating the comments of the Project Coordination Unit (PCU.)

The training included case studies, formal presentations, field trips, hand-on experience, participant presentations, assigned reading and dynamic discussions.

With this manual, the MBRS Project reaffirms its commitment to generate support material for the conservation and sustainable use of marine and coastal resources, with the participation of the different sectors of civil society, community-base organizations and non-governmental organizations, promoting sustainable alternative forms of livelihood**.**

It is our intention that this tool be used in similar training courses and serve as a guide in the training of marine tour guides in the various countries of the Mesoamerican region. In so doing, it will strengthen the efforts to conserve biological diversity as well as foster community development by increasing the economic benefits to coastal communities in the MBRS region.

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# UNIT 1. INTRODUCTION

## COURSE GOALS AND GENERAL OBJECTIVES

The Mesoamerican Reef Barrier System (MBRS), which extends from Isla Contoy on the north of the Yucatán Peninsula to the Bay islands of Honduras, is recognized, in the Western Hemisphere for its uniqueness due to its length, diversity of reef types and associated species. The MBRS is also an invaluable resource for its socioeconomic important to the adjacent local communities. Within the MBRS, over 60 areas have been declared Marine Protected Areas (MPA) with different management regimes.

Many of the conservation actions related to the establishment of Marine Protected Areas, habitat protection and the closure of fishing sites, generally lead to socio-economic displacements that affect the human communities that depend on the very resources they want to conserve.

It is precisely for this reason that the MBRS Project promotes both the conservation of marine and coastal resources and supports sustainable development in those coastal communities, whose main source of income is the harvesting of marine resources. In attempting to balance both actions, a series of alternatives sources of income have been identified to mitigate the vulnerable situation in which coastal communities live. Such vulnerability is having an impact on the available capital, the ability to further generate or utilize such capital and consequently, on the options for feasible livelihoods.

The present course is framed within the goal of the Mesoamerican Barrier Reef System Project to enhance the protection of the unique and vulnerable marine ecosystems comprising the MBRS.

The general objective is to promote measures which will serve to reduce non-sustainable patterns of economic exploitation of the MBRS, focusing initially on the fisheries and tourism sectors.

## THE SPECIFIC OBJECTIVES WILL BE THE FOLLOWING:

1. To outline, analyze, contrast and compare different successful methodologies used in training that relate to sustainable livelihoods throughout the region in order to extract learning experiences for application and identify successful training programs.
2. To design and prepare training package for the tourism-related courses including: Nature guiding, snorkeling, recreational diving, sportfishing, canoeing, business management, marketing and promotion.
3. To train a minimum of twenty representatives of the four countries in the MBRS region taking into account the need for such representatives to begin these activities as alternative sources of income.
4. To take responsibility for receiving the equipment, its care, its maintenance, collecting the symbolic rent and administering the funds generated by such rent.

## COURSE STRUCTURE, METHODS AND LANGUAGE

The course was delivered in a workshop format with interaction opportunities for the participants. Most of the information presented by the facilitator was enriched with the participant's experiences.

Since the course emphasized practical specialized training, and special attention was paid to the need of training methods for adult education and communication skills for fishers, the methods used demonstrated suggested strategies such as role playing, hand-on experience, small group discussions and the participants were required to use them in their exercises. Over all, the participants were exposed to: 1) slide presentations, 2) group discussions, 3) small group exercises, 4) lectures and 5) participants' presentations.

Given the social nature of the MBRS region, the course was conducted in English and Spanish.

## UNIT 2: TOUR GUIDING RESPONSIBILITIES AND ETHICS

As a guide, you are responsible for many things. It's no easy task- there are many things you will need to deal with all at once. Some of your most important responsibilities are to:

- Insure the safety of your guests at all times
- Provide a professional level of service and be courteous and friendly
- Provide quality and accurate information
- Provide an opportunity to learn about the cultures, history, and environment of Belize in an informative, educational, and meaningful way
- Serve as a role model on how to conserve the natural resources and behave in the cultures of Belize
- Deliver all activities in a timely and professional manner
- Work cooperatively with other parts of the tourism industry

As a tour guide, it is your job to be professional and provide a quality service to your guests. Part of doing this is maintaining a high ethical standard. One of the best ways to do this is to always be honest with your guests. It's better to tell them you don't know the answer to a question then to make one up and have them find out you lied. It's also important to tell guests accurate information about what the trip will be like, how long it will take, and what kind of conditions they will find along the way.

Some tourism related businesses give commissions to tour guides that bring their guests to their gift shops, restaurants, or other facilities. It is unethical to force going to these places on your guests. They should only go where they want to go and to scheduled places on the trip. It is also unethical to tell guests it is your birthday, ask them to help you with family expenses, or put up signs saying tips are expected in order to get tips. Guests do not have to tip you and you should not expect to be tipped. You also should not "steal" guests from other tour guides, tour operators, or tour suppliers. If you offer deals on the side or for a better rate, you cause problems of trust throughout the tourism industry. It's very important that you do not drink, use drugs, or get romantically involved with your guests.

Your guests will look to you to know how to behave during the tour. If they see you picking up wildlife and touching coral even though you are not supposed to, they will do it too. This will destroy our natural resources- the very ones we depend on for our income as tour guides. So, you should be a model of conservation. To do this successfully, you must first gain your guests interest and attention in the environment of Belize. You should reinforce conservation messages through briefing that describe what behaviors are expected of the guests before they begin an activity. Being a model of conservation also means correcting a guest if they are doing something that is damaging in a professional manner. You can also "reduce reuse and recycle" in your daily activities through using washable plates and use local food suppliers and local businesses to fill your needs. You should convey a message of ecotourism to your guests by having guidelines that prevent negative environmental and cultural impacts and that support the local economy directly.

# UNIT 3: STARTING A BUSINESS: THE BASICS

## Is Entrepreneurship For You?

There is no way to eliminate all the risks associated with starting a small business. However, you can improve your chances of success with good planning and preparation. A good starting place is to evaluate your *strengths* and *weaknesses* as the owner and manager of a small business.

