

Business Plan for Retailers

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A good business plan gives the small retail firm a pathway to profit. This publication is designed to help an owner-manager work up a sound business plan.

To profit in business, you need to consider the following questions: What business am I in? What goods do I sell? Where is my market? Who will buy my goods? Who is my competition? What is my sales strategy? What merchandising methods will I use? How much money is needed to operate my store? How will I get the work done? What management controls are needed? How can they be carried out? When should I revise my plan? Where can I go for help?

As the owner-manager, you must answer these questions as you draw up your business plan. This publication is a combination of text and suggested analysis so you can organize the information you gather for research to develop your plan.

What Is a Business Plan?

The success of your business depends largely upon the decisions you make. A business plan allocates resources and measures the results of your actions, thereby helping you to set realistic goals and make logical decisions.

You may be thinking, "Why should I spend my time drawing up a business plan? What's in it for me?" If you have never worked out a plan, you are right in wanting to hear about the possible benefits before you do the work. Remember first that the lack of planning leaves you ill prepared to anticipate future decisions and actions needed to run your business successfully.

A business plan offers many benefits. For example:

- A business plan gives you a path to follow.
- A plan with goals and action steps allows you to guide your business through turbulent often unforeseen economic conditions.
- A plan gives your banker insight into the condition and direction of your business so that your business can be more favourably considered for a loan.
- A plan can tell your sales personnel, suppliers, and others about your operations and goals.
- A plan can help you develop as a manager. It can give you practice in thinking and figuring out problems about competitive conditions, promotional opportunities and situations that are good or bad for your business. Such practice over a period of time can help increase an owner-manager's ability to make judgments.
- A sound plan can tell you what and how to achieve the goals that you have set for your business.

What Business Am I In?

In preparing your business plan, the first question to consider is: What business am I really in? At the first reading, this question may seem silly. "If there is one thing I know," you say to yourself, "it is what business I'm in." Now stop and think. Many owner-managers have gone broke and others have wasted their life savings because they did not define their businesses in detail.

A clearly defined business will not only help your planning, it could mean greater profits.

Look at an example. Mr. Jet on the East Coast maintained a dock and sold and rented boats. He thought he was in the marina business. But when he got into financial trouble and asked for outside help, he learned that he was not necessarily in the marina business. He was in several businesses. He was in the restaurant business with a dockside cafe, serving meals to boating parties. He was in the real estate business, buying and selling lots. He was in the boat repair business, buying parts and hiring a mechanic as demand arose. Mr. Jet was trying to be too many things and couldn't decide which venture to put money into and how much return to expect. What slim resources he had were fragmented.

Before he could make a profit on his sales and a return on his investment, Mr. Jet had to decide what business he was really in and concentrate on it. After much study, he realized that he should stick to the marina format, buying, selling, and servicing boats.

Decide what business you are in and write it down. Define your business. To help you decide, think of answers to questions like: What do you buy? What do you sell? Which of your lines of goods yields the greatest profit? What do people ask for? What are you trying to do better, more of or differently than your competitors?

Marketing

When you have decided what business you are in, you are ready to consider another important part of your business plan: marketing. Successful marketing starts with the owner-manager. You must know the merchandise you sell and the needs of your customers you can appeal to. The objective is to move the stock off the shelves and display racks at the right price and bring in sales dollars.

The following text and work spaces are designed to help you work out a marketing plan for your store.

Determining the Sales Potential

In retail business, your sales potential depends on location. Like a tree, a store has to draw its nourishment from the area around it. The following questions should help you to work through the problem of selecting a profitable location.

- In what part of the city or town will you locate?
- In the downtown business section?
- In the area right next to the downtown business area?
- In a residential section of the town?
- On the highway outside of town?
- In the suburbs?
- In a suburban shopping centre?

On a worksheet, write where you plan to locate and give your reasons why you chose that particular location.

Now consider these questions that will help you narrow down a site in your location area.

- What is the competition in the area you have picked?
- How many of the stores look prosperous?
- How many look as though they are barely getting by?
- How many similar stores went out of business in this area last year?
- How many new stores opened up last year?
- What price line does the competition carry?
- Which store or stores in the area will be your biggest competitor(s)?

Again, write down the reasons for your opinions. Also write out an analysis of the area's economic base and give the reason for your opinion. Is the area in which you plan to locate supported by a strong economic base? For example, are nearby industries working full time? Only part time? Did any industries go out of business in the past several months? Are new industries scheduled to open in the next several months?

