

CONSIDERATIONS IN THE ESTABLISHMENT AND OPERATION
OF A SMALL BUSINESS ENTERPRISE

THESIS

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PART ONE

ORGANIZATION OF A SMALL BUSINESS ENTERPRISE

CONSIDERATIONS IN THE ESTABLISHMENT AND OPERATION
OF A SMALL BUSINESS ENTERPRISE

CHAPTER I
INTRODUCTION

A. Purpose of the Study

The purpose of this study is to list and discuss the problems incident to the establishing and operation of a small business enterprise. Only the most salient problems will be discussed.

B. Importance of the Study

This study seems especially appropriate at this time. Since the outbreak of World War II the production of consumer goods has been either shut off, or regulated to a more or less degree by the government. Thousands of small retail concerns were forced to close shop because of failure to obtain merchandise for sale. The drafting of owners, partners, or managers into the armed services further depleted the ranks.

Approximately 1,000 small business concerns are forced out of business every day. Nearly 80 per cent of these are performing services ordinarily considered necessary to our economy. Thirty per cent of these retail stores have been in operation less than one year.¹

¹William R. Spriegel, and Ernest Coulter Davies, Principles of Business Organization, p. 83.

At the peak of government war employment millions of workers were employed, and to this number should be added approximately 13 million service men and women. Permanent peace-time jobs for these millions of people can materialize only from activities that involve the production and distribution of consumer goods like automobiles, electrical appliances, food, housing, radios, household goods, and so forth.

As one of the results of specialized military training and of having seen active service on the many battlefronts of the war, a large percentage of men and women are, after being mustered out, striking out on their own and are no longer willing to work for someone else.

Indeed it is hard to read the daily paper without reading about new enterprises. A careful study of the opportunity element in organizing an enterprise might discourage some from starting at this particular time.

The time for starting a new business enterprise is very important. There is a great advantage in starting an enterprise after a period of falling prices, that is, when prices have reached their lowest point. While prices are decreasing steadily, many men quit business or fail. As a result there is less competition after such a period. After prices have reached their lowest point, they begin to rise and the demand for goods becomes correspondingly great.²

This study, it is hoped, will at least call attention to the more salient problems of establishing and operating a business and reveal the pitfalls that rash decisions may create.

²Bernard A. Shilt, and W. Harmon Wilson, Business Principles and Management, p. 6.

C. Limitations and Definitions

Many of the difficulties encountered in the solution of problems in organization and management are also listed as the primary cause of failure.

The following definitions are given to make the meaning of the text more understandable:

Organization: The structure combining men, material, and management to achieve mission.

System: A tool of management; a means of standardizing organization procedures.

Administration: Directs the active operations of an enterprise.

Management: An executive function within an enterprise that carries out administrative policies.

Commerce: The distribution of goods.

Industry: The production of goods.

Small Business: A Department of Commerce Bulletin, "Small Retail Store Mortality," measured the size of the firm by the numbers of employees. In this survey three-fourths of the stores had less than eleven employees and the largest concern had sixty employees. Seventy-three per cent of all business in 1939 was considered small business. Of this seventy-three per cent of all business, forty-five per cent employed five men or less.

D. Methods of Procedure

A study of business failures has been made by a Senate Special Committee.³ The reasons given for failure in this report seem to be the logical topics for discussion. I have, therefore, chosen some of the reasons most frequently listed as causes of failure, and have brought them together under the heading of Considerations in the Establishment and Operation of a Small Business Enterprise.

³Department of Commerce, Bureau of Foreign and Domestic Commerce, "Small Retail Store Mortality," Series 22, 1943.

CHAPTER II

CHOICE OF A BUSINESS

A. Introduction

Business is a great adventure if one has chosen the right field. Undoubtedly "the thrill of a lifetime" comes when one opens the door of his own business for the first time.¹

William Benton, vice-president of the University of Chicago, encourages men to strike out on their own. He gives several examples of owners of small enterprises who have succeeded in getting their business to grow into a large enterprise.

Big business did not build the wealth of this country. It was individual, hard-hitting, and hard-working men who built it. These men started small, independent, competitive businesses. When the Goldblatt boys saw the great Marshall Field store in Chicago, they might have asked themselves, "What chance have we got to own an institution like that?" and then have contented themselves with lifetime jobs behind the counter. ...

Before the war and after the depression young men everywhere would display timidity that would have lost the country to the Indians a century and a half ago. ...

Young man, don't let the elders tell you that the frontier is closed. To the young man who is afraid, it has always been closed. If ever a decade seemed made to order for those daring to strike out on their own it's the decade that's coming up after this war.²

¹Fred O. Rost, Going into Business for Yourself, p. 3.

²William Benton, "Young Man, Be Your Own Boss," Reader's Digest, September, 1944, Vol. XLV, p. 269.

B. Natural Appeal

Everyone hoping for success should have some advantage over his competitors. It may be experience, capital, knowledge, or special interest. The aspiring business-man should, if possible, select a business for which he has a special "feeling." This extra incentive may well be the margin of safety that will insure his success.

Some of the successful retailers worked after school in a drug store, or in the corner grocery store. The more successful garage owners are those who as boys tinkered with toys, and hung around the garage picking up knowledge. The radio shops are often owned by the boy that would tinker with the family radio. And many of the more successful book shops are owned by what fellow students often called "bookworms."³

One of the first and most important steps, therefore, is to analyze yourself and find the clue to point the way to adventure in business.

Spriegel lists seven reasons why a person starts his own business. They are:

1. People like to be their own boss.
2. Social approval that accompanies initiative.
3. Profits which must be had.
4. Personal satisfaction in getting ahead.
5. Opportunity to render a service.

³Fred O. Rost, op. cit., p. 15.

6. Livelihood—necessity has mothered many a small plant.

7. Power and protection in being self sustaining.⁴

Success in a new venture depends upon education, experience, capital, management, interest, and economic conditions.

C. Need for the Business

An easy rule to start with is the old adage that "he who serves best, profits most." To serve best one should exercise careful choice in choosing and starting an enterprise. If one will look around he will find that those concerns which have the shortest lives are those which try to sell something which renders no real service to the buyer, or those which try to grab the passing dollar without giving something in return.

William R. Bassett, chairman of the board of Miller, Bassett, and Company, Incorporated, states the foregoing principle of business in this way:

Whether you are making a product or selling it; whether you are a banker who provides the funds that business needs, or whether you sell insurance, legal advice or engineering service, you will prosper as you serve some need.⁵

After searching for a natural appeal in business and after realising

⁴William K. Spriegel, and Ernest Coulter Davies, Principles of Business Organisation, p. 80.

⁵William R. Bassett, Taking the Guesswork Out of Business, p. 171.

that to prosper one must serve, one should make a survey to see if there is a need for the service. If there are ten barber shops in a town that can support only ten it would be quite a risk to start another shop. A new shop would have less than an even chance to succeed. Before an enterprise can succeed, it must be given a chance to serve, and in an overcrowded situation as in the case of the barber shops mentioned above, it would have an up-hill climb.

D. Training Considerations

Assuming that the natural appeal is present, and that the need of the service exists in a community, the next very important step is to consider what training or compensating experience is necessary.

The business world is full of examples of men who have succeeded with little or no formal education.