## Do you want to run a business?

1. **Are you a self-starter?** It will be up to you, not someone else telling you to develop projects, organize your time and follow through on details.

2. **How well do you get along with different personalities?** Business owners need to develop working relationships with a variety of people including customers, vendors, staff, bankers and professionals such as lawyers, accountants or consultants. Can you deal with a demanding client, an unreliable vendor or an angry staff person in the best interest of your business?
3. **How good are you at making decisions?** Small business owners are required to make decisions constantly, often quickly, under pressure, and independently.
4. **Do you have the physical and emotional strength to run a business?** Business ownership can be challenging, fun and exciting. But it's also a lot of work. Can you face 12-hour work days six or seven days a week?
5. **How well do you plan and organize?** Research indicates that many business failures could have been avoided through better planning. Good organization of financials, inventory, schedules and production can help avoid many pitfalls.
6. **Is your drive strong enough to maintain your motivation?** Running a business can wear you down. Some business owners feel burned out by having to carry all the responsibility on their shoulders. Strong motivation can make the business succeed and will help you survive slowdowns as well as periods of burnout.
7. **How will the business affect your family?** The first few years of business start-up can be hard on family life. The strain of an unsupportive spouse may be hard to balance against the demands of starting a business. There also may be financial difficulties until the business becomes profitable, which could take months or years. You may have to adjust to a lower standard of living or put family assets at risk.

## On the Upside

It's true; there are a lot of reasons not to start your own business. But for the right person, the advantages of business ownership far outweigh the risks.

- You get to be your own boss
- Hard work and long hours directly benefit you, rather than increasing profits for someone else.
- Earning and growth potentials are far less limited
- A new venture is exciting
- Running a business will provide endless variety, challenge, and opportunity to learn.

**How to Start a Small Business**

Starting and managing a business takes motivation, desire and talent. It also takes research and planning. Like a chess game, success in small business starts with decisive and correct opening moves. And, although initial mistakes will not kill your business, it takes skill, discipline and hard work to fix them.

To increase your chance for success, take the time up front to explore and evaluate your business and personal goals. Then use this information to build a comprehensive and well thought out business plan that will help you reach these goals. The process of developing a business plan will help you think through some important issues that you may not have considered yet. Your plan will become a valuable tool as you try to raise money for your business. It should also provide milestones to keep track of your success.

**Getting Started**

Before starting out, list your reasons for wanting to go into business. Some of the most common reasons for starting a business are:

- You want to be your own boss.
- You want financial independence.
- You want creative freedom.
- You want to fully use your skills and knowledge.

**What Type of Business?**

Next you need to determine what business is "right for you." Ask yourself these questions:

- What do I like to do with my time?
- What technical skills have I learned or developed?
- What do others say I am good at?
- How much time do I have to run a successful business?
- Do I have any hobbies or interests that are marketable?

**What Niche Will Your Business Fill?**

- Is my idea practical and will it fill a need?
- What is my competition?
- What is my business advantage over existing firms?
- Can I deliver a better quality service?
- Can I create a demand for your business?

**Pre-Business Checklist**

- What business am I interested in starting?
- What services or products will I sell? Where will I be located?
- What skills and experience do I bring to the business?
- What will be my legal structure?
- What will I name my business?
- What equipment or supplies will I need?
- What insurance coverage will be needed?
- What financing will I need?
- What are my resources?
- How will I compensate myself?

**Using the Answers**

Your answers will help you create focused, well researched business plan that should serve as a blueprint. It should detail how the business will be operated, managed and capitalized.

**Types of Business Organizations**

When organizing a new business, one of the most important decisions to be made is choosing the structure of a business. Factors influencing your decision about your business organization include:

- Legal restrictions
- Liabilities assumed
- Type of business operation
- Earnings distribution
- Capital needs
- Number of employees
- Tax advantages or disadvantages
- Length of business operation

## UNIT 4: TYPES OF BUSINESSES

**Types of Businesses**

- Sole Proprietorship
- Partnership
- Corporation

**Sole Proprietorship**

This is the easiest and least costly way of starting a business. A sole proprietorship can be formed by finding a location and opening the door for business. There are likely to be fees to obtain business name registration, a fictitious name certificate and other necessary licenses. Attorney's fees for starting the business will be less than the other business forms because less preparation of documents is required and the owner has absolute authority over all business decisions.

**Partnership**

There are several types of partnerships. The two most common types are general and limited partnerships. A general partnership can be formed simply by an oral agreement between two or more persons, but a legal partnership agreement drawn up by an attorney is highly recommended. Legal fees for drawing up a partnership agreement are higher than those for a sole proprietorship, but may be lower than incorporating. A partnership agreement could be helpful in solving any disputes. However, partners are responsible for the other partner's business actions, as well as their own. A Partnership Agreement should include the following:

- Type of business
- Amount of equity invested by each partner
- Division of profit or loss
- Partner compensation
- Distribution of assets on dissolution
- Duration of partnership
- Provisions for changes or dissolving the partnership
- Dispute settlement clause
- Restrictions of authority and expenditures
- Settlement in case of death or incapacitation

**Corporation**

A business may incorporate without an attorney, but legal advice is highly recommended. The corporate structure is usually the most complex and more costly to organize than the other two business formations. Control depends on stock ownership. Persons with the largest stock ownership, not the total number of shareholders, control the corporation. With control of stock shares or 51 percent of stock, a person or group is able to make policy decisions. Control is exercised through regular board of directors' meetings and annual stockholders' meetings.

**Finding a Niche**

A market in its entirety is too broad in scope for any but the largest companies to tackle successfully. The best strategy for a smaller business is to divide demand into manageable market niches, or areas of special focus. Small operations can then offer specialized goods and services attractive to a specific group of prospective buyers. There are undoubtedly some particular products or services you are especially suited to provide. Study the market carefully and you will find opportunities.

