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How to Organize a Small Business

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HOW TO ORGANIZE A SMALL BUSINESS

By

Doris Womack

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INTRODUCTION

The purpose of my paper is to inform you of the personal risks involved, to show the advantages and disadvantages, and give a better understanding of small business and its problems.

Small business is a combination of social values, a pattern of civic life, a free society, and a healthy competitive community. It is the small businessman who is the foundation of the hometown's growth and development.

The best definition of a small business is defined by the Committee for Economic Development.

1. Management is independent. Usually the managers are the owners.
2. Capital is supplied and ownership held by an individual or a small group.
3. Area of operations is mainly local. Workers and owners are in one home community. Markets need not be local.
4. Relative size within the industry. The business is small when compared to the biggest units in its field.

A competitive economy is necessary for our continued existence. Competition of employees makes for better working conditions and higher wages. Competitive capitalism insures freedom of enterprise, provides an outlet for individual creative impulses and abilities and also provides a livelihood for a large portion of our population.

Individuals and small business provide new ideas and inventions. Small business serves as a proving ground for new ideas and products.

Small business is important to adjusting supply to price and demand. Small business appears when there is an increase of demand, and the least businesses are eliminated when demand drops off.

Small business develops self-reliance for making men as well as money. Thousands who would be unhappy under restrictions of employment find happiness in ownership. Small business also offers self-employment to people with physical handicaps.

Small business is the link between the products of giant factories and their market. Many of the big businesses depend on individuals to be independent retail dealers. Farmers are also dependent on distributors for the marketing of their crops.

ANALYZING YOURSELF

Analyze yourself and consider your likes and dislikes. Ask yourself "when did you consider starting your own business and why".

Do you have the ability to handle money wisely, to instruct others, to make decisions, have knowledge of business methods, knowledge of materials, knowledge of laws and restrictions, and are you willing to accept responsibility, work long and hard and wait for the results.

Desirable traits that one must have is a self-reliant attitude in one's ability to take risks, make decisions and assume responsibility; determination - a driving urge for success; balance and control in self and time management; creative imagination, seeking better ways to do things; and honest self-evaluation and constant efforts to improve.

Compare yourself with a typical successful businessman. First, he is a leader and likes to be independent. He has ambition, energy and good health. He likes people and knows how to get along with all kinds and ages. He thrives on responsibility, taking the bad breaks with the

good ones. He is honest and pays his bills promptly. He knows when to borrow money to take advantage of cash discounts or quantity buys. He gives his customers their money's worth in goods and services. And lastly, he feels a responsibility to his community. He has civic pride to make his town a better place to live and work in.

ADVANTAGES AND DISADVANTAGES

Advantage of Dependent Employment

Employees, especially with well-established firms, have advantages such as security, prestige of working for a "name business", unemployment insurance and other benefits, regularity of income, and less worry outside of business hours.

Other advantages of employment, you do not have to risk capital, your personal savings, personal reputation, or success of the business. You have shorter hours, regular income, extra pay for overtime, larger initial income, regular vacations, limited responsibility, and a more general regular routine.

Disadvantages of Dependent Employment

Many businesses change their top management frequently. Such changes starts a chain reaction involving security of positions of executives on down the line.

Some policies of big business claim the rights on innovations made by employees. Employers claim the employees have taken unfair advantage of their position which gave them access to the information.

Executives have heavy responsibilities. Some have constant pressure from top management. Many are faced into early retirement.

Advantages of Business Ownership

After your business is established, it offers security for a longer period of time. There is also a great deal of satisfaction of being known in the community as an independent businessman. Incomes of successful small businessmen are greater than businessmen of dependent employment.

There are no limitations on the earning power and no certain age for retirement. He cannot be fired, except by customers, and he does not have to worry about internal policies or favoritism.

If a person has ideas and wants to try them or if he likes to carry out a job to completion once he has started it, even if it means working overtime, then he should enter into business for himself. A person can express himself fully and can develop any ideas he has to the limit of his ability and resources, no matter how it may seem to others.

Another advantage is his freedom of time. If an owner wants to slow down a bit or take a vacation, that is his own business.

Disadvantages of Business Ownership

Greater risks, financial and personal, is the greatest disadvantage. Some develop inferiority complexes because of the loss of a business reputation and personal prestige. Full responsibility and longer hours. Irregular income as business fluctuates.

More disadvantages are the burdens of government reports and investigations, taxation that is heavy on the beginning small enterprise.

Income is usually small at the beginning and the owner has responsibilities to himself, his family, his employees, and his creditors.

WHERE TO LOCATE

After you have made the decision to go into business, you must then determine if the business would be justified in the location.

There are many consumer surveys made in communities by organizations, which are available to you. It is best to take several towns that you would be happy to live in and then give careful consideration to economic factors, population, competition, living conditions, and any special location requirements.

After selecting a town, you should analyze the market to determine if there is a need for your business. Very important to the success of your business is the purchasing power of potential customers; their residence, place and kind of work, type of transportation, age, wants and desires; shifts in kind of business; transportation and communication facilities; social controls; and attitudes and plans of those in a position to influence the future of a given location.

Pinpointing the specific site is particularly important. In many business districts, small businesses

depend upon the traffic created by large stores, and large businesses depend upon attracting customers from the existing flow of traffic. You need to know the following factors when choosing a specific site:

- (1) adequacy and potential of traffic passing the site;
- (2) ability of the site to intercept traffic en route from one place to another;
- (3) complementary nature of the adjacent stores;
- (4) types of goods sold;
- (5) adequacy of parking;
- (6) vulnerability of the site to unfriendly competition; and,
- (7) the cost of the site.

DECIDING TO BUY OR LEASE

A final consideration in locating a plant is whether you should buy or lease the facility you are considering. Your decision should be based on these factors.

Are your requirements going to change rapidly over the next few years? If so, you should consider leasing.

Do you find yourself short of capital? Can you use your available money better if it is not tied up in a building? What return can you expect from your funds if they are invested elsewhere? Leasing is preferable if your capital is tight.

Can you secure a favorable lease from the owner of the building with an option to purchase?

Your accountant can advise you on the financial aspects of how leasing or purchasing might affect you financially. If you can buy property at a favorable price, and the purchase does not cause a shortage in your working capital, then purchasing may be more profitable.

Consider the resale value. Can the building be readily resold? Leasing may be better if there is little

or no adjacent land for parking or additions to the building because this would limit the resale.

HOW TO FINANCE

The amount of capital needed for the business should be determined as accurately as possible. Pressure on the beginning businessman's limited funds is so great he may not reserve enough capital. An agreement with a lender can provide extra capital for emergency use for at least one year.

You will need finances for fixed capital, which is the land, buildings, equipment and fixtures, and working capital for supplies, merchandise, wages, rent, advertising and living expenses.

Sources of capital may come from you, as the owner, your family or friends; members of the trade, such as manufacturers and wholesalers, or banks or other established lending institutions.

Borrowing from relatives or friends is a very poor approach. A business loan should be a business transaction, not a favor.

Financing through lending institutions has proved to be the best method of securing capital. Some banks make personal loans that are used for small business financing, and some have small business loan departments.

There are two types of bank loans, character and collateral. Character loans are unsecured while collateral loans are secured by certain assets that have a value in excess of the amount of the loan.

Bankers standards for lending are based on the character of the applicant, the managerial ability of the applicant, the production nature of the loan and the collateral offered to insure repayment.

In making a decision regarding the loan application, the banker will need reliable facts. Usually the balance sheet and income statement will be requested or for a new business, they will need estimated sales, expenses, and anticipated profits.

When financing is not available from a private source or bank, one may secure a Small Business Administration loan. For new businesses, the requirements are:

1. Describe in detail the type of business to be established.
2. Describe experience and management capabilities.
3. Prepare an estimate of how much you have to invest in the business and how much you need to borrow.
4. Prepare a current balance sheet listing all personal assets and all liabilities.
5. Prepare a detailed projection of earnings for the first year.

6. List collateral to be offered as security for the loan, indicating your estimate of the present market value of each item.
7. Take this material with you and see your banker. Ask for a direct bank loan to be made under S.B.A.'s Loan Guaranty Plan or to participate with SBA in a loan. If the bank is interested in SBA Guaranty or participation loan, ask the banker to contact SBA for discussion of your application. In most cases, SBA will deal directly with the bank.
8. If a loan or a participation loan is not available, write or visit nearest SBA office.

Financing through the use of credit is another good method of buying stock or equipment. Most dealers know the average small businessman is not financially able to pay cash. All major companies have financing plans to stimulate their stock or equipment. Usually a down payment of 20 to 30 percent is required with the balance paid in monthly installments over a period of one to five years. The beginner should use good judgment in selecting his resources. He should be careful of his credit.

HIRING THE RIGHT EMPLOYEES

You should take plenty of time and be very careful in selecting your employees. Decide the kind of applicant you need, contact sources which can help you recruit applicants and screen the applicants in order to choose the best ones.

Your reputation is closely related with your employee relationships. Customers are quick to sense employees' attitudes toward their management.

Small business is usually limited in recruiting employees, because the best local talent may prefer to be employed by big business. You should seek out employees, rather than wait for applicants. When applications are made, references should be investigated, either in person, by letter, or over the phone. The logical reference would be his present or former employer, banker, business associates and school officials.

Three types of tests or examinations are often used during the selection process: (1) mental tests, (2) performance tests, and (3) the physical examination. The interview is the only selection procedure almost universally

used. Before the interview is started, the completed application blank should have been studied and the job descriptions that are needed should be at hand. The main objective is to hire an individual who can satisfy the requirements of a particular position.

The training of a beginning employee is very important as it will usually reduce the costs of getting the new person into profitable production and reduce personnel turnover.

In preparing the employee, try to put him at ease, gain his interest and confidence, find out what he already knows and explain the job's importance. Patiently show and explain each step until he understands. Welcome his questions and mention "tricks of the trade." Have him perform the job himself and criticize diplomatically.

There are many employment services that can help you find the qualified employee. One of the main services is the Employment Security Agency. The State Services are affiliated with the United States Employment Service. There are about 1900 local offices who are ready to help businessmen with their hiring problems.

The Employment Service will recruit applicants, screen them according to your specifications and send you the ones who best meet your needs.

A newspaper advertisement is another source for securing applicants. One way to cut down on the time you spend is to list the Employment Service instead of your telephone number. If your number is in the ads, calls could tie up your line and keep customers from reaching you.

RULES AND REGULATIONS

You must work in harmony for the common good of your community. One rule is the code of ethics or standards of conduct set by the businesses. The others are established and enforced by a legislative or other public authority and administered by properly authorized bureaus, commissions, courts and their offices.

Competition is still considered to be desirable. Our anti-trust laws, both Federal and State, protect the business. In a truly competitive market, price acts as the regulator adjusting supply to demand. We now have laws protecting the business from price fixing, price discrimination, price cutting, and resale price maintenance.

Federal regulation of advertising has been established by the Federal Trade Commission to maintain fair competition. False and misleading advertising is condemned.

Federal legislation also governs labor, which provides for minimum wages and minimum hours. Various states also have laws with both fair labor standards and wage and hour provisions that apply to local enterprises.

Social Security is another law that provides three kinds of insurance: Federal old-age and survivor's

insurance for employees; the same for self-employed; and state-federal unemployment insurance.

The Federal Unemployment Tax applies to you only if you have as many as eight employees in covered employment on at least one day in each of twenty calendar weeks during the calendar year. Most states have laws that apply to employees with fewer than eight employees; therefore, you would need to investigate the laws of your state.

As the owner of a small business you have two roles in managing income taxes. One is the tax you pay from the earnings of your business, and the other is your employees income taxes which you withhold each payday.

If your business is a sole proprietorship, you can use a simple set of records for income tax reporting. All you need is a checkbook, a cash receipts journal, a cash disbursements journal, and a petty cash fund.

The employees tax that is withheld should be remitted periodically and at the end of the year, you must furnish each employee copies of a wage and tax statement for himself and each taxing jurisdiction.

There are many other taxes to be paid and as a beginning businessman, you should be well informed of the laws in your state. In meeting your taxes, manage them as you would manage your business. Make sure you

have sufficient cash on hand when a particular tax is due. Good records are essential in determining proper liabilities. Your records should be reviewed by an accountant. An accountant can also relieve you of time-consuming paperwork and can also research the tax problems which could save you money.