The vision that an enterprising man has will compensate for much study. The ability to build from whatever is available is the one characteristic that is common in all success stories. One man looks at the facts and shakes his head; another, as Henry Ford, visions a poor man's convenience—with the price in reach of almost everyone. He had the courage to attempt a creation, and the Ford automobile is the result.⁶

But modern day enterprise has so many ramifications that knowledge is necessary if success is to be expected. Perhaps the owner or

⁶Fred O. Rost, op. cit., p. 10.

the planner does not have the knowledge--then he may have to pay dearly to employ someone that does. Tax forms must be filled out, unemployment compensation figures must be kept for the government, property must be purchased or leased, trends and prices must be considered, expansion must be planned, and advertising may be needed.

Not every successful business man will give any points, or favors, to a college graduate. Witness the statement by Charles McCormick, President of the very successful food manufacturing firm of McCormick and Company, of Baltimore, Maryland:

In the classroom, however, in many cases, the college student is taught to consider erroneous radical theories as facts, and much that does not square with truth. Frequently, he is imbued with queer and impossible impressions as to business principles. If he has taken a course in business administration, he is likely to believe that he is equipped to run the whole show and is entitled to begin in a position pretty close to the top. ... Usually when a young man just out of college applies to our company for a position, he asks, first, what his salary will be. ... we start the college men at the bottom, at the lowest job that is vacant, or if he is promising, we make a humble job for him. ...⁷

The very heavy present-day school enrollment is ample proof that the average American does not believe the same as does Mr. McCormick. School enrollment is at an all-time high, and now, more than ever before, the school is trying to prepare its graduates for the job--not a job.

⁷Charles P. McCormick, Multiple Management, pp. 67-69.

CHAPTER III

FINANCING OF THE ENTERPRISE

A. Analysis of the Capital Requirements

When a prospective business man chooses his line of work, the advice on how to choose can be given freely since it applies to all businesses. But when financing the enterprise is mentioned, all generalities should cease and each case should be judged by itself. There are a few things which may be mentioned that will help warn about coming expenses.

Stores that require a large initial capital seem to last longer. Liquor stores last an average of four years while hardware stores have an average life of twenty years. Of the 1,476,365 retail establishments operating in the United States in 1929, roughly one-eighth were out of business within one year, one-third within three years, and one-half within ten years.¹

Stores which sell luxury goods have a shorter life than stores which sell necessities. This was brought out in the Department of Commerce Bulletin just mentioned. See page 12 for Table I showing the percentage of businesses operating in 1929 that were still operating in 1939. The depression of the early thirties distorted the mortality figures to some extent.

¹Department of Commerce, "How Long do Retail and Wholesale Establishments Tend to Survive," Economic (Small Business) Series No. 54, p. 22.

TABLE I

SURVIVAL RATIOS IN 1939 OF THE 1929 OPERATING ESTABLISHMENTS

(1929-100)	
<hr/>	
Combination stores (groceries-meats)	85.47
Dairy Products (milk dealers)	81.05
Department stores	75.15
Filling stations	70.95
Hardware groups	69.92
Drug stores	65.80
Lumber-building materials dealers	65.21
Bakeries, caterers	57.37
Household appliance dealers	56.63
Lunch counters and stands	56.47
Office-supply equipment	55.13
Variety stores	54.38
Other home furnishings stores	53.61
Other food stores	52.69
TOTAL RETAIL TRADE	51.00
Grocery stores (without meats)	48.90
Jewelry stores	46.58
Furriers fur shops	45.88
Second-hand stores	45.87
Paint, glass, wallpaper stores	44.61
Furniture stores	43.57
Men's-boys' clothing, furnishings, hat stores	42.99
Farm-implements-tractor-hardware dealers	42.62
Women's ready-to-wear stores	41.95
Shoe stores	40.76
Motor-vehicle dealers	39.51
Floor Coverings-drapery stores	38.65
Custom tailors	33.68
Delicatessen stores	32.03
Candy, nut, and confectionery stores	29.67
General stores (with food)	26.88
Cigar stores, cigar stands	25.60
Radio and combination stores	22.09
Soft-drink, juice, ice-cream stands	18.50
Heating-plumbing shops ²	15.45

²Source: Department of Commerce, op. cit., p. 50.

It is interesting to review at this point, the causes of business failures as expressed by the owners' opinions compared with the causes expressed by the creditors' opinions.

TABLE II
CAUSES OF FAILURES—OWNERS' VIEW vs. CREDITORS' VIEW

Causes of Failure (Owners' opinion)	Causes of Failure (Creditors' opinion)
Business depression	Inefficient management
Insufficient capital	Dishonesty and fraud
Competition	Insufficient capital
Adverse personal factors	Business depression
Decline in value of assets	Adverse personal factors
Bad-debt losses	Bad-debt losses
Inefficient management	Competition
Excessive overhead	Excessive overhead
Poor location	Too rapid expansion
Losses from speculation	Decline in value of assets
Change in trading area	Losses from speculation
Excessive interest	Buying on credit
Too rapid expansion	Poor business location
Loss from signing notes	Decline in rental income
Buying on credit	Lack of adequate books
Real-estate losses	Excessive interest charges
Lack of adequate books	Changes in trading area ³

In the foregoing list, insufficient capital was high on each list. Each business will require different and individual considerations. Certainly some of the more pertinent questions to be answered are as follows:

1. What types of business will be established?

³Bernard A. Shilt, and W. Harmon Wilson, Business Principles and Management, p. 8.

2. Will the property be owned or rented?
3. What will be the cost of fixtures and machinery?
4. What will be the cost of initial stocks?
5. What will the monthly payroll be?
6. What will be the monthly operating expense?
7. Shall the business be private ownership, or partnership?
8. How much wages can be withdrawn by each partner?
9. Bank policy. Will credit be extended to the business?

B. Organisation of the Business

An individual proprietorship is desirable in many ways. What the owner makes is his own, there is no interference within the enterprise, no hidden or secret contracts arise, and each transaction is known to the owner. The owner is only responsible to himself.

It is not always financially or otherwise desirable to have a sole proprietorship. It is often necessary for purposes of obtaining more capital to accept a partner. However, the taking of a partner may give rise to certain complications. Each partner is responsible for the acts and contracts of the other. Liabilities are not limited to assets of the business. A legal contract should be drawn up stipulating, among other things, the duties, privileges, salaries, contributions of each partner, the firm name, location of the business, duration of partnership, and money or materials each partner can take from the business. Often valuable assistance is obtained by taking a partner. Among these might be additional capital, experience, initiative, new

ideas, and additional friends for the enterprise.⁴

Corporations may be formed. A corporation is given a name and can be sued in court. A holder of a corporation share is limited in his loss to the extent of his investment. To form a corporation, it is advisable to secure legal assistance in setting up the by-laws and filing the necessary registration certificates.

A corporation does not necessarily mean big business. Only a small percentage of the businesses coming under the scope of this study would normally be incorporated.⁵

C. Financial Aid to Business

There are many sources of financial aid to business. The amount of aid necessary will of course be determined by the type of business, the organization, and the credit policies of the firm.

A veteran of the Second World War will likely be able to borrow money easier from the Reconstruction Finance Corporation than from any other source.

If you are a veteran of the Second World War and apply to a bank or other lending institution for a business loan under the GI Bill of Rights (Public Law 346, 78th Congress), the bank, if it approves the loan, passes the application on to the RFC. Then RFC studies the application and may recommend a Veterans Administration guarantee. The guarantee means that, for any loan up through \$4,000, the Veterans Administration insures 50 per cent of the loan against loss. This makes the loan attractive to the bank.