While researching your own company's niche, consider the results of your market survey and the areas in which your competitors already have strong businesses. Put this information into a table or a graph to show where an opening might be for your product or service. Try to find the right combination of products, services, quality, and price that will ensure the least direct competition. Unfortunately, there is no universally effective way to make these comparisons. Not only will the desired attributes vary from industry to industry, but it also takes imagination, which cannot be learned from a book.

A well-designed database can help you sort through your market information and reveal particular segments you might not see otherwise. For example, do customers in a certain geographic area tend to purchase products that combine high quality and high price more frequently? Do your individual clients take advantage of your customer service more often than large groups from hotels? If so, consider focusing on being a local provider of high quality goods and services, or a service-oriented company that pays extra attention to individuals.

If you do target a new niche market, make sure that this niche does not conflict with your overall business plan. For example, a small tour guide shop that focuses on individual clients go after the market for cruise ship tourists.

## UNIT 5: FINANCING YOUR BUSINESS

### Financing Your Business Start up

One key to a successful business start-up and growth is your ability to obtain and secure appropriate financing. Raising capital is the most basic of all business activities. But, as many new entrepreneurs quickly discover, raising capital may not be easy; in fact, it can be a complex and frustrating process. However, if you are informed and have planned effectively, raising money for your business will not be a painful experience.

This information summary focuses on ways a small business can raise money and explains how to prepare a loan proposal.

### Finding the Money You Need

There are several sources to consider when looking for financing. It is important to explore all of your options before making a decision.

- Personal savings: The primary source of capital for most new businesses comes from savings and other forms of personal resources. While credit cards are often used to finance business needs, there may be better options available, even for very small loans.
- Friends and relatives: Many entrepreneurs look to private sources such as friends and family when starting out in a business venture. Often, money is loaned interest free or at a low interest rate, which can be beneficial when getting started.
- Banks and credit unions: The most common source of funding, banks and credit unions, will provide a loan if you can show that your business proposal is sound.
- Venture capital firms: These firms help expanding companies grow in exchange for equity or partial ownership.

### Additional Sources of Capital

- Credit Cards
- Customer Financing
- Employee Stock Ownership (ESOP)
- Factoring Accounts Receivables
- Home Equity Loans
- Mergers and Acquisitions
- Purchase Order Financing
- Strategic Partnering

### Borrowing Money

It is often said that small business people have a difficult time borrowing money. This is not necessarily true. Banks make money by lending money. However, the inexperience of many small business owners in financial matters often prompts banks to deny loan requests. Requesting a loan when you are not properly prepared sends a signal to your lender. That message is: High Risk! To be successful in getting a loan, you must be prepared and organized. You must know exactly how much money you need, why you need it, and how you will pay it back. You must be able to convince your lender that you are a good credit risk.

**Types of Business Loans**

Terms of loans may vary from lender to lender, but there are two basic types of loans: short-term and long-term. Generally, a short-term loan has a maturity of up to one year. These include working capital loans, accounts receivable loans and lines of credit.

Long-term loans have maturities greater than one year but usually less than seven years. Real estate and equipment loans may have maturities of up to 25 years. Long-term loans are used for major business expenses such as purchasing real estate and facilities, construction, durable equipment, furniture and fixtures, vehicles, etc.

**How to Write a Loan Proposal**

Approval of your loan request depends on how well you present yourself, your business, and your financial needs to a lender. Remember, lenders want to make loans, but they must make loans they know will be repaid. The best way to improve your chances of obtaining a loan is to prepare a written proposal.

**Loan Proposals**

A well written loan proposal contains the following:

- General Information
- Business Description
- Management Profile
- Market Information
- Financial Information

**General Information**

- Business name, names of principals, Social Security number for each principal, and the business address.
- Purpose of the loan (exactly what the loan will be used for and why it is needed)
- Amount required (the exact amount that you need to achieve your purpose)

**Business Description**

- History and nature of the business (details of what kind of business it is, its age, number of employees, and current business assets)
- Ownership structure (details on your company's legal structure)

**Management Profile**

Develop a short statement on each principal in your business providing:

- Background
- Education
- Experience
- Skills
- Accomplishments

**Market Information**

- Clearly define your company's products as well as your markets.
- Identify your competition and explain how your business competes in the marketplace.

- Profile your customers and explain how your business can satisfy their needs.

**Financial Information**

- Financial statements, balance sheets, and income statements for the past three years. If you are starting out, provide a projected balance sheet and income statement.
- Personal financial statements on yourself and other principal owners of the business.
- Collateral that you would be willing to pledge as security for the loan

**How Your Loan Request Will Be Reviewed**

When reviewing a loan request, the lender is primarily concerned about repayment. To help determine this ability, many loan officers will order a copy of your business credit report from a credit reporting agency. Therefore, you should work with these agencies to help them present an accurate picture of your business.

**What the Lending Officer looks for:**

Using the credit report and the information you have provided, the lending officer will consider the following issues:

- Have you invested savings or personal equity in your business totaling at least 25% to 50% of the loan you are requesting? (Remember: a lender or investor will not finance 100% of your business.)
- Do you have a sound record of creditworthiness as indicated by your credit report, work history, and letters of recommendation? This is very, very important.
- Do you have significant experience and training to operate a successful business?
- Have you prepared a loan proposal and business plan that demonstrates your understanding of and commitment to the success of the business?
- Does the business have sufficient cash flow to make the monthly payments?

**The Financial Six C's**

Loan Officers also evaluate you on the following:

- CHARACTER: The degree to which a borrower feels a moral obligation to pay his/her debts, measured by the credit and payment history.
- CAPACITY TO PAY: A subjective determination made by a lender based upon an analysis of the borrower's financial statements and other information.
- CAPITAL: The amount of capital in a business is equal to the total of capital from debt and equity. Lenders prefer low debt-to-asset and debt-to-worth rations and high current ratios. These indicate financial stability.
- COLLATERAL: An asset owned by the borrower, but promised to a lender against non-payment of the loan. The amount of collateral varies from lender to lender. The closer the collateral value is to the loan amount, the more comfortable the lender will be that the loan will be repaid.
- CONDITIONS: General economic, geographic, and industry
- CONFIDENCE: A successful borrower instills confidence in the lender by addressing all the lender's concerns on the other Financial C's. Their loan application sends the message that the company is professional, with an honest reputation, a good credit history, reasonable financial statements, good capitalization, and adequate collateral

## UNIT 6: BASIC FINANCING

### Financing Basics

While poor management is cited most frequently as the reason businesses fail: inadequate or ill-timed financing is a close second. Whether you're starting a business or expanding one, sufficient ready capital is essential. But it is not enough to simply have sufficient financing; knowledge and planning are required to manage it well. These qualities ensure that entrepreneurs avoid common mistakes like securing the wrong type of financing or asking for too much or too little.