INVENTORY CONTROL

A small businessman needs a simple inventory control system which will help him serve customers and control costs. Proper control enables you to provide maximum customer service at the lowest possible costs. Your customers expect you to have exactly what they ask for and he wants them now. Your goal should be to buy and maintain complete inventories at the lowest possible cost.

Purchasing price is not the only cost of inventory. You also have fixed inventory costs, such as the cost of keeping inventory records, cost of receiving the goods, storing the goods, taxes and insurance fees, the cost of the money tied up in your inventory and value lost due to spoilage, scrap or age.

In setting up an inventory control system, you have to know when to order and how much to order.

When to order should be determined by how long it takes to get the item, and how much of it you will use while awaiting delivery. Because the delivery time and customer demand can vary, you must add a safety allowance.

You should set an "order point" for each item in your inventory. When the item equals or goes below the

order point figure, you order more. Reviewing last year's usage and setting order points ahead of time helps to maintain control. They should not be lower than your needs in the period of rising sales or higher than your needs in the period of falling sales.

Your goal in buying should be to buy in the most economical quantities. This way, you can keep down your volume of purchase orders, your material handling, and your costs of buying such as taxes and insurance.

You need to make sure your system is working as it should. Inspect the inventory periodically and look for conditions that encourage shortages or excesses.

ADVERTISING

Because your budget is limited, you must see that your advertising does the job you want. Decide whether you want immediate response or image-building advertising.

Immediate response is designed to cause the potential customer to buy a particular item within a short period, usually within a week. Such advertising should be checked daily or the end of a week to see if the advertising has some carry-over effects.

Image-building is the type you use to keep your business name or merchandise before the public. With it, you remind people week after week about your regular merchandise or services. It is really your reputation builder.

Whether you want immediate response or image-building advertising, your success will depend on how well the ads have been planned. First of all, advertise products or services that have merit in themselves. Unless a product or service is good, few customers will repeat purchases, no matter how much advertising you do. Treat your message seriously and plan exactly what you wish

your ad to accomplish. Plan your ad around a single idea. Each ad should have a single message. Identify your business fully and clearly, giving your address and telephone number. Pick illustrations that are similar in character and a printing type face and stick with it. Make the copy easy to read and get your message in the first sentence if possible. If it is radio or television, try to get the audience's attention in the first five seconds.

YOUR BUSINESS AND THE FUTURE

The future of American small business has never been more encouraging. Small business has advantages, limitations and problems, but it is necessary to have a large number of small businesses if true competition is to exist and if we are to continue our progress in extending more goods and services to an increasing number of people.

The best approach to being successful is to review your business periodically and to examine the probable effects on the business that different conditions have caused. A sure way to insure a place for you in business is through continued studies and applications of ideas and methods for improvements.

Economic conditions change, attitudes and interests of the government, the public and individual shifts, international conditions vary and influence national policies and business activities. Regardless of economic conditions, small business will continue as an important part of our economy.

Self-improvement is of most importance to the small businessman. After deciding to become your own boss, and selecting the kind of business to enter, you should keep in close touch with information through your trade association, trade press, suppliers, agencies, and local banker.

For a continued success in your business always follows these rules:

"Cater to Your Customers"

Learn their likes and give them an extra bit of service and make them feel you are interested. Build on existing customers, because it is easier to increase their purchases than to draw in new people.

"Build An Image"

Part of building an image is using ads, handbills, radio or television spots, but more important is to use your personality to encourage people to think favorably of your business.

"Encourage Teamwork"

In teamwork, employees do their jobs without prompting. Give them facts and let them help make decisions on selling. Praise employees in public but always correct them in private.

"Plan Ahead"

Estimate your future sales and cash flows. Take advantage of special events.

"Profit Volume"

Keep expenses in line. Determine your break-even point, where sales equal expenses and use it as a tool for control. Your sales volume should be way beyond the point where your revenue and expenses balance.

"Be Civic-Minded"

Your business opportunities are dependent on the growth of the community where you are located. Take part in local clubs and organizations that work to build the community.

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