⁴Fred O. Rost, Going Into Business for Yourself, p. 45.

⁵Ibid., pp 59-62.

Under this plan the bank can lend you any amount it wishes, with the guaranteed portion still not to exceed \$2,000. If two veterans get together, up to \$4,000 can be guaranteed, and so on. In no case, however, can the guaranteed portion exceed 50 per cent of the total loan.⁶

Often the little stores are the outlets for big manufacturing firms, as for example, an appliance store takes the agency to sell certain electrical products. In cases like this it is especially important to have carefully drawn contracts to protect the interests of the small firm.

Banks may usually be depended upon to loan money to a new firm if they believe the enterprise has a reasonable chance to succeed.⁷

A Department of Commerce bulletin lists these additional sources of credit:

1. Term loans.
2. Installment loans.
3. Loans on accounts receivable.
4. Loans secured by warehouse and field warehouse stocks.
5. Equipment loans.
6. Trust companies and bank trust departments.
7. Industrial banking companies.
8. Small loan companies.
9. Sales finance companies.⁸

⁶Department of Commerce, Credit Sources for Small Business, Economic (Small Business) Series No. 46, p. 25.

⁷Ibid., p. 7.

⁸Ibid., pp. 10-23.

D. Credit Policies

Modern business could not survive without credit. The business man will buy from his wholesaler and take a few days after delivery to pay, and then his own customers will buy and pay later.

Many firms operating on a cash basis have been forced to extend credit to their customers to avoid the ill-will that would result from a refusal. Other firms make a practice of extending credit and depend upon the additional carrying charge and additional business to compensate for losses on bad debts and collection expenses.

William Sprigal, Professor of Industrial Management at Northwestern University, defines credit as the ability or capacity of an individual or enterprise to secure a present service or good on the promise to pay at some future time.⁹

Some concerns get into a predicament where even unlimited cheap credit would not provide any lasting help. For example, obsolete store equipment can easily offset any advantages that an additional supply of credit would bring—unless some of the funds are used for repair and modernisation.

The Department of Commerce advises:

It is poor economy to skimp on money for your business. The most successful large corporations use plenty of fixed capital and operating money and use it efficiently. In fact,

⁹William R. Sprigal, and Ernest Coulter Davies, Principles of Business Organisation, p. 164.

they have to have it for efficiency. ...

Here is a working rule to tell you when you need additional credit: You need more credit when you can use it to cut costs or otherwise increase efficiency by more than the cost of obtaining the additional funds.¹⁰

The basis of credit is confidence. Confidence arises from the relative certainty of the three "C's" in credit--character, capital, and capacity--which are equal in importance. The absence of any one of them makes the credit worth of the individual or enterprise low or non-existent.¹¹

¹⁰Department of Commerce, Series No. 46, op. cit., p. 3.

¹¹William R. Spriegel, and Ernest Coulter Davies, op. cit., p. 165.

CHAPTER IV
LOCATION OF THE BUSINESS

A. To Build or Buy

By now the prospective business man should be able to assure himself that there is a need for his business, that he has the personal qualifications and interest needed to operate it, and that he has the needed capital or knows where to get the financial backing. If any of these points are not clearly settled the prospective business man should again take stock of himself. To this point there have been no losses of money and no investment in land or equipment.

The easy way, from a standpoint of labor output, is to buy a business already established. But many pitfalls await the buyer when this route is followed. Why is the business for sale? So often the policy of caveat emptor (let the buyer beware) exists.

A few of the excuses for selling the business might well be debunked. Illness is often used as such an excuse. In this case the family doctor should be willing to certify the illness. If the business is good, why must strangers buy instead of family or friends? Other business interests are often claimed. But what is the matter with this business if it is a good business? Then the old excuse of retiring may be used. His income tax statements for the last few years will help the buyer to decide whether retirement is possible. His financial statements can be faked, but the tax receipts can

be verified.

In buying an already established business, the price asked will be a direct reflection of the sellers' opinion of the prospective buyer and of the worth of the business. A question that should be answered is: How did you arrive at that figure? Buying a business is not like buying a horse. You buy a horse largely by sight, but in a business much more tangible evidences of value are available if the buyer will ask for them. The honest seller will usually get his figures out of the book, while the man to watch usually has his figures "in his head" ready for instant quoting. How much profit was earned? To verify this item, one might check sales records and inventory figures.

Rost gives other facts to watch for when considering the purchase of a business already established.¹

The most satisfactory way of getting a business is to decide what you want and build it yourself. When one starts from scratch he knows the business. There are no hidden contracts, no ill-will, no dissatisfied customers, no doubtful accounts--nothing but the future of the business itself.

B. Choice of Town and Location

The future of the business is often determined at the time of choosing a location. There are good and bad spots for a business, and

¹Fred O. Rost, Going into Business for Yourself, Chapter I.

there are good and bad towns. It is especially dangerous at this time to assume that all towns will remain at their present size. Many towns have been made by the war effort and may be "ghost-towns" in a few years. A growing town generally will have few or no empty stores.²

The city may build away from the store. The trend is toward suburban stores for meats and groceries and the other items that are thought of as convenience items.³

Of course, if the business is to sell furs and jewelry or other shopping items, the better location is where shoppers can conveniently compare prices and quality with other stores selling the same items.

Other recommendations for location are: first, to locate near public transportation for rainy day customers; second, locate on a direct lane of shopping traffic where customers are found; third, in a place where plenty of room can be allowed to expand if it is desirable; and fourth, where, if necessary, ample parking facilities may be provided.

The check list (Table III) on pages 22-25 will provide a helpful guide for town location and should be carefully filled in before final evaluation of the town is made.

C. Traffic Survey

²Rost, op. cit., p. 93.

³United States Department of Commerce, Establishing and Operating a Grocery Store, Industrial (Small Business) Series No. 21, p. 35.

After the business and the town have been chosen, the next step is to choose a street location for the business. One way to help assure one's self of having the position he wants is to take the results of a traffic survey. Are the people who pass this site going to church or going to work, or are they shopping? What competition must the business face? It is necessary in a survey to face realistically the competitive prospects.

Suppose that in a certain town there is just sufficient demand for shoes to support four existing shoe stores. The opening of a fifth will indeed be a hazardous undertaking. If the trade is divided into five parts instead of four, no one of the shops will be making a profit, and the one with the least reserve power, capital, or general ability must fall. This usually means the failure of the new concern rather than the four old, established ones.⁴

TABLE III

CHECK LIST FOR SELECTING A TOWN

Points upon which the town is rated	For a new grocery, the condition is:			
	Exce.	Good	Fair	Poor
Economic factors:				
Industry: Farming, manufacturing, trading				
Trend of industry—growing, stationary, or declining				

⁴Joseph H. Bonneville, and Lloyd E. Dewey, Organizing and Financing Business, p. 14.