When you find a building that seems to be what you need, answer the following questions:

- Is the neighbourhood starting to get run down?
- Is the neighbourhood new and growing?
- Are any super highways or throughways planned for the neighbourhood?
- Is street traffic fairly heavy all day?
- Do pedestrians look like prospective customers?
- How close is the building to bus lines and other transportation?
- Are there adequate parking spaces convenient to your store?
- Are the sidewalks in good repair (you may have to repair them)?
- Is the street lighting good?
- Is your store on the sunny side of the street?
- What is the occupancy history of this building? Does it have a reputation for failures? (Have stores opened and closed after a short time)?
- Why have other businesses failed in this location?
- What is the physical condition of the store?
- What service does the landlord provide?
- What are the terms of the lease?
- How much rent must you pay each month?

Estimate the gross annual sales you expect in this location.

When you think you have finally solved the site location question, ask your banker to recommend people who know most about locations in your line of business. Contact these people and listen to their advice and opinions, weigh what they say, then decide.

Attracting Customers

Once you have a location in mind, begin work on your next area of marketing. How will you attract customers to your store? How will you pull business away from your competition?

It is through working with this aspect of marketing that many small retailers find competitive advantages. The ideas they develop are often as good, if not better than those of large companies.

The work blocks that follow are designed to help you think about image, pricing, customer service policies, and advertising.

Image

A store has an image whether or not the owner is aware of it. For example, throw some merchandise onto shelves and onto display tables in a dirty, dimly lit store and you've got an image. Shoppers think of it as a dirty, junky store and avoid coming into it. The same merchandise displayed on brightly lit, well-organized shelves could project a high-tech image. Your image should be focused enough to promote in your advertising and other promotional activities. For example, home cooked food might be the image of a small restaurant.

Write out on a worksheet the image that you want shoppers and customers to have of your store.

Pricing

Value perceived is the key to pricing. A store can have low prices by selling low-priced merchandise. Thus, what you do about the prices you charge depends on the lines of merchandise you buy and sell. Pricing also depends on what your competition charges for these lines of merchandise. Your answers to the following questions should help you to decide what to do about pricing.

In what price ranges are your line of merchandise sold:

High _____ Medium _____ Low _____

What services will you offer to justify your prices if they are higher than your competitor's prices?

Will you sell for cash only? If you use credit card systems, what will they cost you? Will you have to add a surcharge to the original price in order to absorb the cost?

Customer Service Policies

The service you provide your customers may be free to them, but you pay for it. For example, if you provide free parking, you pay for your own parking lot or pick up your part of the cost of a lot you share with other retailers.

Make a list of the services that your competitors offer and estimate the cost of each service. How many of these services will you have to provide just to be competitive? Are there other services that would attract customers but that competitors are not offering? If so, what are your estimates of the cost of such services? Now list all the services you plan to offer and the estimated costs. Total this expense and figure out how you can include those added costs in your prices without pricing your merchandise out of the market.

Who is your customer?

Describe your typical customer?

Age

Male, female, both

Number in family

Annual family income

Location

Buying patterns

Reason to buy from you

Other

Geographically describe your trading area (i.e. community, province, national)

Economically describe your trading area (single family, average earnings, number of children)

Advertising

Consider advertising last, after you have determined your image, price range, and customer services. Only then are you ready to tell prospective customers why they should shop in your store.

When advertising dollars are limited, it is vital that your advertising be on target. Before you can consider how much money you can afford for advertising, take time to determine your advertising goals. What are the strong points of your store? What makes your store different from your competitors? What facts about your store and its merchandise should tell prospective customers?

When you have answered these questions, you are ready to think about the form and potential cost of your advertising. Ask the local media (newspapers, radio and television, and direct mail pieces) for information about the services and results they offer for your money.

How you spend advertising money is your decision, but don't fall into the trap that snares many advertisers who have little or no experience with advertising copy and media selection. Advertising is a profession. Don't spend a lot of money on advertising without getting professional advice on what kind and how much advertising your store needs.

When you have a figure on what your advertising for the next twelve months will cost, check it against what similar stores spend. Advertising expense is one of the operating ratios (expenses as a percentage of sales) that trade associations and other organizations gather.

If your estimated cost for advertising is substantially higher than this average for your line of merchandise, take a second look. No single expense item should get out of line if you want to

make a profit. Your task in determining how much to spend for advertising comes down to the question, "How much can I afford to spend and still do the job that needs to be done?"

In-Store Sales Promotion

To complete your work on marketing, you need to think about what you want to happen after prospects get inside your store. Your goal is to move stock off your shelves and displays at a profit and to satisfy your customers. You want repeat customers and money in your cash register.

At this point, if you have decided to sell for cash only, take a second look at your decision. Don't overlook the fact that people like to buy on credit. Often a credit card, or other system of credit and collections, is needed to attract and hold customers. Customers will have more buying confidence and be more comfortable in your store if they know they can afford to buy. Credit makes this possible.

To encourage people to buy, self-service stores rely on layout, attractive displays, signs and clearly marked prices on the items offered for sale. Other stores combine these techniques with personal selling.

List the display counters, racks, special equipment (something peculiar to your business like a frozen food display bin or a machine to measure and cut cloth), and other fixtures. Figure the cost of all fixtures and equipment by listing them on a worksheet as follows:

Type of Equipment

Number x Unit Cost = Cost

Draw several layouts of your store and attach the layout that suits you to the cost worksheet. Determine how many signs you may need for a twelve month operation and estimate that cost also.

If your store is a combination of self-service and personal selling, how many sales persons and cashiers will you need? Estimate, I will need ___ sales persons at \$____ each week (include payroll benefits in this salaries cost). In a year salaries will cost \$_____.

Personal attention to customers is one strong point that a small store can use as a competitive tool. You want to emphasize in training employees that everyone has to pitch in and get the job done. Customers are not interested in job descriptions, but they are interested in being served promptly and courteously. Nothing is more frustrating to a customer than being ignored by an employee. Decide what training you will give your sales people in the techniques of how to greet customers, show merchandise, suggest other items, and handle customer needs and complaints.

Buying

When buying merchandise for resale, you need to answer questions such as:

- Who sells the line to retailers? Is it sold by the manufacturer directly or through wholesalers and distributors?
- What delivery service can you get and must you pay shipping charges?
- What are the terms of buying?
- Can you get credit?
- How quickly can the vendor deliver fill-in orders?

You should establish a source of supply on acceptable terms for each line of merchandise and estimate a plan for purchasing.

Stock Control

Often shoppers leave without buying because the store did not have the items they wanted or the sizes and colours were wrong. Stock control, combined with suppliers whose policies on fill-in orders are favourable to you, provides a way to reduce "walkouts".

The type of system you use to keep informed about your stock, or inventory, depends on your line of merchandise and the delivery dates provided by your suppliers.

Your stock control system should enable you to determine what needs to be ordered on the basis of:

- What is on hand?
- What is on order?
- What has been sold?

Some trade associations and suppliers provide systems to members and customers; otherwise your accountant can set up a system that is best for your business. Inventory control is based upon either a perpetual or a periodic method of accounting that involves cost considerations as well as stock control. When you have decided what system you will use to control stock, estimate its cost.

You may not need an extensive (and expensive) control system because you do not need the detailed information such a system collects. The system must justify its costs or you will just waste money and time on a useless effort.

Stock Turn Over

When an owner-manager buys reasonably well, you can expect to turn over stock several times a year. For example, the stock in a small camera shop should turn over four times to four and a half times a year. What is the average stock turnover per year of your line of merchandise? How many times do you expect your stock to turn over? List the reasons for your estimate.

Behind-The-Scenes Work

In a retail store, behind-the-scenes work consists of the receiving of merchandise, preparing it for display, maintaining display counters and shelves, and keeping the store clean and attractive to customers. The following analytical list will help you decide what to do and the cost of those actions.

First list the equipment (for example a marking machine for pricing, shelves, a cash register) you will need for:

- receiving merchandise;
- preparing merchandise for display;
- maintaining display counters and shelves;
- keeping the store clean.

Next list the supplies you will need for a year, for example, brooms, price tags, and business forms.

Who will do the backroom work and cleaning that is needed to make a smooth operation in a store? If you do it yourself, how many hours a week will it take? Will you do these chores after closing? If you use employees, what will they cost? On a worksheet describe how you plan to handle these tasks. For example:

- Backroom work will be done by one employee during the slack sales times of the day. I estimate that the employee will spend ___ hours per week on these tasks and will cost \$___ (number of hours times hourly wage) per week and \$___ per year.
- I will need ___ square feet of space for the backroom operation. This space will cost \$___ per square foot or a total of \$___ per month.
- List and analyze all expense items in the same manner. Examples are utilities, office help, insurance, telephone, postage, accountant, payroll taxes, and licenses or other local taxes. If you plan to hire others to help you manage, analyze these salaries.

