

Study Unit

# **Your Motorcycle Repair Business**

# Preview

In this study unit, you'll learn the basics of how to start and operate a motorcycle repair business. There may be some obstacles on your way to becoming a profitable company, but with time and patience your dream can become a reality. Starting any business requires the willingness to make some sacrifices in order to accommodate your customers and your employees.

First, we'll look at some of the many opportunities that exist in the motorcycle repair field. Then, we'll examine small business structure and the different types of motorcycle repair businesses that you may want to develop. Then, we'll look at some of the most important issues that face the small business owner, including business management, financial considerations, hiring employees, record keeping, and maintaining an inventory of parts and supplies.

When you complete this study unit, you'll be able to

- List some of the business opportunities that exist in the motorcycle repair industry
- Describe the three basic types of business structure
- Prepare a business plan for your new motorcycle repair business
- Determine how much money you'll need to start your own business
- Prepare a loan proposal
- Explain how accountants, attorneys, and loan officers can help you with your new business
- List and describe the most important aspects of business management
- Explain the difference between a subcontractor and an employee
- Describe the basic procedures that are used to hire employees
- List and explain the purpose of various business records and financial statements
- Name several methods you can use to advertise your business

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# Your Motorcycle Repair Business

## INTRODUCTION

### The First Steps

Remember the satisfaction you felt when you completed your first real repair job? You said to yourself, “Wow, this bike is really running well—I did a great job.” The look of approval on your customer’s face was truly rewarding. Your confidence, skills, and knowledge are growing as you complete each job, and your work keeps getting better (Figure 1). Now, maybe you’re thinking about taking your new career one step further by opening your own business.

**FIGURE 1—Your confidence, skills, and knowledge are growing as you complete each repair job and your work keeps getting better. Maybe now you’re thinking of starting your own business.**



At some point in everyone’s career, the question, “Should I start my own business?” inevitably arises. Some motorcycle repair technicians derive sufficient career satisfaction by working for someone else. They have no desire to take on the risk of business ownership, with its added administrative demands and financial concerns. The status and independence that come from operating one’s own business just aren’t tempting enough to pull them in that direction.

However, there are many motorcycle repair technicians who like the idea of banking the profits from their own business instead of receiving a fixed hourly wage. If you’re one of those professionals, read on! The information that you need to open your own business is now at your fingertips. Even if you’re not interested in opening your own business right now, the information in this study unit can help you further your career in someone else’s business.

To be successful, you don't necessarily have to begin your business in a commercial space. Some of the biggest businesses originated in private homes. You can operate a business on a part-time or full-time basis right from your own home. If you choose to make your debut in business this way, your first customers may be friends, relatives, and neighbors. If you provide good service, your business will grow through word-of-mouth referrals. You may even choose to advertise by distributing flyers at local businesses, schools, and churches (always obtain permission from the proper authorities beforehand) or by placing ads in the classified section of your local newspaper. As your number of clients grows, you can expand as you desire.

Of course, you may want to immediately start out in a commercial space. Many people have successfully done so. However, there are some serious issues that you must explore before actually taking the plunge. This study unit is here to help you examine some of the key issues involved in opening and operating a small motorcycle repair business.

## Analyzing Yourself

Starting your own business will make tremendous demands on you as an individual. If you have a family and all the responsibilities that go along with a family, are you ready to take on the added responsibility of a new business as well? To help you make this decision, begin by asking yourself the following questions:

- Do I have the physical stamina and emotional strength to give sufficient time to both my family and the new business if I operate the business alone?
- Can I temporarily lower my standard of living until my business is firmly established?
- Is my family prepared to withstand the emotional and financial strains of getting the business started?
- Am I (and my family) prepared to risk my savings?

If you can answer "yes" to these questions, then let's move on to examine some questions that relate to all new business owners—family or not. Take some time to consider the following questions.

***Am I willing to work hard?*** You must be the kind of person who's willing to work long hours—12 to 16 hours a day, six or seven days a week—and be happy doing it. The first few years of business ownership are often very trying. In addition, you'll have no clear idea of how much profit you'll actually make until after you've already devoted much of your time and money to the business.

***Do I have experience and expertise?*** Although this program provided you with initial training in motorcycle repair, it's advisable to gain some additional hands-on repair practice before actually opening a business. You may want to consider working for another motorcycle repair business for a while to gain further experience before striking out on your own. Expertise and experience are two of the most important elements in a successful business formula. When you open a motorcycle repair business, the only thing that should be new to you is the "business end" of that business, not the "repair end."

***Do I have supervisory or management experience?*** Running your own business may eventually require the services of one or more employees. Are you able to supervise the work of others? Can you draw up a work schedule? Do you know how to deal with employees in a fair, equitable way? All of these skills are needed to run a successful business.