### Before Financing, Ask:

- Do you need more capital or can you manage existing cash flow more effectively?
- How do you define your need? Do you need money to expand or as a cushion against risk?
- How urgent is your need? You can obtain the best terms when you anticipate your needs rather than looking for money under pressure.
- How great are your risks? All businesses carry risks, and the degree of risk will affect cost and available financing alternatives.
- In what state of development is the business? Needs are most critical during transitional stages.
- For what purposes will the capital be used? Any lender will require that capital be requested for very specific needs.
- What is the state of your industry? Depressed, stable, or growth conditions require different approaches to money needs and sources. Businesses that prosper while others are in decline will often receive better funding terms.
- Is your business seasonal or cyclical? Seasonal needs for financing generally are short term. Loans advanced for cyclical industries such as construction are designed to support a business through depressed periods.
- How strong is your management team? Management is the most important element assessed by money sources.
- Perhaps most importantly, how does your need for financing mesh with your business plan? If you don't have a business plan, make writing one your first priority. All capital sources will want to see your plan for the start up and growth of your business.

### Not All Money Is the Same

There are two types of financing: equity and debt financing. When looking for money, you must consider your company's debt-to-equity ratio- the relation between dollars you've borrowed and dollars you've invested in your business. The more money owners have invested in their business, the easier it is to attract financing. If your business has a high ratio of equity to debt, you should probably seek debt financing. However, if your company has a high proportion of debt to equity, experts advise that you should increase your ownership capital (equity investment) for additional funds. That way you won't be over-leveraged to the point of jeopardizing your company's survival.

### Equity Financing

Most small or growth-stage businesses use limited equity financing. As with debt financing, additional equity often comes from non-professional investors such as friends, relatives, employees, customers, or other people in the tourism industry. However, the most common source of professional equity funding comes from venture capitalists. These are institutional risk takers and may be groups of wealthy individuals, government-assisted sources, or major financial institutions. Most specialize in one or a few closely related industries.

Different venture capitalists have different approaches to management of the business in which they invest. They generally prefer to influence a business passively, but will react when a business does not perform as expected and may insist on changes in management or strategy. Giving up some of the decision-making and some of the potential for profits are the main disadvantages of equity financing.

**Debt Financing**

There are many sources for debt financing: banks, savings and loans, and commercial finance companies are the most common. The government has developed many programs in recent years to encourage the growth of small businesses in recognition of their positive effects on the economy. Family members, friends, and former associates are all potential sources, especially when capital requirements are smaller.

Traditionally, banks have been the major source of small business funding. Their principal role has been as a short-term lender offering demand loans, seasonal lines of credit, and single-purpose loans for machinery and equipment. Banks generally have been reluctant to offer long-term loans to small firms.

In addition to equity considerations, lenders commonly require the borrower's personal guarantees in case of default. This ensures that the borrower has a sufficient personal interest at stake to give paramount attention to the business. For most borrowers this is a burden, but also a necessity.

**Estimating Costs**

In order to determine how much money you will need to start, you must estimate the costs of your business for at least the first several months. Every business is different, and has its own specific cash needs at different stages of development, so there is no universal method for estimating your start up costs. Some businesses can start on a shoestring budget, while others may require considerable investment in inventory or equipment. It is vitally important to know that you will have enough money to start your business.

To determine your startup costs, you must identify all the expenses that your business will incur during its startup phase. Some of these expenses will be one-time costs such as the fee for incorporating your business or price of a sign for your building. Some will be ongoing, such as the cost of utilities, inventory, insurance, etc.

While identifying these costs, decide whether they are essential or optional. A realistic start up budget should only include those things that are necessary to start that business. These essential expenses can then be divided into two separate categories: fixed and variable. Fixed expenses include rent, utilities, administrative costs, and insurance costs. Variable expenses include inventory, shipping and packaging costs, sales commissions, and other costs associated with the direct sale of a product or service.

The most effective way to calculate your start up costs is to use a worksheet that lists all the various categories of costs (both one-time and ongoing) that you will need to estimate before starting your business. The following tool will assist you in performing that task:

**Cash Management**

Business analysts report that poor management is the main reason for business failure. Poor cash management is probably the reason most businesses do not work. Understanding the basic concepts of cash flow will help you plan for the unforeseen eventualities that nearly every business faces.

**Cash vs. Cash Flow**

Cash is ready money in the bank or in the business. It is not inventory, it is not accounts receivable (what you are owed), and it is not property. These can potentially be converted to cash, but can't be used to pay suppliers, rent, or employees.

Profit growth does not necessarily mean more cash on hand. Profit is the amount of money you expect to make over a given period of time. Cash is what you must have on hand to keep your business running. Over time, a company's profits are of little value if they are not accompanied by positive net cash flow. You can't spend profit; you can only spend cash.

Cash flow refers to the movement of cash into and out of a business. Watching the cash inflows and outflows is one of the most pressing management tasks for any business. The outflow of cash includes those checks you write each month to pay salaries, suppliers, and creditors. The inflow includes the cash you receive from customers, lenders, and investors.

Positive Cash Flow: If its cash inflow exceeds the outflow, a company has a positive cash flow. A positive cash flow is a good sign of financial health, but by no means the only one.

Negative Cash Flow: If its cash outflow exceeds the inflow, a company has a negative cash flow. Reasons for negative cash flow include too much or obsolete inventory and poor collections on accounts receivable (what your customers owe you). If the company can't borrow additional cash at this point, it may be in serious trouble.

**Components of Cash Flow**

A Cash Flow Statement shows the sources and uses of cash and is typically divided into three components:

- Financing Cash Flow
- Investing Cash Flow
- Operating Cash Flow

Financing Cash Flow: Financing cash flow is the cash to and from external sources, such as lenders, investors and shareholders. A new loan, the repayment of a loan, the issuance of stock, and the payment of dividend are some of the activities that would be included in this section of the cash flow statement.

Investing Cash Flow: Investing cash flow is generated internally from non-operating activities. This includes investments in plant and equipment or other fixed assets, nonrecurring gains or losses, or other sources and uses of cash outside of normal operations.

Operating Cash Flow: Operating cash flow, often referred to as working capital, is the cash flow generated from internal operations. It comes from sales of the product or service of your business, and because it is generated internally, it is under your control.

### How Do I Practice Good Cash Flow Management?

Good cash management is simple. It involves:

- Knowing when, where, and how your cash needs will occur
- Knowing the best sources for meeting additional cash needs
- Being prepared to meet these needs when they occur, by keeping good relationships with bankers and other creditors

### Cash Flow Management

The starting point for good cash flow management is developing a cash flow projection, or estimate of how much money will flow through your business. Smart business owners know how to develop both short-term (weekly, monthly) cash flow projections to help them manage daily cash, and long-term (annual, 3-5 year) cash flow projections to help them develop the necessary capital strategy to meet their business needs. They also prepare and use historical cash flow statements to understand how they used money in the past.

### Break Even Analysis

Break even analysis is a tool used to determine when a business will be able to cover all its expenses and begin to make a profit. For the startup business it is extremely important to know your startup costs, which provide you with the information you need to generate enough sales revenue to pay the ongoing expenses related to running your business.

A startup business owner must understand that $5,000 of product sales will not cover $5,000 in monthly overhead expenses. The cost of selling $5,000 in retail goods could easily be $3,000 at the wholesale price, so the $5,000 in sales revenue only provides $2,000 in gross profit available for overhead costs. The breakeven point is reached when revenue equals all business costs.

To calculate your breakeven point you will need to identify your fixed and variable costs. Fixed costs are expenses that do not vary with sales volume, such as rent or administrative salaries. These costs have to be paid regardless of sales and are often referred to as overhead costs. Variable costs vary directly with the sales volume, such as the costs of purchasing inventory, shipping, or manufacturing a product.

The formula for determining your break even point requires no more than simple arithmetic.

## UNIT 7: BUSINESS PLANS

### Business Plans

A business plan precisely defines your business, identifies your goals, and serves as your firm's resume. The basic components include a current and pro forma balance sheet, an income statement, and a cash flow analysis. It helps you know where to put your resources, deal with problems you don't expect, and make good business decisions. Because it provides specific and organized information about your company and how you will repay borrowed money, a good business plan is a crucial part of any loan application. Additionally, it informs sales personnel, suppliers, and others about your operations and goals. Much depends on it: outside funding, credit from suppliers, management of your operation and finances, promotion and marketing of your business, and achievement of your goals and objectives.

Despite the critical importance of a business plan, many entrepreneurs put off preparing a written document as long as they can. They argue that their marketplace changes too fast for a business plan to be useful or that they just don't have enough time. But just as a builder won't begin construction without a blueprint, eager business owners shouldn't rush into new ventures without a business plan.

### Four Core Questions

Before you can write your business plan you need to know:

- What service or product does your business provide and what needs does it fill?
- Who are the potential customers for your product or service and why will they purchase it from you?
- How will you reach your potential customers?
- Where will you get the financial resources to start your business?

### Business Plan Outline

The following outline of a typical business plan can serve as a guide. You can adapt it to your specific business. Breaking down the plan into several components helps make drafting it a more manageable task.

- Introduction
- Marketing
- Financial Management
- Operations
- Concluding Statement

### Introduction

- Give a detailed description of the business and its goals.
- Discuss the ownership of the business and the legal structure.
- List the skills and experience you bring to the business.
- Discuss the advantages you and your business have over your competitors.

### Marketing

- Discuss the products/services offered.
- Identify the customer demand for your product/service.
- Identify your market, its size and locations.
- Explain how your product/service will be advertised and marketed.
- Explain the pricing strategy.

**Financial Management**

- Explain your source and the amount of initial equity capital.
- Develop a monthly operating budget for the first year.
- Develop an expected return on investment and monthly cash flow for the first year.
- Provide projected income statements and balance sheets for a two-year period.
- Discuss your break-even point.
- Explain your personal balance sheet and method of compensation.
- Discuss who will maintain your accounting records and how they will be kept.
- Provide "what if" statements that address ways to solve to any problem that may develop.

**Operations**

- Explain how the business will be managed on a day-to-day basis.
- Discuss hiring and personnel procedures.
- Discuss insurance, lease or rent agreements, and issues that apply to your business.
- Account for the equipment necessary to produce your products or services.
- Account for production and delivery of products and services.

**Concluding Statement**

Summarize your business goals and objectives and express your commitment to the success of your business.

Once you have completed your business plan, review it with a friend or business associate. When you feel comfortable with the content and structure make an appointment to review and discuss it with your lender. The business plan is flexible document that should change as your business grows.

**Using the Plan**

Three purposes of a business plan:

- Communication Tool
- Management Tool
- Planning Tool

**Communication tool**

The Business Plan is used to attract investment capital, secure loans, convince workers to hire on, and assist in attracting strategic business partners. The development of a comprehensive business plan shows whether or not a business has the potential to make a profit. It requires a realistic look at almost every phase of business and allows you to show that you have worked out all the problems and decided on potential alternatives before actually launching your business.

**Management Tool**

The business plan helps you track, monitor and evaluate your progress. The business plan is a living document that you will modify as you gain knowledge and experience. By using your business plan to establish timelines and milestones, you can gauge your progress and compare your projections to actual accomplishments.

