

**Labor cost** is the cost of work directly applied to a service, such as a mechanic's work. The direct labor costs are derived by multiplying the cost of labor per hour by the number of hours required to complete the job.

**Overhead cost** includes all costs other than direct materials and direct labor. Overhead is the indirect cost of the service. There are many people on a company's payroll who perform support services. These are not charged to direct labor but must be included as a cost. A reasonable amount of the overhead cost must be allocated for the job performed. The overhead rate can be expressed as a percentage or as an hourly rate.

Profit can be figured several ways. One way is to add a percentage to each of the cost factors.

	<u>Material</u>	<u>Labor</u>	<u>Overhead</u>	<u>Total</u>
Cost	\$20.00	\$39.00	\$31.20	\$90.20
<u>x percent</u>	<u>x 15%</u>	<u>x 25%</u>	<u>x 25%</u>	
= profit	\$ 3.00	\$ 9.75	\$ 7.80	\$20.55

Another way is to decide that you wish to make a 20% profit. Then you can simply add up all the costs and add 20%.

It is difficult to say which component of pricing is more important than another. The key to success is to have a well planned strategy and established policies and to constantly monitor prices and operating costs to insure a profit.

It is important to remember that the image of your business is crucial to obtaining and keeping the clientele, and that your pricing structure and policies are a major component of your image.

**Promotion.** Two elements are involved in deciding the impression that a customer will make about a business and its products or services. **Identity** refers to how the customer compares a business to its competition while **image** refers to the emotional or psychological feeling that a customer has about the business product, or service.

Names - - of companies - - as well as their products or services, can be a very important part of a business's identity. For that reason, many companies register their business and/or product/service names. However, it is important to remember that, if the name of a product is a key part of the overall marketing strategy, then it should be registered before the product is fully developed. This helps prevent the competition from capitalizing on the use of the name.

Product names - - sometimes referred to as brand names - - should be strong, easy to pronounce and spell, distinctive, and descriptive. These names provide a method of identifying the specific goods or services of a particular seller. The rights to sell brand names are protected by common law, but it is still a good idea to obtain further protection by registering the name with the Patent and Trademark Office. Keep in mind, however, that the legal registration process is complex. The rules include that a brand name must be used in interstate commerce before it can be protected.

Some brand names become so familiar that they become generic. "Aspirin" was once simply a brand name, as was "nylon" and "cellophane." "Kleenex," which is an invented word, is almost as generic as "Xerox" which has become both a verb and a noun.

Trademarks, like brand names, help make a product or service more noticeable and distinctive in the marketplace. A trademark is defined as "**any word, name, symbol, device or combination thereof, adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others.**" A good trademark, will be easily recognizable for its visual representation of a company or product.

However, the real identity of a company actually stems from the image that it creates with its customers by listening to their wants and needs and then meeting them once they have been identified. Failure to achieve that single goal - - no matter how good the company's proposed image may be - - will leave the business with a negative identity in the eyes of the consumer.

If image is an important factor in a company's marketing strategy, the services of a professional artist, computer graphics specialist, or ad agency to design the packaging, trademark, logo, and various promotional materials will likely yield high dividends.

A business's image - - which will eventually become an integral part of its overall identity - - is reflected in its chosen logo, business signage, employee uniforms, style of promotional materials, and packaging. These things, when tied together, are often referred to as an "image package." The different combinations chosen for this package create an image for the business and make both promotional and packaging materials more easily recognizable. In today's increasingly competitive world, it is important to be recognized, remembered, and viewed as an established business.

A **logo** is a symbol that represents the business. It provides a quick way of getting people to notice and remember a business. In choosing a logo, it is important to make sure that the design is appropriate to the business and that the artwork is timely. Most printers have a book of current, standard logos on file. For more specialized designs, consider hiring a professional artist, working with a high school or college student, or working with a computer graphics specialist. But keep in mind, if a logo design is original, it might be advisable to consider registering it with the Copyright Office or the Patent and Trademark Office in D.C.