***Do I have business training? Am I willing to get it?*** If you've taken any business courses or formal business training in a school, then you already have some idea of record-keeping, management, and accounting procedures. Or, you may have acquired experience in running a business by working for someone else. Don't underestimate the importance of this ability. If you don't have a business background, you might consider taking a small business management course or seminar at a local community college or through Education Direct. The Small Business Administration (SBA) also offers courses through its Small Business Institute and Small Business Development Centers, often in conjunction with community colleges. These courses are available in most areas, not just large cities. The SBA also provides more than 100 publications—at nominal prices—for small business owners. To obtain a free copy of "Management Assistance Publications" (SBA 115-A), which lists the available SBA publications, contact your nearest SBA office. Look in the telephone book under "U. S. Government," or write to the following address:

SBA Publications  
P.O. Box 30  
Denver, CO 80201-0030

Another way to help with business training is to use the services of a business advisor, such as a financial consultant or an accountant. Again, the SBA can help in this area. It sponsors the *Service Corps of Retired Executives (SCORE)*, a group of former business executives who can answer specific questions about starting your business. Each SCORE client is matched with a business retiree who has expertise or knowledge in specific areas. Your district SBA office can give you the address and telephone number of the nearest SCORE office. All services provided by SCORE are free of charge. All SCORE advisors are volunteers and receive no pay for their services.

Finally, you may prefer to team up with a businessperson who has the training you lack and open your business as a partnership. The choice is up to you!

## Types of Motorcycle Repair Businesses

There are many types and sizes of motorcycle repair businesses. The size of a business and the types of services it provides will depend on many factors. Two of these factors are the population of your local area and the demographics of the area. The *demographics* of a particular area are the statistical traits (age, income, occupation, and so on) of the people who live in the area that are used to identify potential customers. Other variables that will influence the size and structure of a business are the qualifications and interests of the business owner, the financial condition of the business owner, the amount of competition from similar businesses in the area, and the level of customer satisfaction with current service providers. Since so many variables can affect the success of a new business, each business opportunity must be evaluated for its own particular circumstances.

Generally, all businesses can be divided into two basic categories—service businesses and retail businesses. *Service businesses* sell only a service, while *retail businesses* sell merchandise. A motorcycle repair business can be a combination of these two types, providing both services and merchandise.

Another important aspect of a small business is the number of employees it has. Some motorcycle repair businesses have only one owner/employee, while others are full-service operations with a full-time staff of technicians, sales people and clerks, and office staff. As the number of employees increases, the management of the business will become more complex. Some personnel management issues will be discussed in the last section of this study unit.

A motorcycle repair facility may be a simple shop located in someone's garage or basement, or a large building that's designed specifically for repairing motorcycles and ATVs. Buildings that were originally designed for other purposes (such as barns, gas stations, or auto repair shops) can also be suitable for a motorcycle repair business. Again, the facility that a business requires will tend to become more complex as a business grows. We'll discuss this topic in greater detail later in the study unit.

There's no single correct answer to the question of how large a motorcycle repair business should be. The size of a small business depends entirely on the owner's goals and objectives. A person who wants to do motorcycle repair to earn a little extra income may be content to run the business out of a home garage and simply advertise by word of mouth. In contrast, a person who wants to earn a living at motorcycle repair and build up a large business that could eventually be inherited by family members will want to continually expand and capture the majority of the customers in the area. Each person's situation needs to be reviewed individually.

Perhaps one of the easiest forms of motorcycle repair business to open is the home-based repair shop. If you have some motorcycle repair training or experience, the basic tools and supplies to perform maintenance and repair tasks, and a small area like a garage or basement to work in, you have most of what's needed to get started. Some people open home-based businesses to earn extra income while they hold other jobs, and others open businesses to earn retirement income. Some people open businesses with the hope of turning motorcycle repair into a primary career.

Some of the advantages of running a home-based motorcycle repair shop are that these businesses

- Require a relatively low initial investment. You won't have to pay the mortgage payments, construction costs, or rental fees that you would if you were running your business out of another facility.
- Allow the convenience of working at home. By living where you work, you'll have an easier time being available when your customers need you. You can save the costs of commuting, eating out, and child daycare. Also, you can continue to keep up with personal work at home when business is slow or between jobs.
- Allow certain income tax advantages. Depending on where you live and the current tax laws, you may be able to deduct certain expenses incurred around your home as business expenses.

Running this type of business has disadvantages as well. Many of them are difficult to assign a specific dollar value to, but you and your family must consider them carefully from a personal standpoint. These disadvantages include

- Less privacy, and difficulty in getting away from work. Because your business is your home, you may have customers there when you would prefer not to, such as a Sunday afternoon.

- A particular need for adequate business coverage. If you're running your business from a home garage, for example, what would happen if a fire started in your work area and burned your house down? Will your business insurance cover the loss of personal property? Do you even have business insurance? What happens if a customer gets hurt on your property and sues you? Can the customer go after your personal assets as well as business assets? These are all very important questions that must be answered before you start a business at home.
- The hidden costs of running a business at home. One of the advantages of the home-based business that we discussed is the low start-up cost. However, you'll need to beware of hidden expenses. For example, if you've paid off the mortgage on your house, you may think that your facility is paid for. However, if your insurance agent raises your homeowner's insurance premium because you're running a business out of your garage, isn't that a business expense? Other examples of hidden costs include electricity that registers on the home's meter, the cost of heating the business facility, telephone bills, and property taxes.
- Distractions at home. Let's face it—a home has many distractions that will take your attention away from work. Ringing phones, small children that need attention, and things that need to be done around the house can pull you away from a customer's work and therefore reduce your efficiency. Worse, these distractions could cause you to overlook or forget something important while you're working on a customer's motorcycle.

## Choosing a Location

The choice of location for your business will depend largely on the type of operation you pursue. Many motorcycle repair technicians start out in workshops in their home garages. As the work load and the number of customers expand to the point where more technicians and office assistants are needed, they move to workshops that are separate from their homes.