**Planning Tool**

The business plan helps you see where you want to go in the future and the steps you need to take to get there. It also makes you put down all of your ideas for your business and all of the different areas you need to work, so you know what to do right now.

## UNIT 8: BUSINESS MARKETING

### Marketing Basics

To succeed in any business, entrepreneurs must attract and retain a growing base of satisfied customers. Marketing programs, though widely varied, are all aimed at convincing people to try out or keep using particular products or services. Business owners should carefully plan their marketing strategies and performance to keep their market presence strong.

### What is Marketing?

Marketing is based on the importance of customers to a business and has two important principles:
1. All company policies and activities should be directed toward satisfying customer needs.
2. Making a big profit is more important than having your business earn more money, but with smaller profits.

To best use these principles, a small business should:

- Determine the needs of their customers through *market research*
- Analyze their competitive advantages to develop a *market strategy*
- Select specific markets to serve by *target marketing*
- Determine how to satisfy customer needs by identifying a *market mix*

### Market Research

Successful marketing requires accurate market information. An inexpensive research program, based on questionnaires given to current or prospective customers, can often uncover possible new products or services. Market research will also identify trends that affect sales and profitability. Keep population changes, legal developments, and the local economic situation in mind to quickly identify problems and opportunities. It is also important to keep up with competitors' market strategies.

### Marketing Strategy

A marketing strategy identifies customer groups, which a particular business can better serve than its target competitors, and fits product offerings, prices, distribution, promotional efforts, and services to these people. Ideally, the strategy should allow you to fill your niche and make money too. A good strategy helps a business focus on the target markets where it can do well.

### Target Marketing

Owners of small businesses usually have limited resources to spend on marketing. Concentrating your efforts on one or a few key market areas - target marketing – will get you the most for your money.
There are two methods used to break down areas of a market:

1. Geographical areas - Specializing in serving the needs of customers in a particular geographical area. For example, a bird-watching guide would focus on areas where people would come who want to see birds.
2. Customer areas - Identifying those people most likely to buy the product or service and targeting those groups, such as divers or fishermen.

**Managing the Market Mix**
Every marketing program contains four key components:

1. Products and Services
2. Promotion
3. Distribution
4. Pricing

These key ingredients are combined into an overall marketing program.

**Products and Services** Product strategies may include:

- Concentrating on a narrow product line, such as sportfishing
- Developing a highly specialized product or service, such as fly-fishing, or
- Providing a product or service package containing unusually high-quality service.

**Promotion-** Promotion strategies include advertising and direct customer interaction. Good salesmanship is essential for small businesses because of their limited ability to spend on advertising. Good telephone book advertising is also important. Direct mail is an effective, low-cost medium available to small business. There are also flyers and business cards you can make cheaply.

**Price** - The right price is very important for getting the most total revenue. Generally, higher prices mean fewer customers and vice-versa; however, small businesses can often command higher prices because of their personalized service.

**Distribution-** The manufacturer and wholesaler must decide how to distribute their products. Working through established sellers generally is easiest for small businesses. Small retailers should consider cost and traffic flow in site selection, especially since advertising and rent can be reciprocal: A low-cost, low-traffic location means spending more on advertising to build traffic.

**Market Mix**
The nature of the product or service is also important in where deciding where to put your business. If purchases are based largely on impulse, then high traffic and visibility are critical. On the other hand, location is less a concern for products or services that customers are willing to go out of their way to find.

**Marketing Performance**
After implementing a marketing program, entrepreneurs must evaluate its performance. Every program should have performance standards to compare with actual results. Researching industry norms and past performance will help to develop appropriate standards. Entrepreneurs should audit their company's performance at least quarterly. The key questions are:

1. Is the company doing all it can to be customer-oriented?
2. Do employees ensure the customers are satisfied and leave wanting to come back and tell other people to come?
3. Is it easy for the customer to find what he or she wants at a competitive price?

**What is Marketing?**

In plain and simple terms, marketing activities and strategies result in making products available that satisfy customers while making profits for the companies that offer those products. That's it in a nutshell!

Marketing produces a "win-win" because:

- Customers have a product that meets their needs, and
- Healthy profits are achieved for the company. (These profits allow the company to continue to do business in order to meet the needs of future customers.)

Stated another way: A focus on what the customer wants is essential to successful marketing efforts. This customer-orientation must also be balanced with the company's objective of maintaining a profitable volume of sales in order for the company to continue to do business. Marketing is a creative, ever-changing orchestration of all the activities needed to accomplish both of these objectives.

**How Are The Customer And Business Objectives Met?**

The American Marketing Association's definition of marketing is: "the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives." You can see in this definition that the process of marketing begins with discovering what product customers want to buy. Providing the features and quality customers want is a critical first step in marketing. You'll be facing an uphill battle if you provide something you want to produce and then try to convince someone to buy it. The marketing process then continues with setting a price letting potential customers know about your product, and making it available to them.

**What Activities are Included in Marketing?**

- Sales
- Packaging
- Promotion
- Information
- Public Relations

**Marketing Ideas**

- Local newspapers
- Internet
- Guidebooks
- Word of Mouth
- BTB Publications
- Flyers and business cards
- Radio
- Brochures in hotels, restaurants, etc.

**In Summary**

These are the fundamentals of a true marketing mindset:

- Producing what the customer wants should be the focus of business operations and planning.
- Creating profitable sales volume, not just sales volume, is a necessary goal.
- Coordinating between marketing activities and all other functions within a business that affect marketing efforts.

## UNIT 9: CUSTOMER SERVICE

### Customer Service

The Golden Rule, "do unto others as you would have them do unto you," may seem self-evident in the way we try to conduct our personal lives. Yet this axiom is assuming new importance as a guiding principle in the world of business. The growing significance of meeting -- or exceeding -- customer demands for quality service has special implications for small business. For it is in this arena that small companies can, in the least expensive way, set themselves apart from the competition.

### Golden Rule #1: Put the Customer First

Quality customer service begins with your employees. The first person that a customer will see is you and your employees. You all should be good ambassadors. If you take care of your employees then they are more likely to take care of your customers. Try offering service bonuses to increase employee morale and make them pay attention to customers.