**Logotype** refers to the type style used in the writing of the business name. The type size, placement, and style can communicate a great deal about a company. For example, a capitalized bold typeface projects the image of an aggressive company with a foothold in the marketplace. It will likely inspire confidence. Modern, bold type will project a high-tech image of efficiency. Antique lettering will project an old-fashioned, more casual feeling, etc.

Adopting **company colors** is yet another way of influencing graphic identity. The colors chosen can set the tone of marketing materials. The use of color in marketing can be powerful; however, be certain that the colors chosen reflect the image the company wants to project.

**Signs** are yet another way of promoting a graphic identity. They should include the company logo, logotype, and colors. Because signs are a written invitation to the public, they should be colorful, easily recognizable, and easy to remember. McDonald's "golden arches," for an example, began as a part of the building design. Later they became giant neon signs. Today, they form the big "M" that appears on all McDonald's products. The "sign of the golden arches" has changed over the years, but it remains the symbol of the McDonald's legend.

**Promotional materials** should also reflect the company's image. Since a business's identity is most often based upon its paper correspondence, materials such as stationery, business cards, and envelopes are second only to annual sales in a list of items that convey a company's image.

**Price Lining** refers to a marketing strategy based on price. This strategy targets a specific segment of the buying public by carrying products only in a specific price range. For example, a store may wish to attract customers willing to pay over \$50 for a purse. Price lining has many advantages; among them:

- 1) Reduced errors by sales personnel;
- 2) Ease of selection for customers;
- 3) Reduced inventory by limiting the number of items in a category;
- 4) Reduced storage costs for smaller inventory;
- 5) Ease of merchandise selection; and
- 6) Targeted merchandise to clientele.

A disadvantage is that by focusing too much on price, the store may overlook issues of quality or consumer buying trends. It also limits the ability of the business to meet competitor's prices.

**Multiple pricing** is the practice of promoting a number of units for a single price. For example, 2 for \$1.98. This is useful primarily in low cost, consumable products like shampoo, toothpaste, etc. Many stores will find a desirable pricing strategy for sales and year end clearances.

Services can be more difficult to price because costs may be harder to estimate or the competition may not be as easy to compare. Every service has different costs. Many small service businesses fail to analyze the costs involved in each service and therefore fail to price the services profitably. Some businesses make a profit on certain services and lose money on others, not knowing which is which. By analyzing the costs associated with each service, prices can be set to maximize profits and eliminate unprofitable services.

The total cost of producing any service is composed of three parts, which are:

- 1) Materials;
- 2) Labor; and
- 3) Overhead.

**Materials cost** is the cost of materials used directly in the final product, such as sparkplugs and gaskets in the repair of an engine. A cost list should always be used in preparing a bid or quoting a job. If there is shipping, handling, or storage costs for materials, they must be included in the total material costs that are charged.

that of larger stores, since they can buy in larger volumes making their cost per unit much less. Also look at nonprice issues. For example, compare the services offered by the competition. Customers often desire service and will pay more for merchandise to obtain it.

Some businesses are successful using a pricing structure that is below the competition. Since this pricing strategy reduces the profit margin per sale, a firm needs to increase its sales and reduce costs by:

- 1) Obtaining the best prices possible for merchandise;
- 2) Locating the business in an inexpensive location;
- 3) Closely controlling inventory;
- 4) Limiting inventory items to fast moving merchandise;
- 5) Designing advertising to concentrate on "price specials";
- 6) Offer no or limited services.

Below competition pricing is a difficult pricing policy to carry out and maintain. Many small firms have failed using this strategy. It is difficult because every cost component must constantly be monitored and consistently adjusted. It also exposes firms to pricing wars with competitors who can retaliate by matching the price cutter; leaving both parties worse off in the end.

Pricing above the competition is possible when nonprice considerations are important enough to customers to justify higher prices. These include things like:

- 1) Service considerations like delivery, speed of service, satisfaction in handling customer complaints; knowledge of product or service, and attitude and behavior of staff;
- 2) Convenience or exclusivity of location; and
- 3) Exclusive merchandise; lines of well known or high quality brand names that are not available elsewhere.

