

How to Set Up & Grow a Profitable Small Business

What is a Small Business? It simply means a business that has fewer employees and earns less than larger businesses (like Target or Toyota). More than half (54%) of small businesses have 5 employees or less. There are 32.5 million small businesses in the USA and these businesses create 1.5 million jobs each year, which is 64% of new jobs created in the US (SBA, 2021). Over 4 million small businesses are started every year.

What are we going to do? We're going to learn how to set up a business designed to support the lifestyle that you want, and also have room for that business to adapt and grow.

Too many people start out because they are excited about something, like baking cakes or knitting hats. They begin because they are really passionate about a product (or service, like window washing or running a food stand), but they have absolutely no idea how to figure out if it's something that they will actually be able to build a business around and generate an income. That's what we're going to learn how to do.

It is really important to map this out ahead of time, because 50% of small business are no longer in business within the first five years! All that excitement, hard work, time and money are things you can't get back.

Most of the things that cause small businesses to close their doors early can be easily avoided by following the steps in this packet.

They include mistakes like: there's no demand for what they are selling, not enough money to get your business up and running, picking a market with too much competition, and pricing themselves right out of a profit.

The good news is that anyone can learn how to do a quick estimate and sketch out their business ideas *without* spending a fortune.

We're going to teach you how to do this with the math skills you already have.

We'll be spending the upcoming three weeks adding more to this packet, but the basics are all here and we're going to go over them together this week.

First, let's walk through a simple way to think about your business.



Step 1. Let's assume that you already made the decision to start a small business.
So, our first step is for you to write down:

What are your goals in running a small business?

What do you think it will give you? Provide for you? Make possible for you?

Why do you want to run a small business? (Be as specific as you can)

Step 2. Tell me about your business ideas.

What is it that you see yourself doing in a small business?

Step 3. Who else is already doing this? (your answer to Step #2)

HINT: If your answer is “no one” there is probably a good reason. It may already have been tried, and no one is doing it because it’s not profitable, too difficult, or other reasons. Try modifying your small business idea a bit so there’s a little competition but not a huge amount.

Step 4. Look at a couple of other businesses doing similar things to what you’d like to do. How much do they sell, and how many?

Step 5. Making yourself unique. You need a way to make yourself unique enough to narrow your market you can find your place without too much competition (too much competition really drives up your advertising costs, which is where a lot of your expenses are going to go).

For example, if you want to teach yoga classes to “overweight people”, this is going to be difficult and competitive, because you will have to compete with big companies like Jenny Craig and local fitness gyms. However, if you narrow it to “yoga for *pregnant mothers*”, now you have a narrower audience and you can make yourself unique by catering to this market specifically.

(We’ll go over this in more detail later in this packet.)

Step 6. Deciding to be a Technician or a Business Owner Let's say that you decided to bake your grandmother's secret recipe for muffins, and imagine you've already sold a few dozen orders to friends and family. You decide you want to turn this muffin idea into a business.

Now here's a question: which would you rather do? (circle one):

Option #1: Spend most of your time baking muffins
(and improving your recipe, trying new ingredients...)

Option #2: Spend most of your time managing people, purchasing and organizing inventory, developing systems for tracking orders and inventory, going over finances and budgets, working with marketing campaigns, running ads, website building and technical troubleshooting your online ordering system, doing accounting and bookkeeping, and so forth. You occasionally get to bake, but normally it's spent on daily business operations of keeping your business running smoothly.

Can you tell which one is the Technician (Option #1) and the Business Owner (Option #2)?

Most people who start their first small business think that they will remain a Technician and the business will simply "run itself", or they have no idea what it takes to keep a business up and running, and all the issues that come with it.

It's important to think about the **LIFESTYLE** that you want, *not* the business.

Think of how a business can *support* the **lifestyle** that you want.



Step 7. Financial forecasting. Let's say you start a muffin business where you bake at home and sell the muffins to local stores. In the next two pages, you'll see how easy it is to really get an idea if this is going to be worth your investment of time, energy and money.

- a. How much does it cost you to create one dozen muffins?
Raw materials (flour, sugar, eggs, butter...etc)

- b. How much do you want to sell one dozen muffins for?

- c. How much money do you want to earn per month to support the lifestyle you want?
(Hint: look back at Percent Weeks #1-2 content for numbers to put in here.
Imagine you're 25 years old if that helps you narrow down a number.)

- d. How many muffins do you need to sell to earn this amount each month?
(Hint: we're not calculating costs like your time, space to rent, advertising, packaging, etc. We're keeping it really simple at this stage.)

- e. How long does it take for you to bake a dozen muffins? (in minutes)
- f. What is your gross profit for a month expected to be?
- g. How much are you earning per hour baking and selling your muffins?
- h. Let's look at Walmart: how much is one dozen muffins from Walmart? (Hint: take a look at the quantity in the package!) How does this compare with your calculations?



There are three ways to increase your profit:

1. You can increase your price per muffin
2. You can decrease the time you spend baking each batch which means you can bake more in the same amount of time.
3. You can decrease how much you spend on your raw materials.