Put Your Plan into Dollars

At this point, take some time to think about what your business plan means in terms of dollars. This section is designed to help you put your plan into dollars.

The first question concerns the source of dollars. After your initial capital investments in a small retail store, the main source of money is sales. What sales volume do you expect to do in the first twelve months? Write your estimates here \$_____ and justify your estimate.

Start-up Costs

List the following estimated start-up costs:

Fixtures and equipment	\$ _____
Starting inventory	\$ _____
Decorating and remodeling	\$ _____
Installation of equipment	\$ _____
Deposits for utilities	\$ _____
Legal and professional fees	\$ _____
Licenses and permits	\$ _____
Advertising for the opening	\$ _____
Accounts receivable	\$ _____
Other expenses	\$ _____
Operating cash	\$ _____
Total	\$ _____

Expenses

In connection with annual sales volume you need to think about expenses. If, for example, you plan to do sales amounting to \$100,000, what will it cost you to do this amount of business? How much profit will you make? A business must make a profit or close.

A suggested list of expenses to consider is as follows:

- advertising;
- bad debts;
- delivery;
- depreciation (other than real estate);
- donations;
- dues and subscriptions;
- insurance;
- interest
- legal and accounting expenses;
- occupancy expenses;
- office supplies and postage;
- payroll and other employee expenses;
- supplies;
- taxes (other than real estate and payroll);
- telephone and fax;
- travel, buying and entertainment;
- unclassified expenses.

Cash Forecast

A budget helps you to see the dollar amount of your expected revenue and expenses each month. Then from month to month the question is: Will sales bring in enough money to pay the store's bills? The owner-manager must prepare for the financial peaks and valleys of the business cycle. A cash forecast is a management tool that can eliminate much of the anxiety that can plague you if your sales go through lean months.

Is additional money needed? Suppose at this point that your business needs more money than can be generated by present sales. What do you do? If your business has great potential or is in good financial condition, as shown by its bank balance sheet, you will borrow money (from a bank most likely) to keep the business operating during start-up and slow sales periods.

The loan can be repaid during the fat sales months when sales are greater than expenses. Adequate working capital is needed for success and survival: but cash on hand (or the lack of it) is not necessarily an indication that the business is in bad financial shape. A lender will look at your balance sheet to see the business' Net Worth of which cash and cash flow are only a part. The sample balance sheet statement format shows a business' Net Worth (financial position) at a given point in time, say as of the close of business at the end of the month or at the end of the year.

Even if you do not need to borrow money, you may want to show your plan and balance sheet to your banker. It is never too early to build good relations and credibility (trust) with your banker. Let your banker know that you are a manager who knows where you want to go rather than someone who merely hopes to succeed.

Control and Feedback

To make your plan work you need feedback. For example, the year-end profit and loss (income) statement shows whether your business made a profit or took a loss for the past twelve months.

Don't wait twelve months for the score. To keep your plan on target you need readings at frequent intervals. An income statement compiled at the end of each month or at the end of each quarter is one type of frequent feedback. Also you must set up management controls that help you insure that the right things are done each day and week. Organization is needed because

you as the owner-manager cannot do all the work. You must delegate work, responsibility, and authority. The recordkeeping systems should be set up before the store opens. After you're in business it is too late.

The control system that you set up should give you information about stock, sales, receipts and disbursements. The simpler the accounting control system, the better. Its purpose is to give you current useful information. You need facts that expose trouble spots. Outside advisers, such as accountants, can help.

Stock Control

The purpose of controlling stock is to provide maximum service to your customers. Your aim should be to achieve a high turnover rate on your inventory. The fewer dollars you tie up in stock, the better. In a small store, stock control helps the owner-manager offer customers a balanced assortment and enables you to determine what needs ordering on the basis of:

- What is on hand?
- What is on order?
- What has been sold?

When setting up inventory controls, keep in mind that the cost of the stock is not your only cost. There are inventory costs, such as the cost of purchasing, the cost of keeping stock control records, and the cost of receiving and storing stock.

Sales

In a small store, sales slips and cash register tapes give the owner-manager feedback at the end of each day. To keep on top of sales, you need answers to questions such as:

- How many sales were made?
- What was the dollar amount?
- What were the best selling products?
- At what price?
- What credit terms were given to customers?

Receipts

Break out your receipts into receivables (money still owed such as a charge sale) and cash. You know how much credit you have given, how much more you can give, and how much cash you have with which to operate.