**Markdowns** are a necessary part of doing business because inventory levels may become too high as a result of:

- 1) Overbuying,
- 2) Seasonal merchandise,
- 3) Shopworn merchandise,
- 4) Misjudged customer responses,
- 5) Poor personal selling;
- 6) Lack of promotion and advertising; and
- 7) Competition lowering of prices for the same merchandise.

From the day business opens its doors, there are certain materials that are absolutely essential to properly represent a company's image. They are:

- **Business Cards.** The common business card is the most universally used business tool in the world. Not only does it give a business credibility, it also serves as a visual reminder of the business and its products or services. A business card is like a mini-billboard. It should tell:

- 1) **What** the business is;
- 2) **Who** to contact;
- 3) **When** the products and services are available;
- 4) **Where** the business is located;
- 5) **Why** they need that product or service; and
- 6) **How** to get the products or services.

In developing a business card:

- 1) The logo must be descriptive;
- 2) The business name must be legible and in the correct logotype;
- 3) A contact person's name and phone number must be given;
- 4) State the product/service offered (if it's not obvious);
- 5) The overall appearance of the card must be pleasing; and
- 6) The card should be one the customer will remember.

- **Stationery.** Most companies generate sufficient correspondence to warrant the development of company stationery. Stationery, like business cards, lends credibility to a company's image. Stationery should include the company name, address, telephone and fax numbers (except on the envelope), and if desired, the owner's name and title.

Other invaluable promotional materials are listed below in the order of importance ranked by a survey of 1,500 small businesses throughout the country:

- Signage (building, window, and/or vehicle);
- Mailing Labels (for materials other than company stationery);
- Brochures/Flyers;
- Business Forms (invoices, statements, POs, checks, etc.);
- Give Aways (promotional items like pens/pencils, cups, etc.);
- Presentation Materials (folders, binders, name badges, etc.);
- Displays.

## Why Do I Need To Know My Customer?

Customers are not the frosting on the cake. **They are the cake!** The frosting is an improved business reputation and higher profits for your business because you have done a quality job in customer service. Treat your customers well and you will be in business for many years. Treat them poorly and eventually they will run you out of business. The choice is ultimately yours, but chances are you are not going into business to lose money; so deal with this fact or give up your dream here and now!

Two primary dimensions make up quality customer service:

- 1) The **procedural side**, which consists of the established systems and procedures to deliver products or services and
- 2) The **personal side**, which consists of how service personnel - - using attitude, behavior, and verbal skill - - interact with customers.

Quality customer service requires business to take four primary steps:

*Step 1: **Transmit a Positive Attitude to Others.*** This begins with the appearance that you make when a customer first meets you. The old adage is true: "You never get a second chance to make a first impression." Make the wrong impression and there won't even be a second chance.

The following may affect the appearance you present to customers:

- 1) Dress: Including "how" you look and "what" image you project.

*Women generally will project a stronger, more powerful image if they wear a suit which consists of a jacket and skirt or jacket, blouse, and skirt; rather than a pant set, dress, or skirt and blouse. They project a more laid-back, casual image when they wear pants and a blouse or a dress. Additionally, women are expected to have a much broader wardrobe base than men. Men can get by with only four or five major wardrobe changes. In rural areas, men can just as easily project a strong, powerful image with a sports coat, slacks, and tie as with a suit and tie. A much more casual*

by government regulation. If a business advertises fantastic discounts, the customer's savings must be real. "Rain checks" must be offered for specially priced items that quickly sell out. Promotional pricing is also important when introducing a new product or service. However, remember that it is easier to lower a price than raise it. Selling below the competition may initially improve sales volume, but could cost a lot of customers when prices are raised after the promotional period ends.

Price changes can respond to shifts in the market, cost increases, or the need for more profit. However, it is important to anticipate the impact of a price change before it is made.

- *How will the sales force react?*
- *Will the change have a noticeable effect on competition?*
- *How will it affect distributors or dealers?*
- *Will suppliers charge more if prices are increased?*
- *Are there special government regulations to be considered?*
- *How will customers react to a price change?*

Ultimately there is no one magic formula for establishing a pricing structure. A lot of things have to be taken into consideration. However, here are some key points to keep in mind:

**Markup on cost** is accomplished by adding some percentage of cost to the cost of goods. Markup must cover all operating expenses such as wages, rent, advertising, etc., plus provide some margin of profit.

A business might choose to use a standard mark up percentage on all products, or it may have various markups for different goods. A problem with the standard markup is that it doesn't recognize cost differences in selling different products. If a product A costs far more to advertise or sell than product B, a standard markup percentage may produce a loss on one product and a greater than average profit on the other.

**Suggested retail price**, as provided by the manufacturer, is a common pricing practice among small businesses. This allows the business to avoid the decision making process and the trouble or monitoring the competition. The suggested retail price is easy to use, but can also cause some problems. It may create an undesirable price image, and it doesn't consider the competition.

**Competitive Pricing** refers to a strategy in which a firm bases its prices on those of its competitors. This pricing strategy requires that small businesses compare their prices with similar stores; not with

To be truly successful, business must price their products and services in such a way as to:

- 1) Allow a profit margin for the business,
- 2) Be competitive with other businesses, and
- 3) Suit the customer's budget.

Pricing can either make or break a business. If the price is wrong, it won't matter that everything else is right. But how does one go about deciding upon a price?

There are two important factors to keep in mind when establishing a pricing structure. The first is the **price ceiling**, which represents the price that the market determines the product or service will successfully sell for. This identifies the top price customers will typically pay for particular goods or services. Market research and competitive analysis should be used to determine pricing trends and strategies of similar businesses. The second is **price floor**; which represents all of the costs associated with running the business. This is the price below which business cannot sell the product and still make the necessary profit. Successful businesses traditionally operate somewhere between the price ceiling and the price floor; allowing a margin for returns, damage, sales, and discounts.

There are psychological factors involved in pricing. Retailers use "odd number" pricing (\$499 rather than \$500) because the difference between the prices is perceived as being greater than one dollar. Psychologists even suggest that every number has psychological qualities that affect price perception. For example, the number 8 is round and symmetrical; soothing and calm, while the number 7 is angular and calls attention to itself. Consequently, in psychological terms, 8.8% financing may be more appealing than 7.7%.

Perceived value is yet another pricing factor. With manufactured goods, perceived value might be measured in terms of greater durability or longer warranty. Perceived value can easily be enhanced by packaging, advertising, and promotion. Determining perceived value will almost certainly require the use of market research.

Price can also play a major role in product or service promotion. Discounts and rebates can help increase sales volume. There are even instances where a rise in price has actually increased market share. But keep in mind that promotional pricing is somewhat limited

*image is projected when they wear just a dress shirt, tie, and slacks. Color also comes into play with regard to dress. Power colors for women are charcoal gray, blue (from royal to navy), black, purple, (from royal to deep), and red. Power colors for men are charcoal gray, blue black, and brown. Bright colors worn either by men or women tend to make people nervous, uncertain or put off. Pastel colors, while putting people more at ease, also tend to be extremely laidback; which may make the sale harder to make. Other things like beards, mustaches, makeup, haircuts, etc. and accessories like sunglasses, jewelry, ties, etc. can have a major impact in the area of dress; as can nose hair, ear hair, body odor, too much cologne or after shave, circles under the eyes, bad breath, etc.*

2) Visual/Stance Cues: Including "what" the other person sees when (s)he looks at you as a whole and body language.

*Crossing arms stiffly over the chest indicates a "closed" stance; with no room for another person or object. Arms held out in a slightly curved position indicates strong boundaries with a defined opening that says "come in." Leg stance, open or closed, tends to indicate much the same thing. If legs are open and arms are closed, that indicates incongruity. People are not likely to buy from someone who projects that kind of uncertain image.*

3) Eye Contact: Whether or not you look at the person you are talking to.

*Looking at somebody when they are talking says you are interested. Looking at somebody you are talking indicates you believe in what you are saying and in yourself. Looking away when someone else is talking indicates distraction. Looking down or away when you are talking to someone indicates that you don't believe in what you are saying, don't believe in yourself, or that you are lying.*

4) Handshake: The contact you make with another.

*A limp or brusque handshake indicates disinterest. A crushing handshake indicates an intent to over power. A wet handshake indicates nervousness, uncertainty of what you're about to say. A firm handshake indicates confidence.*

You can also send a positive attitude through the sound of your voice. The tone of your voice, or how you say something is often more important than the words you actually use. If you speak too loudly, you will appear pushy. Speaking too softly indicate timidity and lack of believe in what you are saying or in yourself. Speaking too slowly insults the individual you are talking with by indicating that they are slow or stupid. Speaking too quickly indicates that you are unsure of what you are saying.

The skill with which you use the telephone is also important because:

- 1) You have only your voice to rely on. Body language, written messages, and visual aids are not available.
- 2) When you are on the phone with a customer you are the single representative of your company. In other words, you ARE your business.

Finally, you can send a positive attitude by staying energized. Customer service requires the exertion of emotional labor. Emotional labor takes its toll on your energy level just like physical labor. It makes you tired. Therefore, it is important that you counteract that by doing something that helps you reenergize you.

**Step 2: Identify the Needs of Your Customers.** It is important to understand the timing requirements of your customers in order to deliver quality customer service. Customers, who are in a hurry because they are on a time schedule, resent it when you move slowly, respond at your leisure, or spend your time talking on the phone instead of waiting on them. Attentiveness is the skill of understanding what your customers may need and want. It goes beyond timeliness and anticipation because it requires you to "tune-in" to the human needs of those you serve.

Just like you, customers have basic needs. They need:

- 1) **To be understood.** Those who select your service need to feel that they are communicating effectively. This means the messages they send should be interpreted correctly. Emotions or language barriers can get in the way of proper understanding.
- 2) **To feel welcome.** Anyone doing business with you who feels like an outsider will not return. People need to feel you are happy to see them and that their business is important to you.
- 3) **To feel important.** Ego and self-esteem are powerful human needs. We all like to feel important. Anything you do to make a guest feel special is a step in the right direction.
- 4) **To be comfortable.** Customers need physical comfort; a place to wait, rest, talk, or do business. They also need psychological comfort; the assurance they will be taken care of properly, and the confidence you will meet their needs.

Ultimately, before beginning any kind of marketing strategy - - including formal market planning - - it is imperative that you find out as much about your potential market (or customer) as possible. But also remember that **marketing is a dynamic process**. Customers move, life-styles change, incomes vary. To work effectively, market research cannot be used simply as a one time shot that you use to put together a marketing plan; refer to it for awhile; and then forget all about it. For your business to be successful, it must **continue to do market planning throughout the life of the business**.

**Product.** To effectively market a product or service, you must begin by determining what makes it unique. This can be achieved by answering several questions:

- *Is the product or service offered by anyone else?*
- *Does the product or service satisfy an "unfulfilled" need?*
- *Will the product or service create a trend?*
- *Is it environmentally sensitive (e.g., a gas station)?*
- *Does it play to the customers' sense of value?*
- *Does the product or service occupy a special niche?*
- *Is a moral issue involved?*
- *Is it patentable?*
- *Is the marketing technique used to promote differently?*
- *Is customer service different?*
- *Does it use my special talents?*

Once these questions are answered, you will have a clearer picture of what the product or service's key marketing points are.

**Pricing** The primary goal of business is to make profit. There are many factors that affect the profitability of a business such as:

- 1) Management,
- 2) Location,
- 3) Cost of labor,
- 4) Quality or product or service,
- 5) Market demand, and
- 6) Competition.