\$3.98 28.4 ¢/oz

Freshness Guaranteed Blueberry Muffins, 14 oz, 4 Count

Which one(s) does Walmart do? (circle)

Four Master Steps for Success in any business:

1. Find out what they want.
2. Tell them that you have it.
3. Get it or create it.
4. Give it to them.

Most businesses that close didn't do one (or more) of these steps above. For example, most people start a business based on what *they* want, not what the *market* is interested in or willing to pay for. Running a business is NOT primarily about the product or service!

That's why that first step is **find out what people want**. This isn't a guessing game. People are willing to tell you what they want, and what they are willing to pay for. You need to find that out so you can go to the next step.

You need to **learn about the group of people who may want to buy what you have**. You wouldn't sell gas to people who don't own cars, or books written in Spanish to people that only speak German.

The second step (above) is to advertise. Let folks know that you have something that may be helpful to them. This isn't about misleading or swindling people. Make sure you have a good quality product and you really understand what your people group is in need of.

You want to honestly let them know that what you have will be helpful to them, that you can provide a solution for something they need. Thirsty people will buy ice-cold lemonade on a hot day, but probably not during winter.

Step three involves *Test Marketing*. Before we buy our inventory or spend money on raw materials, we *really* want to be sure we can sell. How this works is that we let them know we can get it. This means if a customer walks into our store and we're still in the *Test Marketing* phase of a product (we advertised chocolate muffins but only carry blueberry at the moment), we let them know we can order it and we also give them a discount for when it comes in.

We wait until we have reached our minimum order threshold before placing our first order. If we have a lot of people coming in for the chocolate muffins, then we know these will probably sell well. If you took orders ahead of time (people actually paid you), and you didn't get meet your minimum threshold, you simply issue refunds.

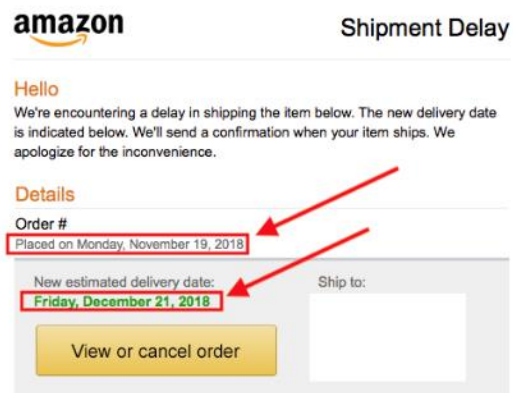


If you've ever seen "allow 4 to 8 weeks for delivery" or shipments that take an unusually long time (especially if you can request a refund right up to the delivery date), that's usually what companies are doing. (The exception is if they really are shipping it to you on a slow boat overseas).

The company is testing the market to see if enough people order their new item. When they hit their minimum threshold, the company will order the item in bulk (which is a lot cheaper than ordering individual items), and they not only sell it for less (because they bought the item in bulk) but they already know how well it will sell ahead of time before they ever put one on the shelf.

You want to test your market *first* to be sure you can really sell it before you place orders for inventory.

The last step is to deliver it to your customers, and there's a lot of ways to do this creatively so you turn these people into your raving fans (who will let everyone else know about your new item and bring their friends in!)



Are you ready to learn how to narrow in on what kind of business you'll have and who you will serve with this business?

We're going to start with picking the right niche.

What is a Niche? A *niche* is picking a product or service that appeals to a small, specialized group of people. High-end tennis rackets for professionals, exotic flower arrangements for weddings, teaching science classes to homeschoolers... all of these are niches in a specific market.

Picking the right niche:

1. Are there enough people in this niche?
2. Do they have the money to afford what I am considering selling?
3. Do they have a compelling need for this?
4. Are they likely to buy what I am selling?
5. Can I easily reach them?
6. Will I have an ongoing market?

Let's pick a niche market as an example. You decide to sell muffins to local coffee shops in your area. To start with, you decide to offer three different kinds:

- Blueberry Lemon Muffins
- Chocolate Chip Muffins
- Raspberry Almond Muffins



So let's figure out how much you will earn based on the questions earlier in this packet. We'll use the table on the next page to put in the numbers listed below.

First, here's how much it cost per dozen of each muffin to make. The costs here are when we add up the price of all the ingredients of everything we need, from flour and sugar to liners and plastic containers. These are our *Cost of Goods Sold*, or "COGS":

- Blueberry Lemon Muffins: \$5.48 per dozen
- Chocolate Chip Muffins \$6.19 per dozen
- Raspberry Almond Muffins \$7.36 per dozen

These costs above are *variable*, meaning that these costs change with the number of muffins we sell. If we sell more muffins, we need more stuff to make them out of.

You also have *fixed costs*, which do not change with the number of muffins you make (like rent, utility bills, company website, cash register, paying staff, basic equipment...) You have to pay for these things whether you make a lot or just a couple of muffins.

Gross sales is the money coming into the cash register

Gross profit is the money you have after paying your *cost of goods sold (COGS)*

Net profit is after you subtract your fixed expenses (rent, staff, loan payment...)

Product	(A) Sell Price	(B) COGS	(C) Gross Profit (A-B)	(D) Quantity sold/month	Gross Sales/month (A x D)	Gross Profit/month (C x D)
Blueberry Lemon Muffins						
Chocolate Chip Muffins						
Raspberry Almond Muffins						
TOTAL						

Fixed costs: (list here)

Subtract fixed cost from Gross Profit
to get NET PROFIT per month: