Choosing the Right Business

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QUICK PLAN

If you've chosen the quick plan method to prepare a business plan (see Introduction), you need to read and complete only these sections of Chapter 3:

• “Problem Statement”
• “Business Description,” and
• “Forecast Sales Revenue.”

Introduction

This chapter helps you determine whether you have chosen the “right” business for you—one that you know, like, and will work hard for and that makes economic sense. Most experienced businesspeople complete several steps as a rough and ready template to decide whether to complete a plan. If your business passes all these steps with flying colors, it means it’s a good idea to write a full business plan (although it doesn’t guarantee success). On the other hand, if your proposal doesn’t pass, you’ll probably want to modify or change your plans altogether.

If you're like most people, chances are your business will pass some tests easily and fail some of the others. Antoinette faces just that problem in this chapter. Pay careful attention to how she approaches that dilemma; her method of proceeding may help you in your decision.

Know Your Business

One of the most common questions people ask me is this: What business should I start? My answer is always the same—start a venture that you know intimately already. I don’t believe any business exists that is so foolproof that anyone can enter and make a sure profit. On the other hand, a skilled, dedicated owner often can make a venture successful when others have failed. Remember, your potential customers will exchange their money only for the conviction that you are giving them their money’s worth. And that means you’ll need to know what you’re doing. While this point should appear obvious, sadly—it isn’t.
Many people enter businesses they know little or nothing about. I did it once myself. I opened an automobile tune-up shop at a time when, seemingly, they couldn’t miss. I knew a good deal about running a small business, had a personality well suited for it, and could borrow enough money to begin. The end of what turned out to be a very sad story is that it took me two years and $30,000 to get rid of the business. Why? Because in my hurry to make a profit, I overlooked several crucial facts. The most important of these was that I knew virtually nothing about cars and I didn’t really want to learn. Not only was I unable to roll up my sleeves and pitch in when it was needed, I didn’t even know enough to properly hire and supervise mechanics. In short, I made a classic mistake—I started a business in a “hot” field because someone was foolish enough to lend me the money.

How can you apply my lesson to your situation? Let’s say you’ve heard pasta shops make lots of money and you want to start one. First, if at all possible, get a job working in one, even if you work for free. Learn everything you can about every aspect of the business. After a few months, you should be an expert in every aspect of pasta making, from mixing eggs and flour, flattening the dough, and slicing it into strips. Ask yourself whether you enjoy the work and whether you are good at it. If you answer “Yes,” go on to the second important question: Is the business a potential money maker? You should have a pretty good answer to this question after working in the field for a few months.

If you’re unable to find employment in the pasta business, make a tour of delicatessens and shops that make their own pasta. Interview the owners. To get reliable answers, it’s best to do this in a different locale from the one in which you plan to locate. Small business owners are often quite willing to share their knowledge once they are sure you will not compete with them.

I remember reading a management philosophy that said that a good manager doesn’t have to know every job, only how to get other people to do them. That approach may work well in a large corporation, but for a small business, it’s dangerously naive. In short, don’t start your small venture until you know it from the ground up. I mean this literally. If you’re opening a print shop, you should be able to run the presses and...
use all the popular print presentation software, as well as keep a coherent set of books. If it’s your elegant little restaurant and the food isn’t perfect, you’re the one who either improves it in a hurry or goes broke. If you don’t like getting your hands dirty, choose a clean business.

<table>
<thead>
<tr>
<th>Are You Choosing a Risky Business?</th>
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<tbody>
<tr>
<td>When considering the businesses you know, it is helpful to know how well they typically fare. For instance, these businesses have higher than average failure rates:</td>
</tr>
<tr>
<td>• computer stores</td>
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<tr>
<td>• laundries and dry cleaners</td>
</tr>
<tr>
<td>• florists</td>
</tr>
<tr>
<td>• used car dealerships</td>
</tr>
<tr>
<td>• gas stations</td>
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<tr>
<td>• local trucking firms</td>
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<td>• restaurants</td>
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<td>• infant clothing stores</td>
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<td>• machine shops</td>
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<tr>
<td>• car washes</td>
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<tr>
<td>• e-commerce, and</td>
</tr>
<tr>
<td>• grocery and meat stores.</td>
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<tr>
<td>If your business idea is on this list, it doesn’t mean you should abandon it automatically. However, it should remind you to be extra critical and careful when preparing your plan. I’ve known successful businesspeople in every category listed, just as I have known people who have failed in each one.</td>
</tr>
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Be Sure You Like Your Business

Does the business you want to own require skills and talents you already possess? If you have the necessary skills, do you enjoy exercising them?
Think about this for a good long time. The average small business owner spends more time with his venture than with his family. This being so, it makes sense to be at least as careful about choosing your endeavor as you are about picking your mate. A few of us are sufficiently blessed that we can meet someone on a blind date, settle down a week later, and have it work out wonderfully. However, in relationships, as in business, most of us make better decisions if we approach them with a little more care.

Be sure you aren’t so blinded by one part of a small business that you overlook all others. For example, suppose you love music and making musical instruments. Running your own guitar shop sounds like it would be great fun. Maybe it would be, but if you see yourself contentedly making guitars all day in a cozy little workroom, you’d better think again. Who is going to meet customers, keep the books, answer the phone, and let potential customers know you are in business? If you hate all these activities, you either have to work with someone who can handle them, or do something else.

Here’s one last thing to think about when considering how much you like your business idea. In fact, it’s a danger that threatens almost every potential entrepreneur. Precisely because your business idea is yours, you have an emotional attachment to it. You should. Your belief in your idea will help you wade through all the unavoidable muck and mire that lies between a good idea and a profitable business. However, your ego involvement can also entail a loss of perspective. I’ve seen people start hopeless endeavors and lose small fortunes because they were so enamored with their “brilliant ideas” that they never examined honestly the negative factors that doomed their ventures from the start.

Describe Your Business

What is your good idea? What business do you want to be in? It’s time to look at the specifics. Let’s say you want to open a restaurant. What will you serve? What will your sample menu look like? What equipment will you need? Note that including french fries means you’ll have to install french-fryers, grease traps in the sewer line, hoods and fire extinguishing systems. On the other hand, by not serving fried foods
you will save a lot of money in the kitchen, but maybe you’ll go broke when all the grease addicts go next door.