But market demand controls response to your product or service, therefore, making pricing a marketing decision. Pricing combines the market research completed in "probing" with financial analysis to help you understand the market for your product or service, the channels of distribution, and the competition.

- **Geographic location.** Find out where your customers shop; where they live or work. If they shop where they work, it won't do you any good to provide the product or service in the location where they live.

While traditional demographics will help you determine "where" your customers are and "how" they buy, they will not tell you "why" they buy what they buy. This is where psychographics comes in. Psychographics give you a psychological profile of your customer so that you can determine "why" people will buy certain products over others. It analyzes:

1) **Life-style.** This relates to a customer's activities, interests, and opinions which may reflect on how they spend their leisure time. This, in turn, may influence their buying patterns.

2) **Behavior.** Degree of community involvement, political activity, etc. reflects a customer's values while their degree of cautiousness, skepticism, or ambition may reflect on their buying patterns.

3) **Self-concept.** This reflects both how the customer sees himself and how he wants to be seen. Self-concept may influence a customer's buying patterns. For example, if he sees himself, and wants others to see him as a success, he may feel the need to buy a Mercedes Benz when a Pontiac might do just as well.

4) **Buying style.** It is important to find out how often customers purchase and the reason for buying. New products are often purchased by individuals whose buying style is adventuresome and open.

Psychographic information is particularly valuable in helping to select advertising media and in designing advertisements because it can help identify the buying behavior of potential consumers. For example, if a person is ambitious, (s)he will tend to buy "status-support" products. If the person enjoys social activities, (s)he will be good customers for liquor, wine glasses, and cookery items. If the person is a loner, (s)he will gravitate toward private entertainment forms like personal computers, model building, and the like.

Large companies and independent researchers have done a lot of research into both demographic and psychographic information. University libraries are good sources for researching their information. Trade associations and related business organizations can also provide relevant demographic and psychographic data. Lastly, magazine "media kits" often provide this kind of information.

Skill listening is also an important part of this step. Five ways to be a better listener include:

- 1) Stop talking;
- 2) Avoid distractions;
- 3) Concentrate on what the other person is saying;
- 4) Look for the "real" meaning; and
- 5) Provide feedback to the sender.

The final way of identifying customer needs is to obtain customer feedback. Ask customers what they want; what they think; how they feel; if they have suggestions; etc. All of us like to be asked for our opinion. It is a powerful marketing tool.

Step 3: Provide for the Needs of Those Doing Business with You. You have gained all the information you need to accomplish this in the steps above. Now put it all into action. And don't forget the backup duties that make everything else possible. These generally includes things like stocking, filing, answering the phone, cleaning up, etc. Finally, don't forget to prepare for the unexpected. Everything doesn't always go the way it should. Have backup plans in effect for every possible contingency.

Step 4: Obtain Return Business. In order to accomplish this step, it is important to understand the reasons that customers do not return. Statistics indicate the following break-out:

- 1% of lost customer die;
- 3% move away;
- 4% just naturally float from place to place;
- 5% change on a friend's recommendation;
- 9% can buy it cheaper somewhere else;
- 10% are chronic complainers; but
- 68% go elsewhere because the people they dealt with were indifferent to their needs.

An important part of obtaining return business is dependability. If you claim a product or service does a certain thing, make sure you back up that claim. Lying to customers is a sure fire way to send them packing; and they will take a lot of other customers with them through word-of-mouth.

**Fixed Expenses.** Regardless of sales, fixed expenses stay the same. Several examples of fixed expenses are:

- Rent,
- Insurance,
- Wages, and
- Equipment depreciation, etc.

**Variable Expenses.** This type of expense varies with sales. In some service businesses, the cost of labor is the biggest factor. Examples of variable expenses are:

- Sales commissions,
- Advertising,
- Maintenance/Repairs, and
- Delivery expenses, etc.

Your expected service income contribution is the difference between sales and the variable expenses that are necessary to produce these sales. When this difference equals fixed expenses and the desired profit, you have a workable budget.