Disbursements

Your management controls should also give you information about the dollars your company pays out. In checking on your bills, you do not want to be penny-wise and pound-foolish. You should pay bills on time to take advantage of supplier discounts. Your review systems should also give you the opportunity to make judgments on the use of funds. In this manner, you can be on top of emergencies as well as routine situations. Your system should also keep you aware that tax monies, such as payroll income tax deductions, must be set aside and paid out at the proper time.

Break-Even

Break-even analysis is a management control device that approximates how much you must sell in order to cover your costs with NO profit and NO loss. Profit comes after break-even.

Profit depends on sales volume, selling price, and costs. Break-even analysis helps you to estimate what a change in one or more of these factors will do to your profit. To figure a break-even point, fixed costs (like rent) must be separated from variable costs (like to cost of goods sold.) The break-even formula is:

$$\text{Break-even point (in sales dollars)} = \frac{\text{Total fixed costs}}{(1 - \text{total variable costs} / \text{corresponding sales volume})}$$

Sample break-even calculations: Bill Mason plans to open a shoe store and estimates his fixed expenses at about \$9,000 the first year. He estimates variable expenses of about \$700 for every \$1,000 of sales. How much must the store gross to break-even?

$$\begin{aligned} \text{BE Point} &= \$9,000 / (1 - 700 / 1,000) \\ &= \$9,000 / (1 - .70) \\ &= \$9,000 / .30 \\ &= \$30,000 \end{aligned}$$

Is Your Plan Workable?

Stop when you have worked out your break-even point. Whether the break-even point looks realistic or way off base, it is time to make sure that your plan is workable.

Take time to re-examine your plan before you back it with money. If the plan is not workable, better to learn it now than to realize six months down the road that you are pouring money into a losing venture.

In reviewing your plan, look at the cost figures you drew up when you broke down your expenses for the year (operating ratios on the income statement). If any of your cost items are too high or too low, change them. You can write your changes above or below your original entries on the worksheet. When you finish making your adjustments, you will have a REVISED projected statement of sales and expenses.

With your revised figures, work out a revised break-even analysis. Whether the new break-even point looks good or bad, take one more precaution. Show your plan to someone who has not been involved in working out the details with you. Get an impartial, knowledgeable second opinion. Your banker, or other advisor, may see weaknesses that failed to appear as you went over the plan details. These experts may see strong points that your plan should emphasize.

Put Your Plan into Action

When your plan is as thorough and accurate as possible, you are ready to put it into action. Keep in mind that action is the difference between a plan and a dream. If a plan is not acted upon, it is of no more value than a wishful dream. A successful owner-manager does not stop after gathering information and drawing up a business plan, as you have done in working through this publication. USE the plan.

At this point, look back over your plan. Look for things that must be done to put your plan into action. What needs to be done will depend on your situation and goals. For example, if your business plan calls for an increase in sales, you may have to provide more funds for this expansion. Have you more money to put into this business? Do you borrow from friends and relatives? From your bank? From your suppliers (through credit terms)? If you are starting a new business, one action may be to get a loan for fixtures, stock, employee salaries, and other expenses. Another action will be to find and to hire capable employees.

Now make a list of things that must be done to put your plan into action. Give each item a date so that it can be done at the appropriate time. To put my plan into action, I must:

Do (action) _____ by (date) _____
Etc.

Keep Your Plan Current

Once you put your plan into action, look out for changes. They can cripple the best business no matter how well planned. Stay on top of changing conditions and adjust your business plan accordingly. Sometimes the change is within your company. For example, several of your sales persons may quit. Sometimes the change is with customers whose desires and tastes shift and change or refuse to change. Sometimes the change is technological as when products are created and marketed.

In order to adjust your plan to account for such changes, you, the owner-manager, must:

- Be alert to the changes that come about in your line of business, in your market and in your customers.
- Check your plan against these changes.
- Determine what revisions, if any, are needed in the business plan.

The method you use to keep your plan current so that your business can weather the changing forces of the market place is up to you. Read trade and business papers and magazines and review your plan periodically. Once each month or every other month, go over your plan to see whether or not it needs adjusting. Certainly you will have been in business for a time. Make revisions and put them into action. You must be constantly updating and improving. A good business plan must evolve from experience and the best current information. A good business plan is good business.

Additional Information

For more information on retailing in Canada, please visit the Retail Council of Canada Web site at <http://www.retailcouncil.org>.

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For further information regarding starting a business, contact the

Canada-Saskatchewan Business Service Centre
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