Or suppose you want to sell DVDs, games, or digital cameras. Do you plan to have a service department? If so, will you make house calls, or only accept repairs at your store? What sort of security system will you install to protect your inventory? What about selling component sound systems or home entertainment centers? What about competition from nearby retailers?

Answers to these types of questions will be crucial to the success of your venture and to writing your business plan. Let me tell you from hard, personal experience that you need a written document—even if you’re sure you know exactly what your business will do.

With this foundation document to refer to, you are less likely to forget your good plans and resolutions in the heat of getting your business under way. Any changes you later make can be made both consciously and with consideration.

To write a complete description of your proposed business, simply follow the suggestions on the next few pages.

Identify Your Type of Business

Find the business category listed below that most closely matches your business. You’ll use the description that follows as a reference when you describe your own business.

CAUTION

Each of the business categories requires different skills to run efficiently. Many small businesses involve one or two types of business in the same endeavor. But if your idea will involve you in several types of business, it may be too complicated for you to run efficiently. As a general rule, small businesses work best when their owners know exactly what they are about and strive for simplicity.

- Retail. Retail businesses buy merchandise from a variety of wholesalers and sell it directly to consumers. Some retailers provide
service and repair facilities, while most do not. Most retailers just take in the goods and mark up the price, sometimes doubling their purchase price to arrive at a sales price.

Supermarkets, mail order catalogue merchants, online stores (e-tailers), computer stores, dress shops, department stores, and convenience marts are retailers.

• **Wholesale.** Wholesalers buy merchandise from manufacturers or brokers and resell the goods to retailers. Normally, a wholesaler maintains an inventory of a number of lines. A wholesaler normally does not sell to consumers, in order to avoid competing with his retailer customers. Wholesalers usually offer delivery service and credit to customers. This type of business is characterized by low gross profit margins (sometimes varying between 15% and 33% of the wholesaler’s selling price) and high inventory investment.

Wholesalers typically buy in large lots and sell in smaller lots. Like retailers, they seldom make any changes to the products. Most wholesalers aren’t well known to the general public.

• **Service.** People with a particular skill sell it to consumers or to other businesses, depending on the skill. The end product of a service business is normally some sort of advice or the completion of a task. Occasionally, a service business sells products as an ancillary function. For example, a baby diaper cleaning service may also sell diapers and baby accessories. Service business customers normally come from repeats and referrals. It’s common to have to meet state licensing requirements.

Hairdressers, carpet cleaners, consultants, housecleaners, accountants, building contractors, and architects are examples of service businesses.

• **Manufacturing.** Manufacturers assemble components or process raw materials into products usable by consumers or other businesses. This type of business ranges from an artisan who makes craft items to Toyota. The most difficult part of the manufacturing business is to find a product, or even better, a series of products, that have acceptance in the marketplace and generate a steady sales volume.
Or, as one businessperson put it: “Production without sales is scrap.”

- **Project development.** Developers create and finish a saleable commodity by assembling resources for a one-time project. Normally, the developer knows the market value of the finished product before she begins work. When the project is complete, the developer sells her interest in the project, normally directly to the user or consumer.

  To understand project developers, consider a woman building a single-family house on speculation. She buys the lot, secures permits, hires a contractor, gets a loan, builds a house, and sells it. She is then ready to go on to another project. Other examples of project developers include someone who buys, restores, and sells antique cars and someone who purchases dilapidated buildings at a bargain price, fixes them up, and sells them.

**TIP**

*Software development note:* Software development differs from software production and sales in that software developers create a product that another entity produces and markets. For example, Fred Jones creates a bookkeeping program for employment agencies on his own time. Then he sells or licenses production and marketing rights to the Acme Programs Co. for $1,000 cash and 5% of future sales. Fred is the project developer and Acme is the manufacturer. If Fred also produces copies and markets them himself, he acts as both developer and manufacturer.

**Problem Statement**

Successful businesses share a common attribute: They do something useful for their customers. One way to determine what is useful for your customers is to identify and describe the problem that your business will solve. For example, a window washing service solves the customer’s twin problems of wanting clean windows and lacking either the time or physical ability to clean windows himself. If you accurately understand
your customers’ problems and needs, your business will have a better chance of success.

For example, here’s a problem faced by a customer of a pizza-by-the-slice stand: “I’m hungry and I don’t have much time or money, but I’m tired of hamburgers and want a change of pace. Also, I’d like to be able to specify the exact ingredients I want in my meal. And, it would be really swell to have a glass of wine or beer with the meal.”

Now, think about your customers for a minute. What is the problem that you solve for them? Write out your description of the problem your business solves for its customers. This statement will become part of your completed business plan.

### Problem Antoinette’s Dress Shop Will Solve

Professional working women like to buy fashionable, slightly conservative clothing at moderate prices. They prefer shopping at convenient times and patronizing stores that offer a wide selection of merchandise. These women like to talk to sales clerks who understand fashion and know their store’s merchandise; few clerks in the local department stores have this knowledge. At the present time, many of these women travel 45 miles to shop because no local store meets their needs or carries today’s most popular labels.

### Business Description

Next, describe how your business will solve your customers’ problem. Take your time and do a thorough job. It’s very likely that the first time you attempt this task, questions will occur to you that you didn’t consider previously. If so, figure out a good answer and rewrite your description. The important thing is not how long it takes to do this, but that you end up with a realistic, well-thought-out business description. After all, it’s cheaper to answer questions and solve problems on paper than it is with real money.
Your business description should explain exactly what you will provide for the customer as well as what you’ll exclude. Each of the choices you make in your business description will affect the amount of money you’ll need to start or expand and how much sales revenue you can expect.

Consider the following series of questions when writing your business description. If you answer both the general business questions and each question that applies to your business, you’ll present your business accurately and fairly.

For an example of a well-thought-out business, refer to the accompanying sample, which contains the first draft of Antoinette’s Dress Shop’s business description. You will find three additional business descriptions in Appendixes A, B, and C at the back of the book.

**General Business Questions**

These questions apply to most small businesses. Feel free to skip any questions that don’t pertain to you.

1. What problem do I solve for my customers?
2. Who is my typical (target) customer?
3. How will I communicate with my target customer?
4. What products and/or services will I provide? Are there any products or services my customers may expect me to provide that I don’t plan to provide?
5. Where will my business be located?
6. Where will I buy the products I need?
7. What hours will I operate?
8. Who will work for me and how will they be paid?
9. Who will handle critical tasks like selling, ordering, bookkeeping, marketing, and shipping?
10. How will I advertise and promote my business?
11. What are the competition’s strengths and weaknesses?
12. How am I different from the competition, as seen through the eyes of my customers? (Make sure that you answer this question from a customer’s perspective and not from an owner’s point of view.)
Specific Business Questions

Some issues your business faces can be categorized by business type. Make sure your business description addresses both the general business questions that apply to your business and the questions specific to your type of business.

CAUTION

If you plan to conduct operations in more than one category, be sure to use the specific questions for each type of business that applies.

Retail

1. How will I keep abreast of fashion and taste in my field?
2. Does my location have enough drive-by or walk-by traffic to support my business, or must I rely on heavy advertising for sales?
3. Is it better to be in a shopping center with high rents and operating restrictions, or in a separate location with lower costs and less drive-by or walk-by traffic?
4. How much inventory will I buy in comparison to my expected sales revenues? (This is a critical question in the retail field and deserves your close attention.)

Wholesale

1. Which product lines will I carry in inventory and which will I order as required?
2. Will I carry accounts for my customers or work on cash only?
3. Are there any exclusive distributorships available to me?
4. Will I have to market all the products myself or will the manufacturers have marketing programs?

Service

1. Are my credentials and skills equal to or better than others in my field?
2. Can I sell my service as well as I can perform it?
3. Will I take work on speculation or will I insist on cash for each job?
Business Description for Antoinette’s Dress Shop

Antoinette’s Dress Shop will be a women’s retail clothing store designed to serve the growing market of professional working women. Our store will buy clothing and accessories from the most popular labels that provide consistent quality and service. Antoinette’s Dress Shop will resell them “as is” to our target market. Antoinette’s will specialize in fashionable, reasonably priced clothing suitable to this city’s working environment. The store will sell a limited line of sportswear or leisure wear. We will carry business suits, pantsuits, and dresses for daytime wear, together with accessories like purses and belts. We will make prompt minor alterations at no charge.

Antoinette’s will regularly publish a newsletter containing clothing tips for working women, which we will send to customers on our email list. We will maintain a file on each customer that contains their size and style and color preferences. Antoinette’s will schedule fashion shows for our customer base as a marketing device.

Antoinette’s will offer a relaxed atmosphere with personalized attention and unlimited fitting-room time. Our store will feature a contemporary design and inviting feeling. All our employees will be knowledgeable about fashion in general and about the clothing we sell. Antoinette’s will be located in approximately 2,000 square feet in the downtown mall and will maintain regular mall hours of Monday through Friday from 11:00 a.m. until 9:00 p.m. and Saturdays from 10:00 a.m. until 6:00 p.m. These hours will be a convenience to our customer base. The store will not offer delivery on a regular basis, although we will offer Federal Express shipments when requested and we will maintain a website together with an active email correspondence with customers so they can express their feelings about any concerns.
4. Do I have a client list to begin with or will I start cold?
5. Am I better off associating with others or being independent?

**Manufacturing**

1. Does my manufacturing process create toxic or polluting materials? If so, how will I deal with them and what regulatory agencies handle them?
2. Is there a pool of readily available, affordable skilled labor where I want to locate?
3. Will I make products for inventory or per order?
4. Will I make one product only or a line of products?
5. If I succeed on a small scale, do I plan to sell out to a larger company or try to compete nationally or internationally?
6. Is my competition from small or large firms?

**Project Development**

1. Am I sure of the selling price of my project?
2. Am I sure of my projected costs? What will happen if my costs are higher than estimated?
3. Am I sure of the time factors? What will happen if it takes longer than expected to complete and sell the project?
4. What portions of the work will I contract with others to perform?
5. Is there a definite buyer for my project? If not, what costs will I incur before it’s sold?

**Taste, Trends, and Technology:**

**How Will the Future Affect Your Business?**

Let’s assume you have a good description of your proposed business, and the business is an extension of something you like and know how to do well. Perhaps you have been a chef for ten years and have always dreamed of opening your own restaurant. So far, so good—but you aren’t home free yet. There is another fundamental question that needs answering: Does the world need, and is it willing to pay for, the product
or service you want to sell? For example, do the people in the small town where you live really want an Indonesian restaurant? If your answer is “Yes” because times are good and people have extra money, ask yourself what is likely to happen if the economy goes into a slump ten minutes after you open your doors.

To make this point more broadly, let’s use a railroad train as a metaphor for our economic society. And let’s have you, as a potential new businessperson, stand by the tracks. How do you deal with the train when it arrives? You can get on and ride. You can continue to stand by the tracks and watch the train disappear in the distance. Or you can stand in the middle of the tracks and get run over.

To continue this metaphor, let’s now assume the economic train has three engines: taste, trends, and technology. Together they pull the heavy steel cars which can give you a comfortable ride or flatten you. Let’s take a moment to think more about each of these engines.

**Taste**

People’s tastes drive many of the changes our society speeds through. For example, in the 1970s, many of us changed our taste in automobiles from large gas guzzlers to small, well-built cars. American manufacturers didn’t recognize this change in taste until they almost went broke. The Japanese were in the right place with small, reliable cars and realized great prosperity.

Consider popular music as another example. Music styles change every few years, and some bright businesspeople succeed by selling clothing and other accessories associated with each new music style.

What does this mean to you? Look at your business idea again. How does it fit with today’s tastes? Is your business idea part of a six-month fad? Are you going into something that was more popular five years ago than it is now and is declining rapidly? If so, you are likely to go broke no matter how good a manager you are and how much you love your business.
Trends

It’s one thing to understand that people’s tastes have changed and will undoubtedly change again and again, but it’s a lot harder to accurately predict what will be popular in a few years. I wish there were a central source of information about predicting future trends in any field, but there isn’t. You have the task of looking into the future and deciding where it is going and how that affects what you do today. Fortunately, a little research can do wonders. Here are some tips on how to proceed.

Read everything you can about your field of interest. Attend trade shows and talk to people in small businesses at the cutting edge of the field. Talk to people in similar businesses. Read back issues of magazines aimed at your proposed field. Your goal is to know enough about your proposed business to spot the trends that will continue into the next decade. For example, if you’re interested in opening a night club from the 1950s featuring a piano bar, mixed drinks, and lots of room for smokers, you should know that the consumption of hard liquor and cigarettes has gone down sharply in recent years and that nonsmoking lounges with wine and imported beer are doing very well. Putting this information together with other factors, such as your anticipated location and target customers, should give you a pretty good idea of what drinks you should offer. You might decide to serve a number of varieties of fine wine and imported beer and forget about a hard liquor license altogether.