TABLE III (continued)
CHECK LIST FOR SELECTING A TOWN

Points upon which the town is rated	For a new grocery, the condition is:			
	Exc.	Good	Fair	Poor
Permanence of industry—old and well established, new and promising, or recent and uncertain				
Diversification of income sources—varied, or entirely dependent on one major industry				
Stability of industry—very stable, average, or subject to wide fluctuations				
Seasonal industry—little or no seasonal change, mild seasonal change, or extreme seasonal fluctuations				
Future of industry—promising, uncertain, or poor outlook				
Population:				
Trend of population—growing, stationary, or declining				
Wealth of population—wealthy, well-to-do, moderately well off, or poor				
Character of population—native born, mixed, chiefly foreign				
Tendency to buy groceries or grow produce themselves—city dwellers, apartment type, farmers who grow own produce				

TABLE III (continued)
CHECK LIST FOR SELECTING A TOWN

Points upon which the town is rated	For a new grocery, the condition is:			
	Exc.	Good	Fair	Poor
Competition:				
Number of stores—few, many, too many				
Type of management—not progressive, average, alert and aggressive				
Presence of chains—no chains, a few chains, many well-established chains				
Presence of supermarkets—none, a few, many				
Type of stores—unattractive, average, very attractive				
Nature of stocks—incomplete, average, or complete				
Other facilities of the town:				
Transportation facilities				
Wholesale suppliers—local, distant, poor				
Banking facilities—good, adequate, poor				
Civic associations—aggressive, adequate, absent				
The town or community as a place to live:				
Schools				

TABLE III (continued)
CHECK LIST FOR SELECTING A TOWN

Points upon which the town is rated	For a new grocery, the condition is:			
	Exc.	Good	Fair	Poor
Churches				
Medical and dental services				
Amusements				
Climate				
The people: Congenial, speak your language, your kind of people ⁵				

A check list like the one above should help in appraising the town selected for your business. The list should not be considered final or complete. It merely suggests the major things to be considered.

D. Locations to Avoid

There are places to avoid. Little things like elevations of sidewalks relative to street levels should be noted. Noise of passing trains, and loss in merchandise due to soot and cinders should be considered. So-called "dead spots" in business districts may hinder your prospects. "Dead spots" may be parks, filling stations, churches, and police stations. People seem to be reluctant to pass them on their

⁵Department of Commerce, op. cit., p. 26.

way to and from stores.

There are non-respectable business districts. Certain sections of town seem to be left for the rough element, the people of low income, or the people of foreign descent.

Bonneville and Dewey warns of choosing poor locations by stating positive factors to look for.

As a general rule, the southern exposure might be preferable in cold climates, and the northern exposure in warm climates. But the general rule does not always apply.

The important things to consider are:

1. Choose the side where the heaviest shopping traffic is, the side most customers seem to prefer.
2. Choose the going home side in preference to the going to work side.
3. Choose the side which is most convenient for automobile traffic and where it is easier to obtain parking space.⁶

⁶Department of Commerce, op. cit., p. 35.

PART TWO

OPERATION OF THE BUSINESS

CHAPTER V

MANAGERIAL PROBLEMS

A. Duties of the Employer and Employees

As the doors of a new enterprise swing open inviting customers and business, they also create new problems. The first of these is the problem of allocation or assignment of duties. Schell says:

If we are to have control, we must provide avenues through which it can function easily and directly. These avenues we speak of as the paths of authority. They pass from the administrators who determine policy, to the executives who are responsible for the performance of the policy, and then to the employees who perform the actual operations.

It is clear that if these paths are vaguely outlined, there will be confusion. The executive must know the precise limitations of his field of authority if he is to function freely and competently, and the employee likewise wishes to know the exact source of control to which he must respond. Furthermore, these paths of authority should not be short-circuited by impatient executives.¹

In a business verbal agreements may not be enough. Personnel changes, and with these changes there should come new understandings and agreements. With every agreement and assignment must go responsibility and authority.

It is not uncommon in a small business to find that the owner is also the clerk, the purchaser, and, in fact, the sole employee. Of

¹Erwin Haskell Schell, The Techniques of Executive Control, p. 30.

course, in this case the duties and responsibilities are obvious. But with the advent of a partner or the formulation of a corporation, it may be necessary that duties be delegated.

Even the secretary likes to know just whom she must work for.

And, speaking of women employees, Kalsen states the rules this way:

Women workers are almost unanimous in saying they want to be treated in the same way as men. ... Women are hired in industry today because they are needed to do important work. ... It is up to the supervisor to respect them for their abilities, to instruct them whenever needed, to encourage efficient work, and to refrain from being too friendly.²

Numerous surveys have been made to try to discover why employees do not like their work. The author has never seen a survey list laziness of the employee as the reason for his dissatisfaction. But it is not uncommon to find that dissatisfaction results from "having to do someone elses' work." The clerk hates to carry the customer's groceries; the stockroom clerk dislikes leaving his work to substitute for a checker; the meat department feels that its sales are as important as the sales of the grocery department. All problems cannot be settled in advance, but the machinery to settle disputes—the line of authority or chain of command—can be and should be agreed upon at the beginning of an enterprise and clearly explained before an employee is hired.

²Palmer J. Kalsen, Practical Supervision, p. 90.

B. Promotion Policies

Promotional policies should be clearly defined; age of the applicant, length of service, amount of business he promotes, background of training and experience necessary for the advanced work, and the desire of the applicant all should be weighed before a promotion is made. An employee may not be interested in a better-paying job if it requires a greater output of work and added responsibility. Knowles suggests that the employee most worthy of promotion will be interested in the business.

It is not surprising, therefore, that the well-managed business is a reflection of a person, or persons, who have inherent qualities for leadership and direction. These persons so entrench themselves in their work that the line of demarcation between their personal success and that of their work is not easily discernible. Both unite to produce a portrait of success in the art of management.³

The duties of the chief executive of a business is indeed a great trust. In his hands lies the fate of each employee because it is he that either builds up morale and confidence for new tasks or else destroys confidence and discourages the worker. Too often a business is examined carefully for machinery and machinery output, yet management will pour in a steady stream of workers—usually the largest investment, without regard for their ability to perform or advance.

Many firms raise an employee's wage according to his length of service. This tends to retain a superior grade of people. Where competition is keen this lays quite a burden of cost on the business.

³Asa S. Knowles, and Robert D. Thomson, Industrial Management, p. 10.

Salaries can be indirectly raised by giving a bonus for good work, for attendance at work, for suggestions for improvement and care of machinery. Orline D. Foster summarizes the promotional question in this way:

The unfortunate condition which obtains in most plants is that salaries are increased either through personal preference, length of service, or in proportion to the aggressiveness of the employee. These methods are none of them fair to the other workers or to the individual himself. Salaries should be based solely on accomplishment, and any other system is detrimental both to the employee and the organization.⁴

Reward should be the result of faithful and worthwhile service. Promotion is the backbone of morale. Workers resent the employer's going outside for his high-paid help. In-service training and promotion will keep workers going longer and will stimulate interest in the plant. Careless selection of foremen over competent men is always likely to create discord.

A promotional chart showing each worker what he should be able to accomplish is helpful. On this chart outline the position he should attain in a certain number of years. After this time he should be at this place or else he should have an explanation of what is lacking. And if he is promoted he should be told what his strong points are so that he may develop them.⁵

⁴Orline D. Foster, Stimulating the Organization, p. 90.

⁵Ibid., pp. 101-102.

Promotions often depend upon having trained personnel to replace the man selected for advancement. The secure and confident worker will show up the best at this point. The man who feels insecure will hate to train a person to replace himself; the confident man will be willing to have a trained helper ready to take over his work when a promotion is offered.