The year-end profit is too low if it does not also include a return on the owner's investment. That investment includes the money you put into the firm when you started it and the profit of prior years which you left in the firm as retained earnings. You should check to be sure that the rate of return on your investment is what it should be. Your trade association should be able to provide guidelines about the rate of return on investment in your line of business. Your accountant and banker are also sources of help.

After you know what you made last year, you can set a profit goal for next year. Be sure that your goal includes a return on your services and a return on your investment. Your goals should also include an amount for state and federal taxes. For example, if you want to make \$10,000 after taxes, your goal before taxes should be around \$13,333. You have to add this \$3,333 to take care of state and federal taxes. Keep in mind that the larger your goal, the larger the amount which you have to be added to account for taxes. Your accountant can help you determine that amount.

Once you have decided on your profit target, the next step in preparing a budget is to determine whether you can achieve it. To do this, you must project your fixed costs and your variable costs. From these three figures - - profit, fixed expenses, and variable expenses - - you can determine your hoped for total income.

In gathering figures, keep in mind that without accurate information planning becomes guessing. The owner who has never budgeted should talk with an accountant about a recordkeeping system. Changes may be needed to provide the necessary budget information. It may be that your present system does not break costs down into fixed and variable expenses, or it may be that you need to have a profit and loss statement at more frequent intervals to determine the seasonal fluctuations of your revenue and expenses.

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## How Do I Budget For My Business?

A budget is a plan that enables you to set a goal and list the steps which are necessary to reach that goal. Thus, a budget helps you think about what you want your business to do in the future. By planning, you are in a better position to act to prevent crisis.

In its simplest form, a budget is a detailed plan of future receipts and expenditures; a projected profit and loss statement. Thus once the period for which you have budgeted is completed, you can compare actual results with anticipated goals. If some of your expenses, for example, are higher than you expected, you can start looking for ways to cut them. Conversely, if you have fallen short of your goal, you may want to look for ways to increase your income.

Budget makers can start either with a forecast of sales and work down or with a forecast of profits and work up. Most small businesses use the latter method. In other words, you decide what profit you want to make and then list the expenses that you will occur in order to make that predetermined profit.

Before you can use a budget as a plan for increased profit, you have to be sure that your present profit is what it should be. In a service business, the year-end profit should be large enough to make a return on your investment and a return on your own work - - pay you a salary.

Skilled crafts people who own service businesses are kidding themselves if their firms' profits are less than they can earn working for someone else. Your net profit after taxes should be at least as much as you can earn if you worked at your trade for a weekly pay check.



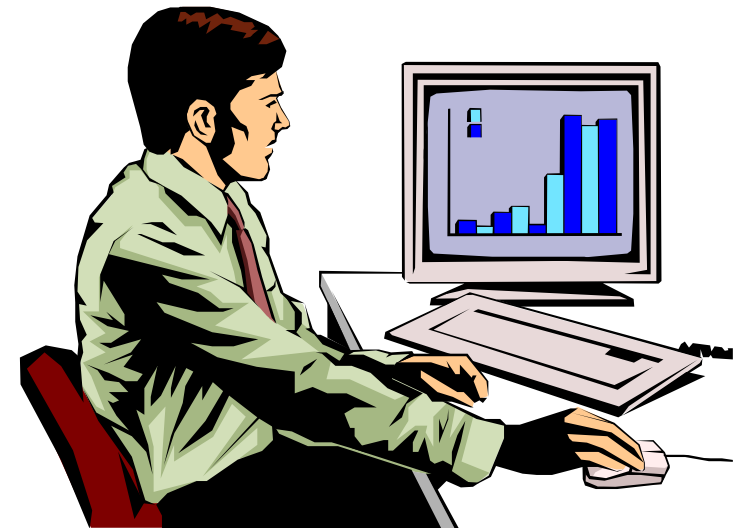
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# **BUSINESS BASICS:**

## *Small Business Budgeting*



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