### Golden Rule #2: Stay Close To Your Customer

Asking questions and listening carefully to the answers is an important part of customer service. You lose money when you lose customers, so keeping them is what is going to make your business run. You can see the evidence in these facts:

- 65% of a company’s business comes from existing customers
- It costs 5 times as much to attract a new customer as it does to keep an existing customer happy
- 91% of customers will never use a company who has disappointed, failed, or offended them
- The best business owners are not only committed to staying close to their clientele, but also identify with them. They give their customers the level of service they themselves would expect to receive.

### Golden Rule #3: Pay Attention to the Little Details

Some of the most effective "extras" are really very basic adages of conducting good business, although customers are often surprised when they take place. These include:

- Answering the phone by the third ring;
- Treating customers respectfully and courteously at all times;
- Greeting them by name;
- Promptly answering their questions and, if you can't, getting back to them with an answer as quickly as possible;

### Five Rules of Customer Care

Understanding customers and the way they think is critical to keeping them. For example, customers do business on the basis of emotional desire: they want what they want -- when they want it. Customers also tend to gravitate toward a company or group of people they like. Plus, most customers have a strong tendency to stick with businesses with which they are familiar, and are slow to change buying habits unless given a very good reason. However, when they are displeased, even by a small disappointment or discourteous word, various surveys have revealed that customers tell from seven to 11 people about their dissatisfaction. An important key to serving customers well is this: don't try to change them.

Here are five specific steps to help you take full advantage of the critical element of customer care:

**Rule 1: Research-** Conduct your own survey. Profit from the ideas, suggestions and complaints of your present and former customers. Talk and meet with your customers. Ask questions. Learn their attitudes, what they want and what they dislike.

**Rule 2: Manners-** Check employees' telephone manners periodically. This link is particularly important for small businesses, as bad telephone handling can undermine other constructive efforts to build a profitable enterprise.

**Rule 3: Positive Attitudes-** Rules such as prompt answering and a cheerful attitude of helpfulness are of critical importance. Have someone whose voice is unfamiliar play the role of a customer or prospective customer, preferably a difficult one.

**Rule 4: Team Work-** Make customer service a team effort. Use group meetings, memos, posters and in-house publications to build customer consciousness throughout the organization. Continually drive home the crucial rule that getting and holding customers requires team play, and invite employee ideas.

**Rule 5: Never Stop Working-** Extend your efforts after hours. It's the friendly feelings people have that draw them to you and your business. Take advantage of the relaxed atmosphere of social occasions or a neighborly chat to turn friends into customers, or to reinforce the loyalty of existing ones.

## UNIT 10: BUSINESS MANAGEMENT

### Financial Statements

Understanding financial statements is critically important to the success of a small business. Financial statements can be used as a roadmap on your business journey to economic success. Using numbers can steer you in the right direction and help you avoid costly mistakes. Most business owners don't realize that financial statements have a value that goes far beyond their use to prepare tax returns or loan applications.

### The Balance Sheet

The balance sheet is a snapshot of the company's financial standing at an instant in time. The balance sheet shows the company's financial position, what it owns (assets) and what it owes (liabilities and net worth). The "bottom line" of a balance sheet must always balance (i.e. assets = liabilities + net worth). The individual elements of a balance sheet change from day to day and reflect the activities of the company. Analyzing how the balance sheet changes over time will reveal important information about the company's business trends. In this section, we'll discover how you can monitor your ability to collect revenues, how well you manage your inventory, and even assess your ability to satisfy creditors and stockholders.

Liabilities and net worth on the balance sheet represent the company's sources of funds. Liabilities and net worth are composed of creditors and investors who have provided cash or its equivalent to the company in the past. As a source of funds, they enable the company to continue in business or expand operations. If creditors and investors are unhappy and distrustful, the company's chances of survival are limited.

Assets, on the other hand, represent the company's use of funds. The company uses cash or other funds provided by the creditor/investor to acquire assets. Assets include all the things of value that are owned or due to the business.

Liabilities represent a company's obligations to creditors while net worth represents the owner's investment in the company. In reality, both creditors and owners are "investors" in the company with the only difference being the degree of nervousness and the timeframe in which they expect repayment.

### ASSETS

As noted previously, anything of value that is owned or due to the business is included under the Asset section of the Balance Sheet. Assets are shown at net book or net realizable value (more on this later), but appreciated values are not generally considered.

### Current Assets

Current assets are those that mature in less than one year. They are the sum of the following categories:

- Cash
- Accounts Receivable (A/R)
- Inventory (Inv)
- Prepaid Expenses
- Other Current Assets

### Cash

Cash is the way to go. Cash pays bills and obligations. Inventory, receivables, land, building, machinery and equipment do not pay obligations even though they can be sold for cash and then used to pay bills.

If cash is inadequate or improperly managed the company may become insolvent and be forced into bankruptcy. Include all checking, money market and short-term savings accounts under Cash.

**Accounts Receivable (A/R)**

Accounts receivable are dollars due from customers. They arise as a result of the process of selling inventory or services on terms that allow delivery prior to the collection of cash. Inventory is sold and shipped, an invoice is sent to the customer, and later cash is collected. The receivable exists for the time period between the selling of the inventory and the receipt of cash. Receivables are proportional to sales. As sales rise, the investment you must make in receivables also rises.

**Inventory**

Inventory consists of the goods and materials a company purchases to re-sell at a profit. In the process, sales and receivables are generated. The company purchases raw material inventory that is processed (a.k.a. work-in-process inventory) to be sold as finished goods inventory. For a company that sells a product, inventory is often the first use of cash. Purchasing inventory to be sold at a profit is the first step in the profit making cycle (operating cycle) as illustrated previously. Selling inventory does not bring cash back into the company -- it creates a receivable. Only after a time lag equal to the receivable's collection period will cash return to the company. Thus, it is very important that the level of inventory be well managed so that the business does not keep too much cash tied up in inventory, as this will reduce profits. At the same time, a company must keep sufficient inventory on hand to prevent stockouts (having nothing to sell) because this too will erode profits and may result in the loss of customers.