Technology

Technology is your innovative kitchen appliance, your home computer, NASA’s new spacecraft, and even the proverbial better mousetrap. For example, lots and lots of people are working feverishly to come up with better video games, laser toothbrushes, wristwatches, TVs, and the like. Sometimes it takes years to perfect an item. That can be good news for small business owners, as there is plenty of time to prepare to profit.

Of course, there is a downside to new technology, too. It often involves high risk. There’s no guarantee of success just because the
E-Business Basics

From the initial dot-com boom in the late 1990s through the subsequent “dot bomb” in 2001, through the post-2001 rebound and 2008 mortgage meltdown, the only “constant” in the online business world is “constant change.”

One thing is certain: The pre-2001 approach of just exploiting a hot domain name and buying up cyber “real estate” no longer guarantees success. Today, successful online companies track the same metrics as their offline counterparts—that is, they carefully watch revenues, costs, and profit and loss analysis. For example, one savvy Internet entrepreneur eventually closed his retail sporting goods store because employees—too busy shipping orders to Internet customers—were neglecting brick-and-mortar customers.

Some trends for success have emerged: A successful online retailer commonly carries a wider assortment of goods than a traditional brick-and-mortar store. Online retailers cater to an international market that operates around the clock. Many online retailers try to keep inventory investment as low as possible by having some of their suppliers ship orders directly from the manufacturer’s location to the retail customer (known as “drop shipping”). In this model, the online retailer pays the manufacturer’s invoice at a wholesale cost and collects cash via the customer’s credit card before an electronic purchase order is issued to the manufacturer.

And online retail business also requires intensive management and sometimes requires a bit more vigilance than a typical retail store. These businesses often work on lower than average gross profit margins. Since many online shoppers use a shopping “bot,” savvy retailers make sure their products are found by the search engines. Finally, online retailers must either know—or must hire others who know—website programming as well as online banking and fulfillment operations, all of which are necessary to generate profits.

Online retail sales have been growing steadily and are forecast to continue growing. The same is true for online companies that provide services. Google, for example, earns steady profits from its online advertising program where a business pays a fee for each click through to a sponsored link. One advantage of this program is that a merchant can track the cost effectiveness of the program on a daily basis (and stop or start it at any time).
product is new. In fact, something like 80% of the new products introduced into the marketplace die a quick death. Look at the Wikipedia list of more than 100 products that have been discontinued by Apple; it will open your mind. Remember HD-DVD players, the Edsel, and eight-track tape players?

What should you do to take advantage of new technologies? First, recognize that large-scale new technology ventures require vast amounts of money and will be beyond your reach unless you plan to have your small business grow in a hurry. Many companies expect to lose money for years during product development and approval before developing a big hit. However, there are often ways creative small business owners can find to participate in new technological trends. For example, many computer software companies started with little more than a good idea and a computer. Or to think even smaller—but not necessarily less profitably—lots of carpenters have done well making ergonomically correct furniture for computer workstations.

Pay attention to new developments in your chosen field and think about how you can take advantage of them. The explosion in mobile devices has popularized applications (or “apps”) that enable users to accomplish many functions previously associated with deskbound computers. Can your business benefit from creating such an app? Can you modify your software or website development business to accommodate the massive app market?

In short, new technology is a mighty engine that can pull the economy in new directions at terrific speed. Be sure you are riding on the train and not picking daisies on the tracks in front of it.

**Write a Future Trends Statement**

With this discussion of taste, trends, and technology, I have attempted to focus your attention on the broad movements in the economy that can affect your business idea. Also, remember that there are similar trends in your local community. It’s at least as important that you pay attention to these. For example, perhaps you live in a farming community with no manufacturing industries and many migrant workers. It is unlikely that
a high fashion clothing store would do well there, but you might do very well selling a new lighter, stronger, cheaper work boot, or chain saw, or stump puller.

Write down your first thoughts about what trends affect your business and where they will be in five years. Nobody expects a perfect forecast, but most financial backers want to know that you have thought through how your business will fit into the world in the next few years.

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**Future Trends Affecting Antoinette’s Dress Shop**

There are two conflicting trends affecting my business. First, more women are entering the workforce. However, women increasingly must work to pay for family necessities rather than to make money for extras. For my business, this means that professional working women will appreciate even more in the years ahead the extra service and convenience that we offer.

Second, as the baby boom matures, the number of women in the age group that enters the workforce is declining. This means that I cannot count on an ever-expanding population base for my business.

To accommodate these trends, I plan to pay attention to my customers’ changing tastes as they grow older. I also intend to find new ways to market to the smaller number of younger women entering the workforce.

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**Break-Even Analysis: Will Your Business Make Money?**

Some people have a bigger problem than others when opening a new business. These are folks who are positively enamored with their business concept and are desperately eager to begin. They are so smitten and eager to start, they have no patience with the economic realities involved in their business. If you recognize this tendency in yourself, it’s extra important that you prepare a financial forecast carefully and pay attention to what it tells you. This step tells you whether your idea is a sure winner or a sure loser or, like most ideas, whether it needs work and polishing to make it presentable.
How can you tell if your business idea will be profitable before you implement it? The honest answer is, you can’t. This essential fact makes business scary. It also makes it adventurous. After all, if it were a sure thing, everyone would go into business.

Just because you can’t be sure you will make money doesn’t mean you should throw up your hands and ignore the whole problem. You can and should make some educated guesses. I like to call them SWAGs (“Scientific,” Wild Ass Guesses). The challenging part is to make your profit estimate SWAGs as realistic as possible and then make them come true.

The best way to make a SWAG about your business profitability is to do a break-even forecast. Although a break-even analysis or forecast can never take the place of a complete business plan, it can help you decide if your idea is worth pursuing.

Most financial backers expect you to know how to apply break-even analyses to your business. Your backer may ask what your profits will be if sales are slightly higher or lower than your forecast.

Many experienced entrepreneurs use a break-even forecast as a primary screening tool for new business ventures. They won’t write a complete business plan unless their break-even forecast shows that the sales revenue they expect to obtain far exceeds what they need just to pay all the bills. Otherwise, they know their business will not last very long.

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**CAUTION**

You can use this technique as a “quick and dirty” profit analysis, but don’t use it as a substitute for the full profit and loss forecast presented in Chapter 6. A break-even forecast is a great screening tool, but you need a more complete analysis before spending any money.

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**TIP**

**Project development note:** The break-even analysis described below does not apply to a project development, since only one sale occurs. This exercise is designed for a continuing business with ongoing sales revenue. Before beginning, a developer must know how much profit she will make after the
project is completed. A developer prepares a break-even forecast every time she calculates the likely sale proceeds and subtracts estimated costs. Developers can skip this section, unless they need a refresher course on break-even analyses.

To complete a break-even forecast of your business, you’ll make four separate estimates:

- **Sales revenue.** This consists of the total dollars from sales activity that you bring into your business each month, week, or year.
- **Fixed costs.** These are sometimes called “overhead,” and you must pay them regardless of how well you do. Fixed costs don’t vary much from month to month. They include rent, insurance, and other set expenses.
- **Gross profit for each sale.** This is defined as how much is left from each sales dollar after paying for the direct costs of that sale. For example, if Antoinette pays $100 for a dress that she sells for $300, her gross profit for that sale is $200.
- **Break-even sales revenue.** This will be the dollar amount your business needs each week or month to pay for both direct product costs and fixed costs. It will not include any profit.

**CAUTION**

_Math alert:_ The following section requires that you make some simple mathematical calculations, which you’ll use to analyze your business before writing a complete plan. If the very thought of math makes your head spin, you’ll probably want to find someone to help you.

### Forecast Sales Revenue

Your first task is to estimate your most likely sales revenue by month for your first two years of operation. This is both the hardest thing to do and the most important part of your business plan. Much of your hope for success rides on how accurately you estimate sales revenue.

Keep in mind that you’re honestly trying to decide if your business will be profitable. This means that you must base your forecast on the
volume of business you really expect—not on how much you need to make a good profit. If you estimate sales too high, your business won’t have enough money to operate. But if you estimate sales too low, you won’t be prepared or able to handle all the business you get.

Here are some methods different types of businesses use to forecast sales revenues.

**FORM**

You’ll find a copy of the Sales Revenue Forecast on this book’s companion page on Nolo.com; see Appendix D for details on accessing this form and all others in this book. Note that formulas have been embedded in the spreadsheet document to automatically calculate revenue totals.

**TIP**

You may decide to round off your forecasts to the nearest $1,000 instead of writing out each single dollar amount. For instance, a monthly sale of $33,333 would become $33,000. After all, these are guesses, and it’s hard to guess at single dollar amounts when you’re in the five-figure area.

**Retail Sales Revenue Forecast**

The simplest way to forecast retail sales revenue is to find the annual sales revenue per square foot of a comparable store. Then multiply that dollar figure by your estimated floor space to derive an estimate of your annual sales revenue.

**EXAMPLE:** A similar business shows $200 of sales per square foot per year. If you have 1,000 square feet of floor space, your estimated annual sales revenue will be $200,000 (1,000 × $200). Naturally, your estimate should take into account everything that makes you different from the other store.

Some chain stores, such as supermarkets and drugstores, have refined the art of estimating sales to a science. Of course, they have the advantage
Sales Revenue Forecast for Antoinette’s Dress Shop

Antoinette wants to open a 2,000-square-foot dress store in a downtown shopping mall. The shopping mall manager says that revenue for women’s clothing stores in the mall averages between $200 and $250 per foot per year.

After checking with other clothing retailers, reading trade magazines, visiting similar stores in other cities, and integrating her own experience in the business, Antoinette decides that she can achieve the $250-per-foot-per-year figure. This means her annual sales should be $500,000 (2,000 × $250). To be conservative, she plans for the first year’s sales to be about 20% below that level to allow for her business to build. This means that first-year sales will be about $400,000, or $200 per foot.

Because Antoinette must forecast monthly sales for the first two years, she now has to decide how the sales revenue will occur each month. She could simply divide this $400,000 by 12 months and get $33,333 per month. But in the dress business, Antoinette knows, this would be inaccurate. In women’s clothing, there are four sales seasons: spring, early summer, fall, and Christmas. The kind of shop Antoinette plans to open is slow in midsummer and in January and February. Antoinette also figures that sales will be a little lower than the average for the first few months until her advertising campaign catches on.

Antoinette’s monthly sales add up to $401,000 for the first year, so she reduces the December figure by $1,000 to make a nice, round $400,000. For the second year, she increases revenues to $504,000 to allow for normal growth.

of learning from their experience with their other stores. Even so, they occasionally make bad estimates.

Supermarket executives first gather statistics on how much the average person living in town spends every week in grocery stores. In some states, these numbers are available by obtaining total sales volume of grocery stores from the state sales tax agency; normally that data is broken down by county. They estimate how many people live in the area for which
### Sales Revenue Forecast for Antoinette’s Dress Shop (continued)

<table>
<thead>
<tr>
<th>Sales Revenue Forecast</th>
<th>Year 1: March 1, 2013 to February 28, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month</td>
<td>Revenue</td>
</tr>
<tr>
<td>Month 1: March</td>
<td>20% below average due to just opening</td>
</tr>
<tr>
<td>Month 2: April</td>
<td>10% below average due to just opening</td>
</tr>
<tr>
<td>Month 3: May</td>
<td>20% above average because of cumulative effects of grand opening &amp; seasonal peak</td>
</tr>
<tr>
<td>Month 4: June</td>
<td>An average month</td>
</tr>
<tr>
<td>Month 5: July</td>
<td>10% below average due to seasonal slowdown</td>
</tr>
<tr>
<td>Month 6: August</td>
<td>10% below average due to summer slowdown</td>
</tr>
<tr>
<td>Month 7: September</td>
<td>10% above average due to back to school</td>
</tr>
<tr>
<td>Month 8: October</td>
<td>10% above average due to fall season</td>
</tr>
<tr>
<td>Month 9: November</td>
<td>20% above average due to fall season</td>
</tr>
<tr>
<td>Month 10: December</td>
<td>40% above average due to Christmas</td>
</tr>
<tr>
<td>Month 11: January</td>
<td>30% below average since everybody’s broke after Christmas</td>
</tr>
<tr>
<td>Month 12: February</td>
<td>20% below average</td>
</tr>
<tr>
<td></td>
<td>Year One Total:</td>
</tr>
</tbody>
</table>

sales volume statistics are gathered. Dividing the sales volume data by the number of people in the area gives them the average sales per person from grocery stores.

Then they compare the average sales per person with state averages. If it’s higher, it might mean that people living in the area have a higher-than-average income. They can verify that by referring to the United States Census, which lists average income per family and per person for
every census tract. If the income per person is average or below average, and sales per person are higher than average, it probably means that people come from surrounding areas to do their shopping. If the sales per person are lower than average in the area, it might mean that income is below average or that people leave the area to do their shopping. On the basis of this sort of data, together with an analysis of competition and demographics, supermarket executives can develop relatively accurate estimates of sales volume for a new store.

**Service Business Sales Revenue Forecast**

To estimate sales revenue for a service business, you’ll need a good understanding of what steps you go through to generate a billable sale. Then make a forecast of how many times you expect to go through all those steps every week or month and how much revenue you’ll derive from those steps.

Don’t forget to allow time for internal matters and marketing. If you’re a sole proprietor, you’ll need to allow somewhere between 20% and 40% of your time for nonbillable activities. If you have employees or partners, you’ll want to make similar allowances for them.

The sales revenue forecasting process for Central Personnel Agency shows the kind of logical process you’ll need to go through. (Central’s complete business plan is provided in Appendix A.)

**Manufacturing or Wholesale Business Sales Revenue Forecast**

If you plan to be in a manufacturing or wholesale business, read the sections “Retail Sales Revenue Forecast” and “Service Business Sales Revenue Forecast,” just above, and combine some of the concepts to estimate your sales volume. If you know as much about your business as you should, it shouldn’t be difficult to develop a reasonable estimate. If you’re having great difficulty, the chances are that you need to learn more about your business.
**EXAMPLE:** Patty plans to import and wholesale modems for Acme computers. Acme has told her that they have sold 100,000 computers to date and projections show about 1,000 per month for the next three years. Patty realizes she doesn’t know what percentage of Acme owners will want modems and decides to conduct a mail survey of Acme owners before completing her sales forecast.

---

**Sales Revenue Forecast for Central Personnel Agency**

I like to allow room for mistakes in my forecast, so this sales forecast seems like overkill; my experience shows the overage is needed.

Since it’s harder to find qualified people than it is to find job openings, I’ll concentrate on finding people after I build a backlog of openings. I estimate I can find about ten job openings per week. I will allow myself two weeks to find 20 job openings. After the first 20, I’ll get plenty of openings by referrals and repeats. My income goal is to gross $3,000 to $4,000 per month, and I know that the average job order filled is worth $500 to $600 in gross fees, so filling only ten openings per month should give me about $5,000 to $6,000 in gross fees.

This means that to fill six to eight job orders per month and meet my gross income goal, I need 25 to 30 good people on file. Finding good people is the hard part. It takes me up to 20 interviews to find one excellent person. Some of these interviews are done in a few minutes over the phone, but just the same, I allow one hour per interview. I can average five to eight per day, and it will take me about 60 days of interviewing to build a base of qualified people. It takes an average of three good people sent out on interviews to fill one job. Of course, once I have a good person, I send that person out on every interview I can. I anticipate three months of fairly low income before I begin to reach my income goals.
Project Development Sales Revenue Forecast

Project developers are not required to complete a monthly sales revenue forecast. They need to know the likely amount they can sell the project for before they begin work; all revenue comes when the project is sold.

Forecast Fixed Costs

For most small businesses, the difference between success and failure lies with keeping costs down. Many smart people start successful businesses in a spare room in their house, the corner of a warehouse, or a storefront in a low-rent neighborhood. Unfortunately, others sink their original capital into essentially cosmetic aspects of their business, such as fancy offices, and then go broke.

Make a list of the fixed or regular monthly expenses of your business. Your objective is to develop a dollar amount of expense that you are committed to pay every month. This is your “nut,” or the dollar figure you must be able to pay to keep the business viable. Include rent, utilities, salaries of employees, payroll taxes, insurance payments, postage, telephone, utilities, bookkeeping, and so forth. Some costs will be paid each month and others will be paid once or twice a year. If a cost is less than about 10% of your total fixed costs, you can divide the cost by 12 and show an amount each month. If the cost is larger than 10% of the total, record the cost in the month you expect to pay it. You can choose whether to include a draw for yourself as part of the fixed costs. If you plan to take your compensation only if the business shows a profit, do not include your draw.

Your fixed-cost list should also include some “discretionary costs”—expenses that change from time to time due to your conscious decision. For example, your promotion expenses may change occasionally as you increase or decrease advertising to take advantage of slow or busy times. Include them in the fixed-cost category even though the amount may fluctuate from time to time.
CAUTION

Certain expenses are not “fixed costs.” Do not include as fixed costs:

• the costs to actually open your business (covered in Chapter 7)
• loan repayments (covered in Chapter 7), or
• the costs you pay for any goods you’ll resell or use in the manufacturing or development process (covered in Chapter 6).

By completing this simple exercise, Antoinette has gained important information. She now knows that she must sell enough every month so that she has at least $16,050 left after accounting for the merchandise she sells. On an annual basis, that’s $192,600 ($16,050 multiplied by 12). Antoinette must also bear in mind that she has not shown any salary or draw for herself. To prosper, she obviously must not only cover fixed costs, but also must take in enough to make a decent living.

### Fixed Costs Forecast for Antoinette’s Dress Shop

Antoinette estimates her fixed costs on a monthly basis:

- Rent, including taxes, maintenance $3,850
- Wages, employees only (average including payroll taxes, etc.) 3,600
- Utilities 800
- Advertising 1,000
- Telephone 600
- Supplies 900
- Insurance 1,500
- Freight 700
- Accounting/Legal 600
- Bad debts 500
- Miscellaneous 2,000

**Total per month $16,050**
Forecast Gross Profit for Each Sales Dollar

How much of each sales dollar will be left after subtracting the costs of the goods sold? That number will pay fixed costs and determine your profit for your business. At this stage, you are trying for a broad-brush, quick and dirty forecast, so it’s okay to make a rough estimate of your average gross profit.

Let’s look at how Antoinette calculates her gross profit for her first year of business. Antoinette plans to sell about half her products at double the cost she pays. A dress she buys for $125 she sells for $250. That means that her gross profit per dress sale is 50%. She plans to derive her selling price for sale dresses, mark-downs, and accessories by adding one-half of her cost to her selling price; for example, if a belt cost her $10, she’ll sell it for $15.

The calculations are similar for different type businesses. Service businesses will have higher gross profit margins than retailers; most revenue is gross profit because little merchandise is sold. Wholesale businesses will be similar to the retail example. Manufacturing businesses will be similar in appearance even though the cost of goods will include materials from a variety of sources and any labor that is paid per piece.

Project developers have only variable costs in each project. There are usually no fixed costs since the developer’s business ends with the sale of the project. However, if a project developer works on several projects at the same time, he may have some fixed costs that continue after any particular project is sold. For a project developer, the gross profit is the difference between the project’s selling price and all the project costs.

TIP

The prices in the Sale Dresses & Accessories column illustrate gross profit calculations; they do not represent the selling price of sale items.

Forecast Gross Profit for a Start-Up Business

For a new business, calculate the average gross profit for your business by following these steps:
1. For each product or service that you sell, list every individual item that goes into that product, including piece-rate labor and commissions. For example, Antoinette buys dresses from outside suppliers and resells them. The cost of the dress is the major component of the total product cost. She may add the cost of the preprinted bag to derive the total cost of the sale.

2. Once you have a complete list of all the cost components for your products or services, add up the cost of each item.

3. Write the selling price of the item below the total cost of the item.

4. Subtract the total cost from the selling price to derive the gross profit from each sale of that item.

5. Divide the selling price into the gross profit to derive the gross profit percentage for each product.

6. Repeat for each product you’ll sell; if you have more than four or five individual products, then it’s better to group them by gross profit percentage rather than to make an estimate for each individual product.

### Gross Profit Calculation for Antoinette’s Dress Shop

<table>
<thead>
<tr>
<th></th>
<th>Regular Dresses</th>
<th>Sale Dresses &amp; Accessories</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average cost each</td>
<td>$125</td>
<td>$10</td>
<td>N/A</td>
</tr>
<tr>
<td>Bags, wrap</td>
<td>1</td>
<td>1</td>
<td>N/A</td>
</tr>
<tr>
<td>Average total cost</td>
<td>126</td>
<td>11</td>
<td>N/A</td>
</tr>
<tr>
<td>Average selling price</td>
<td>250</td>
<td>15</td>
<td>N/A</td>
</tr>
<tr>
<td>Gross profit (selling price less total cost)</td>
<td>124</td>
<td>4</td>
<td>N/A</td>
</tr>
<tr>
<td>Gross profit % (gross profit ÷ selling price)</td>
<td>49.6% (or 0.496)</td>
<td>26.7% (or 0.267)</td>
<td>N/A</td>
</tr>
<tr>
<td>Total Annual Sales</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>Total Annual Gross Profit</td>
<td>$99,200</td>
<td>$53,400</td>
<td>$152,600</td>
</tr>
</tbody>
</table>

**Average gross profit percentage = 38.2% ($152,600 ÷ $400,000 = 38.2%)**
7. Write down how much total dollar sales you expect for each product or product group.
8. Multiply the gross profit percentage by the total dollar sales to derive the dollar gross profit from each product.
9. Add together the total dollar gross profit figures to derive the total dollar gross profit from the year’s sales.
10. Divide the dollar gross profit by the annual sales revenue to derive the average gross profit percentage for the year’s sales.

Completing this gives you an average gross profit percentage for your business.

**Forecast Gross Profit for an Existing Business**

If you’re already operating and have a profit and loss statement for your business from prior months, your job is even easier. Simply subtract the total cost of sales from the total revenue to get the gross profit for the period. Then, convert the dollar gross profit figures to a percentage of sales revenue by dividing total dollar gross profit by total sales for the period. The percentage gross profit figure you get will be the percentage gross profit figure you use for your break-even forecast.

If you’re already operating and your expansion will change the percentage of total sales revenue that each product group brings, then you will need to forecast your new average gross profit by following the procedure for a new business listed just above.

**Forecast Your Break-Even Sales Revenue**

Now that you have the fixed costs per month for your business and the average gross profit per sale, you can estimate how much revenue you will need to just break even. You can use any period you wish, although most people use a month or a year. As this chart shows, it’s simple to calculate. Just divide the fixed costs by the average gross profits expressed as a decimal.
**Break-Even Sales Revenue Forecast**

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed costs per month (or year)</td>
<td>Average gross profit percentage expressed as a decimal</td>
<td>Break-even sales revenue (A ÷ B)</td>
</tr>
</tbody>
</table>

**EXAMPLE:** Ronnie Ryann runs the Religious Sounds Round Table in Rye, New York. It’s a small business, but she loves it dearly. The gross profit on the CDs and DVDs she sells is 50%. This is the same as saying that after adding up the cost of the products, packaging, and postage (all variable costs), Ronnie is able to sell at double this amount. Ronnie rents 1,000 square feet for $800 per month, pays her part-time clerk $950 per month, and budgets $650 per month for utilities, taxes, and so forth. This means her operating expenses (all fixed costs) are $2,400 per month. (Her costs seem low because some parts of New York State are behind the inflation curve.) Therefore, Ronnie has to sell $4,800 of records per month to break even. Her salary comes out of the money she takes in over the $4,800. Fortunately, it will cost Ronnie very little in extra overhead to sell up to $10,000 of records per month, so if she can achieve this volume, she will get to keep close to half of it.

**How to Calculate Your Profit**

Perhaps you’re lucky enough that your break-even sales forecast shows you’ll make more than you need to break even. If so, you can easily calculate your profit. Simply multiply your projected sales revenue that is over the break-even point by your average gross profit percentage.
EXAMPLE: Deborah needs $140,000 to break even in her bookkeeping business. Her projected sales revenue shows that she will be bringing in $185,000 the first year—or $45,000 more than she needs to break even. To determine the profit, she multiplies her average gross profit percentage (0.692) by $45,000. Her profit will be $31,140.

Help! My Forecast Shows a Loss!

What will you do if your break-even sales forecast shows that you’ll lose money? First of all, don’t panic. You’ll need to do some sober, serious, and meticulous thinking. Carefully check all your numbers and double-check your arithmetic. Incidentally, many people doing this exercise for the first time make some simple mistake in arithmetic that throws off the whole forecast. You might have someone with good math skills review your work.

Let’s look at Antoinette’s situation and see how her figures have turned out.

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed costs per month (or year)</td>
<td>Average gross profit percentage expressed as a decimal</td>
<td>Break-even sales revenue (A ÷ B)</td>
</tr>
<tr>
<td>$192,600</td>
<td>0.382</td>
<td>$504,188</td>
</tr>
</tbody>
</table>

Antoinette needs $504,188 in sales revenue just to break even. That is $104,188 more than she expects the first year and $4,188 more than she expects for the second year. Despite her enthusiasm and determination, Antoinette’s first reaction to this news is to panic and consider giving up. After some reflection, she reexamines the calculations to make sure she hasn’t made a mistake in her arithmetic. Then she starts considering her
options. Should she abandon her idea and work for someone else? Should she proceed with her loan application and fudge figures to show a profit? Or is there some other alternative?

In any business, only these things can improve profits:

- You can increase the sales revenue by selling more of your product or service.
- You can reduce fixed costs.
- You can increase the gross profit percentage by raising selling prices or by lowering your product cost.

Let’s see how Antoinette applies that knowledge to her break-even analysis.

First, Antoinette thinks about increasing sales. Maybe she was too conservative in her original sales forecast. What would happen if she increased her annual sales forecast by $150,000 (to $550,000) and kept the same fixed costs and gross profit margin? That is more than the break-even sales and should be enough to give her a profit for her efforts. How much profit? Let’s see.

### Break-Even Sales Revenue Forecast for Antoinette’s Dress Shop

**Revision 1: Increase Sales Volume to $550,000**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual sales</td>
<td>$550,000</td>
</tr>
<tr>
<td>Annual fixed costs</td>
<td>192,600</td>
</tr>
<tr>
<td>Gross profit</td>
<td>0.382</td>
</tr>
<tr>
<td>Break-even sales ($192,600 ÷ 0.382)</td>
<td>504,188</td>
</tr>
<tr>
<td>Sales over break-even ($550,000 − $504,188)</td>
<td>45,812</td>
</tr>
<tr>
<td>Profit ($45,812 × 0.382)</td>
<td>$17,500</td>
</tr>
</tbody>
</table>

Antoinette concludes that a very aggressive sales increase alone brings her a small profit, but believes that the sales increase of $150,000 is very high. The profit resulting from that sales increase is probably not enough to justify the risk of that high an increase in the sales forecast.
If a sales increase of $40,000 or $50,000 would show that profit, she would be more comfortable increasing sales. She just isn’t sure she can do as well as the most established women’s clothing store in the mall in her first year. After all, the range of women’s clothing sales per square foot per year is $200 to $250, and she used the $250 figure to project sales of $500,000 in the second year.

As a second thought, and even though she has no idea how to accomplish it, she wonders what would happen to profits if she reduced fixed costs by $50,000 per year (about one-quarter of the current total) and left the sales forecast at $400,000 and her gross profit at 38.2%.

Let’s see what would happen.

### Break-Even Sales Revenue Forecast for Antoinette’s Dress Shop

**Revision 2: Reduce Fixed Costs by $50,000**

<p>| | |</p>
<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual sales</td>
<td>$400,000</td>
</tr>
<tr>
<td>Annual fixed costs</td>
<td>142,600</td>
</tr>
<tr>
<td></td>
<td>($192,600 – 50,000 = $142,600)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>0.382</td>
</tr>
<tr>
<td>Break-even sales</td>
<td>373,300</td>
</tr>
<tr>
<td>($142,600 ÷ 0.382)</td>
<td></td>
</tr>
<tr>
<td>Sales over break-even</td>
<td>26,700</td>
</tr>
<tr>
<td>($400,000 – $373,300)</td>
<td></td>
</tr>
<tr>
<td>Profit ($26,700 × 0.382)</td>
<td>$10,200</td>
</tr>
</tbody>
</table>

That fixed cost reduction shows a profit of $10,200, but it requires a reduction of one-quarter of the fixed costs. Antoinette believes it will be very difficult to reduce fixed costs that much. Perhaps a combination of fixed-cost reduction and sales increase will improve the profits enough and still be possible. Before she thinks about that option, though, she completes the break-even forecast analysis by seeing what will happen if she can increase the average gross profit to 50% while leaving the sales revenue and the fixed costs the same. She doesn’t know if she can really do it, but wants to see what will happen to the numbers.
Break-Even Sales Revenue Forecast for Antoinette’s Dress Shop
Revision 3: Increase Gross Margin to 50%

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual sales</strong></td>
<td>$ 400,000</td>
</tr>
<tr>
<td><strong>Annual fixed costs</strong></td>
<td>192,600</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>0.382</td>
</tr>
<tr>
<td><strong>Break-even sales ($192,600 ÷ 0.5)</strong></td>
<td>385,200</td>
</tr>
<tr>
<td><strong>Sales over break-even ($400,000 − $385,200)</strong></td>
<td>14,800</td>
</tr>
<tr>
<td><strong>Profit ($14,800 × 0.5)</strong></td>
<td>$  7,400</td>
</tr>
</tbody>
</table>

It seems that Antoinette needs to find some combination of higher sales estimates, lower fixed costs, and higher gross profit margin that will improve profits so that she can make a living wage. But the really critical part is this: She must be absolutely sure that she can meet all the forecast changes she makes.

Antoinette was sure of her first forecasts; unfortunately, those forecasts produced a loss for the first year of business. Now, while she can manipulate the numbers to show a profit, the danger is that the numbers may not be achievable. She may be able to create a good-looking business plan but may be unable to meet those revised projections. Or, just as dangerous, she may become uneasy about the project’s success. A lack of confidence may just be enough to take the edge off her drive and dedication and enough to make the project fail.

**CAUTION**
Make sure that you have the same level of confidence in the revised forecast that you had in the first forecast. Obviously, you can fiddle with the numbers and show good profits, but the danger lies in making the goals impossible to reach. We all have a desire to make things work, and making the numbers work is very easy to do. Just remember that you’ll have to live with the numbers you write down for a very long time. Make sure they’re right.
What You Have Accomplished

We’ll follow Antoinette throughout her journey later in the book and see what combination of figures she settles on. For now, let’s review what you’ve learned so far. You’ve decided whether to write a complete plan for your business by completing these steps:

• choosing a business you know well
• identifying a need you can fill (the customer’s problem)
• describing your business and how it will fill that need
• deciding that your business is the right idea at the right time
• deciding that you like your business, and
• forecasting enough profits to make writing a complete business plan worthwhile.

In this chapter, you’ve been answering questions for yourself. Now that you’ve answered the questions positively, you can proceed to sell your idea and your answers to potential financial partners. The next few chapters show you how to write a document that sells your idea.