Automatic promotions are not considered desirable by most business men. There is little doubt but that it destroys the maximum initiative to know that on a certain day a person will receive a softer chair and a better income. And unfair promotional methods, it is claimed, have been more detrimental than any system which concerns itself with labor.⁶

C. Forecasting

No one thing is quite so important to purchasing and selling for profit as the ability to be able to forecast the amount of business an enterprise may expect. If a firm is consistently short on articles of merchandise for sale it is just a matter of time until customers will not want to take a chance on wasting their time at this store. Even friendship will not keep customers coming to the store if the stock is not complete enough to fill their reasonable demands.

Overstocking may result in losses from perishable foods. It might also result in the necessity for cut-price sales when styles change. Then too, seasonal clothes should be packed away and also

⁶William R. Spriegel, and Ernest Coulter Davies, Principles of Business Organization, p. 429.

stored at a cost—not to mention the tying up of capital. It is of the utmost importance to be able to gauge your business and to predict business conditions to prevent overstocking and also understocking.

Forecasting has become a profession in the United States. Wilson Wright, economist for the Armstrong Cork Company, has written a book entitled Forecasting for Profit. His compliments of college trained men makes quite a contrast with those of Charles F. McCormick (quoted in Chapter II.)

Men trained in these institutions have been inclined to obtain the most comprehensive knowledge available concerning the factors which largely determine the results of their business ventures. Consequently, the operations of more businesses have been subject to the influence of men who try to minimize the effect of chance as a factor determining success or failure. It has also been evident that progressive executives have been aware of the advantages to be obtained by delegating to specialized members of management the function of obtaining information on the probable development of economic affairs in the future.⁷

Many good books have been written on the subject of forecasting. This thesis will not attempt to summarize all this material. Certain fundamentals should be understood by every prospective business man, however, before he attempts a business.

Business appears to run in cycles. Much time and effort has been expended trying to find the secret of the business cycle.

Wilson Wright has a scholarly discussion on the business cycle.

The business cycle is the fluctuation of business activity about the level of equilibrium. ... It would be desirable to begin the description of how a cyclical movement is developed with a situation in which the economy is in a state of equilibrium. To do so, however, would be unrealistic, because such a

⁷Wilson Wright, Forecasting for Profit, p. 1.

situation never exists. Instead, it may be assumed that the economy is in the first phase of recovery from a major depression. When recovery begins, managers and entrepreneurs are inclined to adopt a conservative attitude toward the investment of capital and other expenditure. ...

With the passage of time it is made evident that a measure of boldness in economic undertakings has produced satisfactory results in the recent past. ... Finally, continued success in economic ventures generates a psychology in which it is commonly believed that profit is the result of business activity—rather than being a reward for providing useful products at prices which customers are willing and able to pay. ...

After the recovery movement has been developed to the point at which the economy is in an unstable situation, a recession may be originated by any combination of factors which causes the expectations of managers and consumers to be reduced. When conservative and cautious policies and practices are adopted in the management of business and individual income, a spiral of deflation is developed. This process is continued until the trough of the depression is reached.³

Success or failure is in part at least the result of knowing or guessing correctly the trend and adjusting purchases and investment accordingly.

For as little as fifteen to thirty dollars a year the business man can surround himself with publications from the government and from private investigators which will pay rich dividends over a period of time. As an example, one of these publications is the Kiplinger Washington Letter. A part of Kiplinger's letter published six months ago is included.

Politicians of both parties are frightened over rising prices, partly because of effect on people, mainly because of

³Wilson Wright, op. cit., pp. 79-81.

effect on votes. ... Practically everything indicates that prices will continue to rise, that nothing now will stop the further increase of wages in the spring, and that then the prices of most manufactured things will rise some more. The hunt is some time off. It may be delayed for more than a year but now it is made more inevitable by the current political horseplay. ...

Prices will be higher by spring on most department store merchandise with biggest rises in shoes, dresses, coats, and men's suits.⁹

Certainly all the data given in this report were valuable to executives in every business, since it has proved to be accurate. Kiplinger's writers are trained to recognize the causes of the trends and changes in prices.

Personal hopes and optimism should be discarded and cold facts substituted in forecasting future business.

⁹W. W. Kiplinger, The Kiplinger Washington Letter, December 13, 1947, p. 1.

CHAPTER VI

PURCHASING CONSIDERATIONS

A. Types of Purchases and Their Advantages

The old adage that "money makes money" is never truer than when applied to purchasing for an enterprise. An old Spanish proverb suggests that Monday is a bad day for people who have only one shirt. The proverb could be applied to business and read "payday is a bad day for a business with only one shirt." Wholesale houses reasonably expect that after a payday for the retailers a payment will be made to them. Also the business with only one shirt—with no stock in the storeroom—may lose valuable customers by not having what the customer wants at the time the customer wants to buy.

Because of the convenience, it is recognized that women shoppers prefer to do their shopping at one store. A business man may offer loss leaders to attract a shopper in the hopes that she will see other items she wants. It becomes almost necessary for the successful business man to have available all items that he might reasonably be expected to have. To run out of stock is dangerous, and, even though unavoidable at times, it is detrimental to his business.

It is obvious, also, that to over-stock would tie up capital.¹

The purchasing agent should try to keep a sufficient stock moving, and should watch for bargains of quantity purchasing.

¹William R. Bassett, Taking the Guesswork out of Business, p. 67.

The purchasing agent can be a chief factor in the making or the breaking of a business. Some of his duties suggested by William Sprigal, Professor of Industrial Management at Northwestern University School of Commerce, are as follows:

1. Study markets in order to buy wisely.
2. Cultivate sources of supply.
3. Be alert to new products and substitutes.
4. Keep informed about governmental regulations for taxes and certificates that will run the retail price upward.
5. Interview all salesmen and keep contact with sellers.
6. Compare prices and get quotations.
7. Check purchases and approve invoices.
8. Carry out the management's policies regarding purchasing and keep them informed when a change of policy would result in better purchasing.²

Purchasing may be market purchasing—that is, when the market is most favorable, or it may be speculative. In speculative purchasing the risk is that prices will fall.

Another type of purchasing that needs consideration is the so-called hand-to-mouth buying. It is the policy of buying only the stock necessary to meet the current requirements. This method was used during the depression because of the lack of capital as well as the uncertain demand for merchandise. It has the advantages of reducing the risk of falling prices, inventories are reduced and less capital is needed, current market quotations can be used to advantage,

²William R. Sprigal, and Ernest Coulter Davies, Principles of Business Organization, p. 303.

handling and storage costs tend to be lower, design changes and style changes will cause less disturbance, and more frequent contacts with sellers may be an advantage.³

Hand-to-mouth buying has the disadvantages of generally causing poorer service to customers, costing more because of the increased orders and failure to get quantity discounts, and selling costs are higher because of the increased number of sales.

Another argument for hand-to-mouth buying is that this method prevents the expense of excessive and expensive inventories.

Before money is borrowed to buy up a surplus or to speculate on the rise of prices, it is well to figure what the cost will be. A conservative national estimate of cost to business of excessive inventories is \$100,000,000 a year.⁴

Many authors believe that hand-to-mouth buying is here to stay. They reason that if the buyer speculates and wins he will try again. However, as his confidence mounts, the amount he will invest is increased, and sooner or later he will make a mistake and the past profits will be lost.

B. Supply Financing

To supplement his own funds, it may be necessary for a merchant to obtain capital through a loan from a friend, from a bank, or from

³William R. Sprigal, and Ernest Coulter Davies, *op. cit.*, p. 310.