**Other Current Assets**

Other Current Assets consist of prepaid expenses and other miscellaneous and current assets.

**Fixed Assets**

Fixed assets represent the use of cash to purchase physical assets whose life exceeds one year. They include assets such as:

- Land
- Building
- Machinery and Equipment
- Furniture and Fixtures

**Intangibles**

Intangibles represent the use of cash to purchase assets with an undetermined life and they may never mature into cash. For most analysis purposes, intangibles are ignored as assets and are deducted from net worth because their value is difficult to determine. Intangibles consist of assets such as:

- Research and Development
- Market Research
- Goodwill
- Organizational Expense

In several respects, intangibles are similar to prepaid expenses; the use of cash to purchase a benefit which will be expensed at a future date. Intangibles are regained, like fixed assets, through incremental annual charges against income. Standard accounting procedures require most intangibles to be expensed as purchased and never capitalized (put on the balance sheet). An exception to this is purchased patents that may be amortized over the life of the patent.

**Other Assets**
Other assets consist of miscellaneous accounts such as deposits and long-term notes receivable from third parties. They are turned into cash when the asset is sold or when the note is repaid. Total Assets represent the sum of all the assets owned by or due to the business.

**LIABILITIES AND NET WORTH**
Liabilities and Net Worth are sources of cash listed in descending order from the most nervous creditors and soonest to mature obligations (current liabilities), to the least nervous and never due obligations (net worth). There are two sources of funds: lender-investor and owner-investor. Lender-investors consist of trade suppliers, employees, tax authorities and financial institutions. Owner-investor consists of stockholders and principals who loan cash to the business. Both lender-investor and owner investors have invested cash or its equivalent into the company. The only difference between the investors is the maturity date of their obligations and the degree of their nervousness.

**Current Liabilities**
Current liabilities are those obligations that will mature and must be paid within 12 months. These are liabilities that can create a company's insolvency if cash is inadequate. A happy and satisfied set of current creditors is a healthy and important source of credit for short term uses of cash (inventory and receivables). An unhappy and dissatisfied set of current creditors can threaten the survival of the company. The best way to keep these creditors happy is to keep their obligations current.

**Current liabilities consist of the following obligation accounts:**
- Accounts Payable -- Trade (A/P)
- Accrued Expenses
- Notes Payable -- Bank (N/P Bank)
- Notes Payable -- Other (N/P Other)
- Current Portion of Long term Debt
- Proper matching of sources and uses of funds requires that short-term (current) liabilities must be used. Only to purchase short term assets (inventory and receivables)

**Notes Payable**
Notes payable are obligations in the form of promissory notes with short-term maturity dates of less than 12 months. Often, they are demand notes (payable upon demand). Other times they have specific maturity dates (30, 60, 90, 180, 270, 360 days maturities are typical). The notes payable always include only the principal amount of the debt. Any interest owed is listed under accruals.
The proceeds of notes payable should be used to finance current assets (inventory and receivables). The use of funds must be short term so that the asset matures into cash prior to the obligation's maturation. Proper matching would indicate borrowing for seasonal swings in sales, which cause swings in inventory and receivables, or to repay accounts payable when attractive discount terms are offered for early payment.

### Accounts Payable

Accounts Payable are obligations due to trade suppliers who have provided inventory or goods and services used in operating the business. Suppliers generally offer terms (just like you do for your customers), since the supplier's competition offers payment term. Whenever possible you should take advantage of payment terms as this will help keep your costs down. If the company is paying its suppliers in a timely fashion, days payable will not exceed the terms of payment.
Accrued Expenses are obligations owed but not billed such as wages and payroll taxes, or obligations accruing, but not yet due, such as interest on a loan. Accruals consist chiefly of wages, payroll taxes, interest payable and employee benefits accruals such as pension funds. As a labor related category, it should vary in accordance with payroll policy (i.e., if wages are paid weekly, the accrual category should seldom exceed one week's payroll and payroll taxes).

### Non-current Liabilities

Non-current liabilities are those obligations that will not become due and payable in the coming year. There are three types of non-current liabilities, only two of which are listed on the balance sheet:

- Non-current Portion of Long Term Debt (LTD)
- Subordinated Officer Loans (Sub-Off)
- Contingent Liabilities

Non-current portion of long-term debt is the principal portion of a term loan not payable in the coming year. Subordinated officer loans are treated as an item that lies between debt and equity. Contingent liabilities listed in the footnotes are potential liabilities, which hopefully never become due. Non-Current Portion of Long Term Debt (LTD) is the portion of a term loan that is not due within the next 12 months. It is listed below the current liability section to demonstrate that the loan does not have to be fully liquidated in the coming year. Long-term debt (LTD) provides cash to be used for a long-term asset purchase, either permanent working capital or fixed assets.

### Contingent Liabilities

Contingent Liabilities are potential liabilities that are not listed on the balance sheet. They are listed in the footnotes because they may never become due and payable. Contingent liabilities include:

- Lawsuits
- Warranties
- Cross Guarantees

If the company has been sued, but the litigation has not been initiated, there is no way of knowing whether or not the suit will result in a liability to the company. It will be listed in the footnotes because while not a real liability, it does represent a potential liability, which may hurt the ability of the company to meet future obligations.

### Total Liabilities

Total liabilities represent the sum of all monetary obligations of a business and all claims creditors have on its assets.

### Equity

Equity is represented by total assets minus total liabilities. Equity or Net Worth is the most patient and last to mature source of funds. It represents the owners' share in the financing of all the assets.

**Income Statement**

Known also as the profit and loss statement, the income statement shows all income and expense accounts over a period of time. That is, it shows how profitable the business is. This financial statement shows what how much money the company will make after all expenses are accounted for. Remember that an income statement does not reveal hidden problems like insufficient cash flow problems. Income statements are read from top to bottom and represent earnings and expenses over a period of time.