⁴James H. Rand, Assuring Business Profits, p. 93.

other lending organizations. Banks usually require security and this is often difficult to supply. In the case of a single proprietor it might be possible to sell a part of the business to a partner, and thus bring additional money into the firm.

Wholesalers provide a good source of credit. The terms are usually a discount if paid in ten days and the full amount if paid in thirty days. The credit in many instances is extended for as long as ninety days in certain circumstances. The wholesaler will usually have sold his goods, received his money, and likely have made a steady customer by the end of the credit period.

C. Precautions

Interest charges on inventory, depreciation of goods and materials over and above what it should be, and cost of storage space add to the total cost of merchandise.

The principal reasons for business failure given by Dun and Bradstreet are overbuying, insufficient capital, extravagance, and poor judgment. They often all mean poor buying.⁵

The backbone of a grocery store is the staple items that the proprietor sells—bread, milk, vegetables, and canned goods. Shoppers tend to favor certain products, so it is necessary in a retail store to choose carefully the brands to be sold.

One of the most important assets of a business is a clear thinking,

⁵William Bassett, op. cit., p. 61.

fair, and far-sighted purchasing agent.

William Spriegel mentions other risks besides over or under buying.

Risk-bearing is inherent in modern manufacturing and marketing. Anytime goods are produced in anticipation of demand, the undertaking requires some individual or firm to underwrite the possibility of loss. ... Floods, fires, spoilage, and other occurrences may reduce an expected profit to an actual loss. Strikes and even sabotage at the critical season may cause losses. Some of the losses in business may be insured against, but it is seldom that insurance can cover the total losses caused by fires and floods or the loss of business during the rehabilitation of the business. The insurance of business risks is an important aspect of market financing. Many of the risks of business cannot be covered by insurance in any practical manner. It is the expectancy of profits and the reasonable assurance of profits over a period of time that provides the major incentive for businessmen to assume risks.⁶

⁶William Spriegel, and Ernest Coulter Davies, op. cit., p. 345.

CHAPTER VII
ADVERTISING AND OTHER PUBLIC RELATIONS

A. Advertising—Will it Pay?

Many reasons are given for advertising. It may be to secure a greater volume of sales, or it may be to overcome prejudice, educate the public, or to create good-will. Many firms have risen to great heights by this device. Advertising will not pull a poor business out of the "red"; it is not a panacea for ills within the business.

Large expenditures for advertising are often justified by the executive because the competitor advertises. This will usually be wasted effort. Advertising should serve a constructive purpose—such as showing the strong points of the store, the plant, or the machinery, to show that the price is really lower, or to explain and create interest so that the salesman will have a chance to sell the product or service.

Advertising creates new wants. The housewife may not know that with Dreft she will not have to dry the dishes. A demand is created when something new, different, and worthwhile is prepared for market and the prospective consumer can be told about it. To tell the public about the new product, or the new store, or that prices are lower here than at other places, it is often necessary to publicise it and to offer bargain sales as loss leaders to attract shoppers to the store to look around.

Advertising should serve a definite purpose. It should not be designed to flatter an executive, or to trick a reader. It should be simple and concise.

After deciding to advertise, determine the amount to spend, the best way to appeal to the class concerned, and then select the media.¹

The wise proprietor will make an extensive study of the various ways to advertise before a large sum of money is spent. Advertisements should be steady—not just as business is slow or the notion occurs. Determine the best way to appeal to the public, the type of the position desirable in a paper, the appeal that is most effective and a method to test the results. If a businessman finds that advertising gets little results, then the fact should be recognized and the expenditure curtailed or stopped.

Advertising is salesmanship. The purpose of advertising is to extend the business by customer invitations, and to notify the public of the offerings of the firm.²

B. Community Activities Helpful to Business

A businessman's friends and the people that he influences will likely be the first to come to his store or his business place. A business can exist only through contacts between human beings—contacts between the operator and the public. And the confidence that Mr. Public has in the proprietor determines the degree of success a businessman

¹Joseph French Johnson, Organized Business Knowledge, p. 125.

²United States Department of Commerce, Establishing and Operating a Grocery Store, Industrial (Small Business) Series No. 21, p. 180.

can expect.

It behooves a person in business, then, to conduct himself so that each contact he makes will inspire the confidence of his public.

The business man will be asked to lead in a church, to work with boy scouts, to head rallies, plan fund drives, and to work for civic betterment. Each job is a duty—an opportunity to merit the confidence which Mr. and Mrs. Public place in you, and each opportunity will make new contacts. As contacts increase and public confidence in the management grows, so will the business.

C. Goodwill

The morale of a plant or store is very closely connected with the goodwill toward the management. Positive morale influences the productivity of a group and reduces the amount of supervision necessary. The stories that the employees tell concerning the types of foremen and the wages will influence the community.

To promote goodwill within the plant or store, the following pointers have been selected from a much larger list as desirable for managers:

1. Purposes and objectives to be known to the group.
2. Fair treatment of the individual.
3. Recognition where recognition is due.
4. Prompt elimination of rumors.
5. Willingness on the part of management to admit an error.
6. Delegation of authority commensurate with responsibility.
7. Confidence of men to come to management with their problems.
8. Never making issues out of minor infractions.³

³William R. Sprigal, and Ernest Coulter Davies, Principles of Business Organisation, p. 468.

In business as in other fields, ethics and unwritten laws govern the respectable businessman. Many people believe that one "cannot be honest and make a profit." Dishonesty may pay for a short period of time but in the end such a policy will lead to disaster.

Nearly all industries consider secret allowances and inaccurate advertising as unfair practices. The National Recovery Administration, although ruled unconstitutional, developed and brought to light certain codes that have since been voluntarily adopted by most businessmen. Many associations such as the Rotary International, have set up codes of ethics to which members are obligated to subscribe.⁴

For many years there has been a growing criticism of misleading advertisements. Good Housekeeping Magazine now sells a stamp of approval and guarantee for goods that meet the specifications set by that magazine. The Federal Communications Commission controls advertising. The Better Business Bureau has worked to place advertising on a higher plane.

Truth will bring more goodwill and more business than will exaggerated claims--free offers with a "catch" to them, guarantees that are not valid, false "fire" and "going out of business" sales, special sales with prices the same as usual, misleading terms of purchase, or satisfaction guaranteed with other than the customer determining whether he is satisfied.

⁴Bernard A. Shilt, and W. Harmon Wilson, Business Principles and Management, p. 585.

CHAPTER VIII

SUMMARY AND CONCLUSIONS

A. Summary of the Problems

Almost everyone, at some time or other, has the desire to start in business for himself. The desire to be independent is probably the most accepted motive. Other reasons given for attempting a business enterprise are social approval, profits that are necessary if there is to be a business, personal satisfaction, opportunity to render a service, and power and protection in being self-sustaining.

In every paper one reads about new businesses being established, and he recognizes that there is a need for these small enterprises. The time for starting a new business is often overlooked. There is a great advantage in starting an enterprise after a period of falling prices. A careful study of conditions might have encouraged many of these concerns to wait until a more favorable time to start operations.

Business is a great adventure if one has chosen the right enterprise. Certainly the decade after the recent war is made to order for those anxious to strike out on their own. But business is like sports—the ones that win the championships, the ones that go the farthest—are those who like to do the thing involved.

One of the "musts" in business is that it must render a service. "He who serves best, profits most."

After deciding what field one prefers, it is then well to take stock of one's-self and see if he has the friends, the personality, and

the training necessary to succeed. It is generally accepted that the college trained man learns how to use the tools of industry faster and with more vision than does the untrained man. Plenty of examples exist of successful men who have not had a formal education so that an uneducated man should feel no unconquerable fear of a private enterprise.

Enterprises that require large amounts of capital tend to last longer. Perhaps this is due to the more carefully laid plans for the business when big money is involved. Stores which sell luxury goods have a short average life span. Fluctuations in the buying power of the public directly affect the luxury store. The average life of a hardware store is twenty years and the average life of a liquor store is four years.

Capital needed for a business depends, among other things, upon the type of business, the credit policy of the company or firm, the cost of the inventory, and the cost of rent or buildings. Even after these items are cared for it is necessary to have capital enough to run for six months. This is generally a fair trial period and the firm will gain customers or lose the investment by that time.

An enterprising man with a small amount of capital to be invested can often increase the assets by taking a partner. This is a dangerous step unless great care is taken to see that duties are defined, salary and responsibilities settled, and that a mutual admiration exists between the partners.

In formulating the plans for the business, ample consideration

should be given to the credit policy. It is necessary to keep a favorable working capital as this is the life blood of the concern.

An easy way to go into business is to buy an established and operating business. But along with the assets one also buys the ill-will that the business may have incurred and he quite probably is buying an unprofitable business. If the business were profitable, ordinarily friends or relatives would buy it. It pays to inquire at great length into the reasons given for selling a business.

More satisfaction comes from building one's own business to his own specifications. There are no hidden contracts, no ill-will, no dissatisfied customers, no doubtful accounts, nothing but the future of the business.

The success of the business is often determined by the skill used in selecting the location. War towns may become "ghost towns" and the population may shift to get on a route of travel, or move to a more desirable location.

A traffic survey of the chosen location is a good way to save money and avoid heartaches. Actually count the people passing by the location and find out whether they are going to work, to church, to a park or theater, or shopping.

Dead spots exist in towns. Shopping traffic on foot seems reluctant to go by a fire station, a police station, church, postoffice, or filling station to shop. And towns may actually stop expanding past these points.

Non-respectable shopping districts exist and the dirt, smoke, and

noise from railroads and highways discourage buyers.

B. Operation of a Business

Only a part of the problems are solved when the enterprise opens its doors for the first time. The first problem of the new business is the allocation of duties. Each employee should know to whom he is responsible and each responsibility should carry authority to perform the duty.

In a very small business the owner has all the work of management, but as the enterprise grows, work may be delegated. In the case of partnerships the managerial duties should be agreed upon before entering business.

Promotion is the backbone of morale and goodwill among employees. Workers resent outsiders being hired to come in and take the better jobs. In-service training will provide an incentive for workers, guarantee qualified replacements, and insure a continuous production.

Being able to predict the future business of a firm will help prevent losses from overstocking, losses due to perishable foods, and losses due to style and seasonal changes. The basic cycles of business should be understood and knowledge of facts and factors causing business changes would be a distinct asset. Publications, private and public, are available for a nominal fee.

Regardless of what means is used for forecasting in a business, if the venture is to succeed, good judgment and logic should be used instead of hopes and optimism.

Nothing appears more important to a business than a clear-thinking, fair, and far-sighted purchasing agent. Speculation in purchasing is often practiced but is frowned upon by most executives. Stock must be available at all times to avoid loss of sales and loss of good-will.

Hand-to-mouth buying is the favorite practice with many firms. By this method the least amount of capital is tied up in stock, the depreciation of goods is less, storage space and facilities are not necessary, and chances for style changes are lessened. This method requires a much greater degree of stock checking and control, and does not allow for quantity discounts.

Advertising may be to promote sales, overcome prejudice, or to create goodwill. The ad should be considered carefully and some pre-test should be made to determine the best media. After the pre-tests, the media should be selected, the amount of expenditures determined, and machinery set in motion to measure the results to determine the practicability of continuing the project. False advertising will do more harm than good. The confidence that Mr. and Mrs. Public have in a firm will determine to a great degree the success to expect.

As business grows, and contacts are made, the community expects leadership and contributions of time and money to community welfare and betterment.

Morale in a business establishment does not stop at the door. Even rumors will be told to outsiders, helping to mold the opinions and confidence of the public. Careful selection of foremen and fairness in dealing with employees is very important to morale.

C. Conclusions

The shops and stores forced out of business during the war will need to be reopened, and new plants and ideas will originate from war-time experiences. A man with foresight, initiative, and confidence should be able to realize the dream of owning his own business.

The problem of opening a business is cold, hard, and exacting. It should be studied to see if the service is needed, if the proper personal qualifications are present, and if available locations are good or bad. Methods of financing should be determined before the need arises. The business should not be a result of a hit or miss decision.

Business disasters are no more necessary than are cholera or smallpox. To have new businesses succeed at this time does not mean that an old business must fail. It is necessary that a business man be a student of existing conditions and that he must guide his business by statistics and demand rather than hope and optimism.

APPENDIX

TABLE IV

FINAL CHECK LIST OF THINGS TO BE REMEMBERED

A. Points to Check When Deciding on the Location of a Store

Economic factors in the community:

- | | |
|---|------|
| Are the industrial or agricultural conditions good? | .... |
| Is the trend up, down, or stationary? | .... |
| Is the source of the community's wealth well diversified and varied or is it a one-industry community? | .... |
| Are the major industries old and well established, new and growing, or recent and uncertain? | .... |
| Are the industries stable or subject to wide fluctuations? | .... |
| Is the economic outlook for the community promising, uncertain, or poor? | .... |
| Is the population of the community growing, standing still, or declining? | .... |
| Is the wealth and income of the community well distributed? | .... |
| What proportion of the families are wealthy, well-to-do, moderately well off, poor? | .... |
| Are transportation facilities, professional services, banking facilities, schools, and so on good, adequate, or poor? | .... |
| Are the civic associations aggressive, adequate, stagnant, or poor? | .... |

The need for a store:

- | | |
|--|------|
| Have you canvassed the community to determine the number of stores of this type now operating? | .... |
| Have any stores of this type closed recently? Why? | .... |

Are the stores which are in operation busy?

Is the public adequately served by the present stores?

Are people now going out of the community for the products you would sell them?

Is another store needed?

Competition:

Do competitors invite you to enter business because they are not alert and aggressive?

Are competitors old and well established?

Are competitors' stores modern and attractive?

Will competition be strong and active, or weak and sluggish?

Do you have a competitive chance?

Advice from others:

What do the wholesalers think of the prospects for a store in this community?

What do the manufacturers' representatives think of the prospects for a store in this community?

Have you talked to a banker? What does he think about your plan?

Would he think enough of the venture to loan you money?

What do local businessmen in noncompeting lines think of the prospects?

What do the representatives of the companies selling store equipment or fixtures think of the prospects for a grocery store in this community?

Buying a going business:

There are some special considerations when buying a going business.
Why does the owner wish to sell?

Have you checked his claims about the business with copies
of his income-tax returns?

Have you consulted a lawyer to be sure that the title
he gives you is good?

Has your lawyer checked the public records to see if
there is any lien on record against the assets which
you are buying?

Are there any accumulated back taxes to pay?

Is this a bulk sale? Has the bulk sales law been
complied with?

Does the present store have good will to offer or are
there many people in the habit of not trading there?

Is the stock a good buy? How much would have to be
disposed of at a loss? How much is out of date?
Unsalable? Overvalued?

Are the fixtures and equipment the modern type you
would select now? Or would they be unsuitable?
Are they overvalued? In poor condition?

Are you going to buy the accounts receivable? Are
you sure they are good?

Will you assume the liabilities? Are the creditors
willing to have you assume the debts?

B. Points to Check When Starting Your Store

The building and its location:

Is the site good for this type of store?

Are there other similar stores nearby?

Are most of the passers-by potential customers?

Is the section zoned for commercial occupancy?

Is the space adequate for present needs? For
future needs?

Is the space too large?

Are the display windows suitable?	****
Is the front modern and attractive?	****
Is the entrance at grade level? Wide enough?	****
Is there storage space for reserve stock?	****
Is there a rear or side entrance for deliveries?	****
Will any major remodeling or alterations be necessary?	****
Are there enough electric outlets for your purpose?	****
Is there any built-in fixtures or equipment you can use?	****

Rental terms:

Is the term of the lease long enough to protect you? Even if you make major alterations?	****
Are there provisions in the lease for cancellation? For subleasing? For renewal?	****
Does the lease provide for reimbursement for alterations?	****
Is the rent a fixed dollar amount? Or a percentage of sales?	****
Is the amount of the rent in proper proportion to the estimated sales?	****

Equipment and fixtures:

Have you determined your equipment needs? Your fixtures?	****
Have you planned for expansion and future additions and replacements to your equipment? To your fixtures? Can additions be easily and harmoniously made?	****
Have you held your purchase plans to the minimum? Without omitting any essential items?	****
Are your fixtures and equipment in proper proportion to your financial structure?	****
Are you going to pay for the equipment or fixtures on the installment plan? Have you decided the maximum monthly payment you can safely contract to make?	****

If buying fixtures and equipment as a part of the purchase of a going business: Are they a good buy? Is there a lien on them? Are they similar to the modern type you would select? Do you need all of them in your operation? Have you checked to make sure they are in good condition?

Planning your stock:

Have you estimated how much your total stock should be?

Have you broken this estimate down into the major lines to be carried?

Has your stock selection been guided by an analysis of consumer preferences in your community?

Have you set up a model stock assortment to follow in your buying?

Have you worked out any stock control plans to avoid overstocks, under-stocks, out-of-stocks?

Your source of supply:

Have you made arrangements with a wholesaler? For each line of goods?

Have you considered affiliating with a voluntary or cooperative group?

Will you buy any merchandise from manufacturers?

Have you planned to make your account more valuable by concentrating your buying?

Are there any lines of goods which you can get the privilege of handling exclusively? What are the franchise arrangements?

Selecting your help:

What is the method of paying employees in the community?

What is the prevailing wage scale? What do you plan to pay?

Do you want to hire men, women, part-time, experienced, or inexperienced people?

Are satisfactory employees available locally?

Would it be advantageous or disadvantageous to hire someone now employed by a competitor?

What skills are necessary?

Will employees supply skills you lack?

Your accounting records:

Have you planned a bookkeeping system?

What additional records are necessary?

Do you have a cash register? Adding machine? Other recording devices?

Do you need any special forms or records? Can they be bought from stock? Must they be printed?

Are you going to keep the records yourself? Hire a bookkeeper? Have an outsider come in periodically?

Store policies:

Have you decided your service policy?

Are you going to deliver?

Are you going to sell for credit?

Are you going to operate on a self-service basis?

Do most of the other stores in the community offer full services or do they operate on a cash-carry or limited service basis? Is your best opportunity to offer more services, or to make an economy appeal?

Do you have the additional capital necessary to carry accounts receivable or to buy delivery equipment?

What will be your returned-goods policy?

Have you considered store policy in selecting lines?

What lines do competitors carry?

What lines are lacking which customers would buy?

Do you have the capital and space to carry all the lines carried by competitors?

Do you have the capital and space to carry any lines not carried by competitors?

Have you considered the profit possibilities of the various lines?

Do you have the knowledge and experience necessary to handle the various lines?

Have you decided on your price policies?

Are you going to make a price appeal?

What price appeal do competitors use?

Are you going to compete on price, or quality, or on services?

What price ranges would best appeal to most of the people in the community?

Have you decided on your store hours?

What hours do competitors use?

Would you attract trade by opening earlier? Remaining open later? Being open on Sundays or holidays?

Will you have the personnel to be open on these hours or days?

Have you decided on your promotion policy?

Are you going to advertise in the newspaper?

Are you going to rely on display windows to attract trade?

Are you going to do direct-mail advertising?

Are you going to use handbills?

Your financial arrangements:

Have you made an estimate of the capital you will need?

How much will you invest in merchandise inventory?

How much will you invest in equipment?

How much will you invest in fixtures?

How much will you need to pay operating expenses (rent, salaries, supplies, light, etc.) for two months?

How long will it be before the business will start making profits?

Have you funds to pay the operating expenses until the business pays its way?

Have you funds for your own living expenses during the period the business is getting started?

Is there any reserve available for unexpected needs?

Estimate of sales and profits:

What are the sales you can reasonably expect to make the first year?

What is the gross profit you can make on this volume of business?

What expenses can you forecast as being necessary?

Is your own salary included in these expenses?

Is the net profit and salary adequate?

C. Points to Check When Getting Ready for the Opening

Has the stock arrangement been planned?

Have you received the stock ordered?

Has a place for all of it been planned for?

Has stock to feature in the window been selected?

Which goods are going to be given preferred display position in the store?

Are necessary display fixtures on hand?

Have you bought the necessary insurance?

Has fire insurance been purchased? Windstorm? Cyclone?

Has insurance protecting against damage suits and public liability claims been purchased?

Has burglary and holdup insurance been considered?

Has workmen's compensation insurance been provided?

What other hazards should be insured against?

Have you complied with regulations and other legal matters?

Have you checked all legal matters with your lawyer?

Is a license to do business necessary? State? City?

Is a license necessary to handle special commodities?

Have you checked police and health regulations as they apply to your business?

Have you obtained a social security number?

Have you worked out a system for paying the withholding tax for your employees?

Have you worked out a system for handling sales taxes? Excise taxes?

Are the accounting and sales forms ready?

Have you a supply of sales tickets?

Have employees been told how to make out sales tickets?

Do they know how to handle cash sales?

Do they know how to handle charge sales?

Are forms ready for handling returned goods? Cash refunds?

Have you a system for recording sales to the owner? To his family?

Have you made your promotion plans?

Has the opening advertising been prepared?

For the newspapers?

For the handbills?	****
For the direct-mail advertising?	****
Have inducements to customers who come in the first day been planned? Flowers? Merchandise supplies? Free goods?	****
Is there enough merchandise on hand for the first day's business?	****
Have attractive leaders been selected? Are there enough of these leaders on hand?	****
Have you arranged for your store signs? Over the entrance? On the windows?	****
Is your display window dressed?	****
<u>Have the minor details been thought of?</u>	
Have wrapping paper, string, and gummed tape been provided?	****
Have the meter deposits been made?	****
Has the telephone been installed? ¹	****

¹United States Department of Commerce, Establishing and Operating a Grocery Store, pp. 368-375.

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