A strong advantage of the motorcycle repair business is that you don't need a fancy shop or a lot of expensive equipment to be efficient and to present a professional image. However, the location of your business will be critical to its success. Many businesses rely on customer traffic for daily business. You can get some business through word-of-mouth, but it's always good to have a lot of customers drive by and walk through your facility. This means that if your business is located on a well-traveled road and is highly visible, you'll be able to interest more customers in your services. You can obtain traffic counts from your local highway department that indicate what the most traveled roads in your area are.

Good business locations cost money. It may be low-cost to start a home-based repair shop, but if you live in a remote area and your customers can't find you, you may not get enough business to survive. On the other hand, a prime business lot in the center of town may be too expensive when you're just starting out. The trick is to find an appropriate middle ground.

Don't overlook how important customer flow is to your business. Studies have shown that two-thirds of customers make their final purchase decisions when they're in a store, rather than at home. Thus, most customers haven't made up their minds about exactly what they're going to purchase until they're in the shop that sells what they need. You need to have these customers in your establishment (not your competitors') when they make those purchase decisions! A good location can help you achieve this goal.

It's possible to either lease (rent) or purchase a business location. An advantage of leasing is that your money won't be tied up in a long-term mortgage. If you do lease, however, be sure to read the lease agreement carefully, and check with your attorney if there are any "fuzzy" clauses in it. There may be limitations in the lease, or it may state that you may not make any modifications to the property. Your attorney can explain any such provisions in the lease.

On the other hand, depending on your individual circumstances, you may find that purchasing a business location is less expensive in the long term. Rent money, once paid, is gone, but mortgage payments result in a buildup of equity. Also, you may want a location that will be suitable when you're ready to expand your business. One possibility may be to purchase a building for a good price and then lease out extra space to another business. Or, you may be able to build a workshop or garage on your own property and use it for your business (if zoning laws permit). (Before purchasing or renting any facility, you should check local zoning laws to make sure that you can legally run your business in a particular area.)

The size of your business facility will be totally up to you. However, you should make sure that the facility gives you enough room for all of your business operations, and some room for expansion in the future. You'll need at least a small office area where you can do paperwork, write out bills and letters, and maintain records (Figure 2). To estimate the size of your work area, you'll need to determine how many motorcycles you want to be able to service at one time. A good average size for a motorcycle repair facility is between 1,200 and 1,800 square feet. The building should be equipped with fire safety features and a proper drainage system. Also, a security system is a positive feature (Figure 3). If the building you're considering doesn't have a security system, you should consider installing one.

**FIGURE 2**—A business owner should have a small office to conduct daily operations in.



**FIGURE 3**—Your business facility should be equipped with a security system, and a sticker should be placed on the door as shown here to ward off burglars.



If your advertising and marketing strategies are designed to entice potential clients to your location, you'll need to allow ample parking facilities (Figure 4). If your business is easily accessible and has lots of parking, customers will be more inclined to pull in for service or estimates. If customers will need to pick up their motorcycles at your facility, you'll also need to provide a small waiting area and a restroom (Figure 5). And, keep in mind that if you decide to sell retail merchandise at your location (such as parts, accessories, and detailing products), you'll need an area to display the goods and a storage area to hold extra items.

**FIGURE 4**—If your business has plenty of available parking, customers will be more likely to stop in for service and estimates.



**FIGURE 5**—It's a good idea to provide a small, comfortable waiting area for customers if they'll be picking up their motorcycles at your facility.

Motorcycle dealerships are often looking for technicians to service their equipment, particularly if they sell used motorcycles and ATVs. Dealerships can often provide a year-round, steady source of work for motorcycle repair technicians. If you're able to reach an agreement with one or more local dealerships to repair their equipment, you may need a larger facility to accommodate several motorcycles or ATVs at a time (unless you're hired to work in the dealership's facility). For this type of business, however, you may need to have employees to work on all of the machines and transport them. If you're able to work with a dealership, though, you should be able to significantly shorten your off-season.

If you live anywhere near an urban area or a large business district, you may want to consider locating your business there and offering convenient services to commuters. For example, you might offer a pick-up and delivery service for customers' motorcycles, enabling your clients to stay at their workplaces while you repair and deliver their bikes.

The location of your workshop is something that only you can decide, but make your decisions with extreme care and a lot of thought. Remember to consider your future needs as well as your present needs when evaluating any location for your business.

## Analyzing Your Market

The manufacturers of motorcycle repair products don't just start producing a particular product and then quit when they feel like it without regard for the market. In fact, they put a great deal of effort into predicting what sales will be for each type of product, and they produce only that amount. It's no less important for a small-business owner to do the same thing before starting up a new business. By the time you build, buy, or lease a facility, invest in tools or equipment, purchase an inventory of supplies, and pay for advertising and other business expenses, you'll have invested a great deal of money before you even start to bring any in. Depending on the type and size of the business you're starting, this investment could add up to tens of thousands of dollars. You don't want to make that kind of investment if you're not sure that it's going to pay itself off!

There are several things you can do to analyze your market and potential customer base. One of the best is to become familiar with the market as it is now. How many similar businesses already exist in your area? Is the market flooded with motorcycle repair businesses? Are they successful? Has another motorcycle repair technician recently retired or gone out of business in your area? Do customers seem satisfied with the current repair services available? Is there a type of service that isn't provided by the technicians in your area? You can probably think of other questions, but the point is that knowing how others are doing can tell you a lot about your potential market.

Other sources of information regarding market potential include the following:

- Local chambers of commerce
- The Better Business Bureau
- Banks and other lending institutions
- Newspapers, Yellow Pages, and advertising agencies
- Local trade organizations
- Surveys sent to prospective customers
- Area regional planning committees
- Department of Transportation
- Trade magazines
- State Department of Economic Development
- Mailing lists obtained from related businesses
- Small business administration in your state
- Local college faculty and other educators
- Other motorcycle repair technicians just outside your territory
- Politicians' offices
- Private marketing consultants

As you can see from the list above, many sources of information regarding market potential for new businesses in the motorcycle repair field are available. You can contact any of the above sources for information, services, and advice. Your market research will be limited only by your imagination and the amount of time you want to spend on it.

The importance of performing market research when you're opening a new business can't be overemphasized. If you want to catch some fish, you don't go to a puddle—you go to a lake or stream that you know has fish in it. This may seem like a humorous analogy, but many businesses fail because they do "fish in a puddle," trying to sell products and services in a market that won't support them. Making sure that you have a good customer base will help you to avoid this problem.

## Some Basic Financial Considerations

Unless you work for a not-for-profit or charitable organization, the main reason to go into business is to earn a profit. Granted, some people may want to start a business because they enjoy the work or to fill their time with a hobby, but even these business owners won't want to *lose* money at what they do. For most people who start a new business, making a profit is a very serious concern, especially if the business will provide their only source of income. Doing some financial calculations and planning in advance can help.

Assuming that you've already done some of the advance planning discussed in this section of your study unit, you should be ready to perform some financial calculations and predictions at this time. It's important to note that when you try to predict certain financial conditions, your predictions may not always be completely accurate. So, it's always advisable to use conservative estimates and to allow a certain amount of room for error. In the following examples, we'll look primarily at full-service repair businesses, but the basic considerations we use can also be applied to small, home-based businesses.

A good way to start your financial calculations is to try to predict the amount of money you would be able to earn by performing repair services for one year. You can do this by looking at the local competition or similar businesses in your area and figuring out how many motorcycles and ATVs they service in one year and at what average price.

Let's say that you think you can repair a total of 500 motorcycles and ATVs per year at an average cost of \$50 each. This would be a total of \$25,000 of income. However, not all of this amount is profit. From the \$25,000 earned, you'll have to subtract all of your expenses for equipment, tools, materials, rent, utilities, advertising, insurance, and so on. If you have an employee or assistant, his or her salary will also have to be deducted from the total. After all of these expenses have been deducted, the amount that's left over is your profit.

The above example can serve as a starting point for your financial considerations as you begin planning for your new business. However, there are some important factors to keep in mind. First of all, the calculations we provided are based on the assumption that you'll be able to repair 500 motorcycles and ATVs per year. This is almost two per day. When you actually open your business, you can't count on the fact that you'll actually get 500 customers per year, and you can't count on the fact that you'll be able to keep up the pace of repairing two motorcycles or ATVs per day, seven days a week. To handle all of your available jobs, you may need to hire one or more employees, which will increase your expenses.

When you're trying to predict the financial success of a new business, the best way to tell whether you'll make enough money is to compare your estimated profit to your current salary. Will your new business allow you to make more money than you're earning now, or would you be better off working for someone else? Will your new business provide you with enough income to live on? If you would be able to make more money by working for someone else, do you have some other compelling reason why you want to open your own business? Maybe the pleasure of being your own boss or the potential of significant income gains in the future is enough reason for you to open your own business. As we noted earlier, just remember that most people are in business to make a profit. Before you open a new business, you need to make sure that you're going to make enough money to justify the effort.

### FINANCIAL RATIOS

Signals	How to Figure	What It Means
<b>Capital Relationships:</b>		
1. Net Working Capital Turnover	$\text{Sales} \div (\text{Current Assets} - \text{Current Liabilities})$	Capital use efficiency—capital turnover
2. Cash and Receivables to Current Liabilities	$(\text{Cash} + \text{Receivables}) \div \text{Current Liabilities}$	Acid test of how liquid you are
3. Current Assets to Current Liabilities	$\text{Current Assets} \div \text{Current Liabilities}$	Current ratio—your borrowing capacity or pay-out ability
4. Receivables Turnover	$\text{Sales} \div \text{Accounts Receivable}$	Sound credit and collection policy
5. Ownership Equity	$\text{Net Worth} \div \text{Total Assets}$	% of business owned by proprietor
<b>Profit Relationships:</b>		
6. Return on Assets	$\text{Net Profit} \div \text{Total Assets}$	How well total assets are used
7. Net Profit to Sales	$\text{Net Profit} \div \text{Sales}$	Overall efficiency
8. Gross Margin to Sales	$(\text{Sales} - \text{Cost of Goods Sold}) \div \text{Sales}$	Whether sales are productive
9. Net Profit to Net Worth	$\text{Net Profit} \div \text{Net Worth}$	Return on your net worth
<b>Merchandise Relationships:</b>		
10. Inventory Turnover	$\text{Cost of Sales} \div \text{Average Inventory at Cost}$	Sales efficiency
11. Inventory to Net Working Capital	$\text{Average Inventory at Cost} \div (\text{Current Assets} - \text{Current Liabilities})$	Whether too much capital is tied down in inventory
12. Turnover of Total Assets	$\text{Sales} \div \text{Total Assets}$	Adequacy of capital

**FIGURE 6—**This chart shows how to calculate a number of useful financial analysis factors for a business.

There are some other financial analysis factors that may apply to your business (Figure 6). Some of these formulas may be useful to you, but some of them are better applied to established businesses. Your financial advisor can help you with any of these calculations that you may wish to make.

The purpose of this section wasn't to scare you away from starting your own business. On the contrary—a great deal of opportunity exists in the motorcycle repair industry for hard-working entrepreneurs. The purpose of this discussion was to make you aware of some of the financial realities of new businesses, and to make you ask yourself some hard questions about whether you can succeed financially. One final thing to remember is that, even if all your financial calculations look good, any business is likely to have some hard times at the beginning, and you and your family must be prepared to work through them.

## Setting Goals for Your Business

Goals are your objectives in conducting your business and your expectations of the results. Get your goals out of your head and onto paper. Through the use of well developed, written goals, you'll be able to plan and manage your business effectively. In other words, you'll run the business—it won't run you.

You'll need to establish both short-term and long-term goals for your business. Your long-term goal may simply be to get the business up and running. To accomplish this, however, you need to establish a number of short-term goals. These might include acquiring a location, defining and reaching your market, obtaining adequate financing, and so on.

One thing that you should remember about your goals is that they're not cast in stone. Actually, your goals are meant to be rewritten and revised according to changes in the business operation, the economy, the competition, your customers, inflation and interest rates, or any other factors that may affect your business. Short-term goals need to be revised monthly or quarterly, and long-term goals should be carefully reviewed and revised at least once a year.

The goals you establish for your business must be realistic, precise, measurable, and easily revised. Let's look at each of these characteristics in turn.

**Goals must be realistic.** Setting unrealistic and unattainable goals is one sure way of setting yourself up for failure. For example, the goal "to repair every motorcycle within a ten-mile radius of my shop" is probably not very realistic. A more realistic goal, such as "to repair ten motorcycles per week," will help you plan your business's future better.

**Goals must be precise.** The goals you establish must be clear and exact. For example, the goal “to increase the number of repair jobs I do” is certainly a positive goal, but it lacks precision. It would be better to set a goal “to increase the number of repair jobs I do per week by 30 percent by May 1.” Including the figure of 30 percent and the date makes this goal precise.

**Goals must be measurable.** In order to determine whether you’re meeting your goals, you must be able to measure their results. In the preceding example, the goal “to increase the number of repair jobs that I do by 30 percent by May 1” is measurable. If you’re now doing 10 repair jobs per week, you know that you’ll have to complete 13 jobs in order to reach your goal. You must be able to measure your goals in order to measure your success.

**Goals must be easily revised.** As already mentioned, it may become necessary to revise your goals because of external changes. If your goals are written properly, these changes can be easily made. For example, suppose you set the following goal: “to set aside a cash reserve of \$200 to use as a down payment on office equipment.” If the price of the equipment goes up or down during this period, you’ll need to alter the amount of your down payment. With a properly written goal, this minor change can easily be made.

## The Three Basic Business Structures

There are three basic types of business structures: sole proprietorships, partnerships, and corporations. Each of these business structures has advantages and disadvantages. When a person sets out to start a new business, he or she must choose one of these three structures and set up records to conform to the legal requirements for each business type. You’ll need to consider the following factors when you choose a legal structure for your business:

- Will the business organization allow more than one person to contribute labor, management, equipment, buildings, and other resources?
- Will the business structure be appropriate as far as the liability of the people involved?
- Which type of business organization will provide the best tax situation and minimize the amount of taxes that need to be paid?
- Will the business structure be simple and understandable to all of the people involved, and will the process for *dissolution* (the ending or closing of the business) or modification be clearly understood?

- Will the organization permit ease of transfer of ownership and management responsibility?
- Will the form of organization allow for continuity, if that's important to the people involved?

Now, let's take a closer look at the advantages and disadvantages of each type of business structure.

## Sole Proprietorships

When one person owns an entire business and holds full control, the business is a *sole proprietorship*. Obviously, a one-person operation that's based in a home garage is a sole proprietorship, and there may not be any advantage to setting up such a business as a partnership or a corporation.

The advantages of a sole proprietorship are that the owner

- Has full decision-making control in the business
- Receives all of the profits that the business earns
- Pays income tax only once (unlike a corporation)

The disadvantages of a sole proprietorship are that the owner

- Has limited capital or strength. A bank isn't likely to lend a large amount of money to a sole proprietor, as opposed to several partners or a corporation.
- Is fully responsible for managing the business. There's no one else who can run the show while the owner takes a vacation.
- Bears full liability for the business. If someone brings a lawsuit against the business and wins, the owner could lose personal possessions in the settlement.
- Could lose a prime source of income if he or she was injured and unable to work, especially if there are no other employees.
- Must make all arrangements for the continuation of the business after the owner's death (for example, leaving the business to a spouse or child, or arranging to sell it). Otherwise, the business will cease to exist.

For many smaller motorcycle repair businesses, sole proprietorships are the only realistic way to go. Care should be taken, however, to protect yourself from liability and lost income in the event of accidents, injuries, or lawsuits. You should talk to a lawyer and insurance agent about methods that you can use to protect yourself.

## Partnerships

A *partnership* is defined as an agreement between two or more persons to carry on as co-owners of a business for profit. The partners usually combine their capital, labor, skills, and experience in conducting the business. The partners are equally responsible for any liabilities and claims incurred by the business. Each partner has the right to use, transfer, or otherwise make decisions about the property that's owned by the partnership.

The advantages of a partnership business structure are that the owners

- Can pool skills. For example, one partner may have a knack for selling merchandise and dealing with customers, while the other has a strength in specialized repair work.
- Can pool resources. One partner may manage the business while the other acts as an investor and contributes money.
- Can pool liabilities. If the business is sued, both partners share the liability.
- Pay income tax only once. Each partner pays income tax on his or her share of the earnings.

The disadvantages of a partnership are that the owners

- Must share the profits of the business. This might be a source of contention if one of the partners feels that he or she has done most of the work but has to share the profit equally with the partner.
- Still bear some individual liability. If someone files a lawsuit against the business and wins, each of the partners could lose some personal assets if the settlement is large enough.
- Can experience great conflict when breaking up the partnership if agreements aren't put in writing in advance, especially if the partnership is between family members or friends. One or more partners may not get what they feel they're entitled to.

A detailed partnership agreement, usually drawn up by a lawyer, provides a detailed explanation of the rights and obligations of each partner. Partnership agreements should always be put in writing and should address the following points:

- Goals and future plans of the business
- Amounts of money to be put into the business by each partner
- Amount and type of labor to be contributed by each partner
- Each partner's management responsibilities

- Resources (such as tools and equipment) to be contributed by each partner
- Who owns which assets
- How profits and losses are to be shared
- Date or circumstances under which the partnership will be terminated
- Record-keeping details—what records will be kept, who will keep them, who may review them, and so on
- Who will put a value on the assets when the partnership dissolves
- Any provisions for buying out the other partners
- Limitations on any one partner's authority to act for the business (for example, how much one partner may buy or borrow for the business)

Partnership agreements can vary depending on how they're written, but the following general rules apply to most of them:

- Each partner shares in profits and losses after the liabilities of the partnership are met.
- Each partner must be open with the other(s) about anything connected with the business.
- Each partner is to be compensated for expenses incurred on behalf of the business.
- Partners must give true and full information to the other partner(s) on demand.
- All partners have rights in the management and conduct of the business.
- Records are to be accessible to all partners in the business.
- Differences concerning partnership business are decided by a majority vote (with more than two partners).
- No person can become a partner without the agreement of all the other existing partners.
- Each partner is entitled to reimbursements or payments in proportion to his or her contributions to the business or by previous agreement, but no more and no less.

If you're considering forming a partnership, be sure to develop a written agreement, no matter how smooth you expect your working relationship with your partners to be. At the very least, this agree-

ment should outline how the partnership will be handled when the partners are ready to retire. Use the services of an attorney and a tax accountant to make sure that the agreement is formed properly and in the most lucrative way.

## Corporations

A *corporation* is a business with one or more owners who are authorized to act legally as a single “person.” Because the corporation acts as a sort of “artificial person” in all business transactions, the human owners have limited personal liability. Several different types of corporations exist, and the laws regarding different corporations differ. Thus, we won’t attempt to cover them all in this discussion. A tax advisor or an attorney can recommend a corporate structure to benefit your business.

Some advantages of corporations are that they

- Have considerable capital and strength. Banks and investors are generally more willing to give large amounts of money to corporations than to individuals and partnerships.
- Exist as a separate entity, even after the owners or investors die or leave the corporation.
- Bear most or all of the liability. If someone files a lawsuit against the corporation, usually only the corporation is liable and the personal assets of the owners or investors are protected.

Disadvantages of corporations are that they

- Have their income taxed twice. The corporation pays taxes on its earnings, and shareholders also pay taxes on their income from the corporation. C corporations generally operate in this way; S corporations, however, are taxed more like partnerships.
- May take some business control away from the owners. If you’re the general manager of an incorporated business, you may not be allowed to make business decisions without the approval of your investors or a board of directors.

Corporations are definitely the preferred way to organize most businesses these days, even small enterprises. They may be more complex and harder to understand than other business organizations, but the advantages of incorporating your business are impressive (particularly the limited liability to you, the owner).

## LEGAL STRUCTURES OF A BUSINESS

	<b>Cost and Ease of Establishment</b>	<b>Liability of Owners</b>	<b>Continuity of the Business</b>	<b>Management Control</b>	<b>Ease of Raising Capital</b>	<b>Tax Implications</b>
<b>Sole Proprietorships</b>	Least expensive; Simplest form to establish	Unlimited personal liability	No provision for continuity in case of death of proprietor	Owner has control over all management decisions	Borrowing by owner or from owner's personal assets	Owner pays taxes at the individual rate on the net income of the business
<b>General Partnerships</b>	Minimal expense; Written or verbal agreement	Unlimited personal liability for each partner for any and all partnership debts	May be dissolved by death or withdrawal of general partner	Management by majority rule	Borrowing or bringing in other partners	Each partner pays taxes at the individual rate on own share of net income
<b>Limited Partnerships</b>	Statutory requirements usually include written agreement and statement of limited and general partners	<i>Limited partner:</i> Liability limited to investment  <i>General partner:</i> Unlimited liability	<i>Limited partner:</i> Death or withdrawal does not affect  <i>General partner:</i> Death or withdrawal can dissolve partnership	<i>Limited partner:</i> Not allowed to participate  <i>General partner:</i> Management by majority rule	Borrowing or bringing in other partners	Each partner pays taxes at the individual rate on own share of net income
<b>Corporations</b>	Most costly; statutory regulations; filing fee based on capital structure	Limited to the amount invested	Creates degree of continuity; continues despite death or withdrawal of stockholder	Board of directors elected by shareholders	Borrowing, other debt instruments, sale of stock	Pays taxes at the corporate rate

**FIGURE 7**—This chart compares some of the advantages and disadvantages of sole proprietorships, partnerships, and corporations.

**Figure 7** summarizes some of the differences in business structures that we've discussed. Regardless of the type of ownership you want to have, remember to always seek the advice of a competent attorney and tax accountant. Laws change every year, and it's unrealistic to think that you can stay on top of all of them. That's what these professionals are paid to do. That said, it's important to remember that you need to decide which type of business organization is best for you. Lawyers, accountants, and other professionals can give you advice, but the final decision is yours. Later in this study unit, we'll discuss other agencies that may be able to help you with your decisions about starting your own business.

## Regulations That May Affect Your Business

Small-business owners are subject to many local, state, and federal regulations, sometimes more than they're aware of. Some regulations vary greatly from one locality to another. For example, you may need to file for local business permits to conduct a business in your town, or certain licenses that may be required in your state. Indeed, many small-business owners don't know how to figure out which regulations that they need to comply with. Fortunately, many agencies can provide assistance. A list of some of the agencies that provide assistance to small business owners is provided in the [Appendix](#) at the back of this study unit. You can also obtain information about important regulations from your state office of business permits and your local chamber of commerce.

In the following sections, we'll discuss some of the most important regulations and legal issues that a new business owner should be aware of.

### Federal Regulations

The U. S. Department of Labor's *Occupational Safety and Health Administration (OSHA)* is one agency that all small business owners should be familiar with. OSHA has regulatory authority over safety and health conditions in almost every American business that has employees. It's possible for businesses to be subjected to unannounced safety inspections from local OSHA inspectors. For more information on compliance with OSHA regulations, contact your local OSHA office.

The *Internal Revenue Service (IRS)* is another federal agency that small-business owners will have to deal with. Employers are responsible for paying Social Security taxes through the Federal Insurance Contribution Act (FICA). Also, business owners are required to obtain federal Employer Identification Numbers and take care of federal income tax withholding allowances, or self-employment taxes if they're sole proprietors.

The Federal Immigration Reform and Control Act of 1986 requires employers to verify a person's eligibility to be employed. You can contact your state office of the Immigration and Naturalization Service (INS) for further information.

Other federal agencies that you may wish to contact for information, depending on the type of business that you'll be starting, are the *Consumer Product Safety Commission (CPSC)*, the *Environmental Protection Agency (EPA)*, and the U. S. Department of Labor's *Employment Standards Administration*. Many of the publications that you'll need can be obtained from the *Consumer Information Center (CIC)* in Pueblo, Colorado.

One very helpful agency that you should contact is the *U. S. Small Business Administration (SBA)*. It can provide you with a great deal of help and information. One particularly helpful publication is its "Checklist for Going into Business," prepared by the members of the *Service Corps of Retired Executives (SCORE)*. This free checklist is an excellent self-evaluation that can help you make important decisions about going into business. It covers such topics as your reasons for wanting to start a business, self-analysis, personal skills and experience, finding a market niche, feasibility of your business, market analysis, planning your start-up, finances, and plans after start-up. It includes an income projection worksheet as well. The SBA also provides the following publications free of charge:

- "Can You Make Money with Your Idea or Invention?"
- "Selecting the Legal Structure for Your Firm"
- "Marketing for Small Business: An Overview"
- "Researching Your Market"
- "Pricing Your Products and Services Profitably"
- "Keeping Records in Small Business"

## State Regulations

Each state has its own unique regulations that govern small businesses, and agencies to help get people started. Therefore, we won't be able to cover all state agencies here. There are some similarities between states, however, and we can use the state of New York as a typical example. In New York State, the following agencies are relevant to the small business owner:

- NY Office of Business Permits and Regulatory Assistance
- NY Department of State—Division of Corporations
- NY Department of Labor—Unemployment Insurance Division

- NY Department of Taxation and Finance—Sales Tax Registrations
- NY Urban Development Corporation
- NY Small Business Development Center
- NY Department of Labor—Division of Health and Safety
- NY Department of Economic Development

The offices of these agencies can be found at the state capital, but some may have several field offices throughout the state. You should contact these types of agencies in your own state to find out what regulations you need to comply with. You'll probably have to obtain a permit to conduct business, file as one of the legal business structures that we discussed earlier, register to collect sales tax (if your state has a sales tax), and comply with health and safety standards. You should also ask these agencies what publications or other forms of assistance are available through these offices. For example, the New York State Small Business Development Center distributes "A Checklist for Going into Business," which is an adaptation of the one put out by the Small Business Administration. In some cases, you may even be able to get low-interest loans or grants to help you start your business.

## Local Regulations

As with state regulations, local laws vary from place to place. You should contact your local zoning officer to determine what types of building or business permits are required for your locality. You may want to ask a local chamber of commerce for assistance or advice in getting started or for help in advertising your new business.

You should also contact your local insurance carrier to make sure that you have adequate insurance coverage and to set up a workers' compensation program. A qualified attorney is another important local resource person, as is your accountant or tax advisor. These people can provide you with crucial advice on how best to set up your business.

**Figure 8** summarizes some of the steps in starting a business and in filing requirements. This chart lists New York numbers and agencies; you should contact those in your own area.

**THE SMALL BUSINESS DEVELOPMENT CENTER  
UNIVERSITY AT ALBANY  
SCHOOL OF BUSINESS  
Peter J. George, III  
Director**

**STEPS IN GETTING STARTED**

**Items That May Be Required \***

\*Depending on the Type of Business

**FOR INFORMATION ON:**

1. Local permits
2. Zoning requirements
3. Business Certificate  
(sole proprietorship or partnership)
4. Certificate of Incorporation
5. Federal Employer ID # (SS-4)  
Employees Withholding (W-4)  
Self-Employment Tax (1040 SE)  
Estimated Taxes(1040 ES)
6. NYS Withholding & Wage Reporting  
Sales Tax information
7. Unemployment Insurance  
\* Only if you have employees or are incorporated
8. Workers Compensation and Disability  
Benefits insurance  
\* Only if you have employees or are incorporated
9. Employment eligibility Verification
10. NYS licenses and/or permits

**CONTACT:**

1. Local fire, health & building departments
2. Village, town or city zoning board
3. County clerk
4. NYS Department of State  
(518) 473-2492
5. Internal Revenue Service  
(800) 829-3676 - Forms  
(800) 829-1040 - Information
6. NYS Department of Tax & Finance  
(800) 462-8100 - Forms  
(800) 225-5829 - Information
7. Unemployment Insurance Division  
(518) 457-5807 or District Office
8. Private insurance company or  
State Insurance Fund  
(518) 485-8800 or District Office
9. Immigration & Naturalization Service  
(716) 849-6760
10. Governor's Office of Regulatory Reform (GORR)  
(518) 486-3292  
(800) 342-3464

**FIGURE 8—This New York Small Business Development Center chart provides helpful tips and telephone numbers for people starting new businesses. Similar information is available from local sources in all states.** (Courtesy of New York Small Business Development Center)

## Avoiding Failure

Although no small business owner wants to contemplate failure, the possibility of failure does exist. This possibility shouldn't discourage you in your efforts to establish a business. Rather, it should serve as a reinforcement of your efforts to make your business a success.

Contrary to the popular saying, ignorance is *not* bliss when business is involved. The more that you're aware of why some businesses fail and others succeed, the more likely you are to succeed in your own business. The following list of reasons for business failure can act as a checklist of "what to avoid" during business operations:

- Lack of business plans and goals
- Insufficient financing and cash reserves
- Inadequate skills and training of management and employees
- Inadequate marketing efforts
- Poor management practices
- Inaccurate records
- Lack of creativity
- Lack of professional assistance, or incompetent assistance
- Too much competition in your service area
- Insufficient attention to quality control

With proper planning and attention to economic conditions, you can avoid most of these problems. You can avoid the others by carefully choosing your business partners, employees, and professional advisors.

In spite of all that's been said about the possibility of failure, a motorcycle repair business has more chance of success than many other types of businesses. Start-up and operating costs can be quite minimal, and can be easily controlled by the owner. You won't need a lot of expensive inventory and equipment. If you know your job, price your services fairly, protect yourself, and operate your business in an honest, responsible manner, there's no reason why you can't succeed and make a good living with your business.

# YOUR BUSINESS PLAN

## Preparing a Business Plan

Planning is the most important part of starting (and operating) any business. A *business plan* is a written documentation of this planning. The following are the five main purposes of a business plan, although your plan may serve as many purposes as you wish.

1. A business plan is a map that leads you down the road to the future you desire.
2. A business plan is your most important guide to starting, managing, and expanding a successful business.
3. A business plan is the best tool you can have to raise money (obtain loans or recruit investors) for your business.
4. A business plan is an effective communication with employees, subcontractors, suppliers, investors, and others who are interested in understanding the purpose and goals of your business.
5. A business plan is geared to success—not failure.

To start writing your business plan, divide a loose-leaf notebook into the following categories:

- Mission statement
- Nature of your service
- Marketing analysis
- Operation and management of business, including required licenses and permits
- Start-up capital
- Projected profit or loss per month for the first year
- Cash flow projection for the first year
- Expected annual return on investment—the ratio of profit to the total investment in the business (preferably figured on a five-year basis)

After you've divided your notebook into these categories, begin by jotting down ideas—as they come to mind—in each of the categories. As each category seems complete, you can write a rough draft of that section. You then might want a family member, trusted friend, or perhaps an attorney or accountant to review what you've written. Give yourself plenty of time to think about every detail and rewrite it as often as necessary.

Now, let's look at each of these sections of your business plan in more detail. Remember, these categories are suggestions for major sections only. It's your business plan, and you can include anything that you feel is important to your business.

## The Mission Statement

A *mission statement* is a sentence that describes your personal business philosophy and the reason for the existence of your business. A typical mission statement for a motorcycle repair business might be "To provide high-quality motorcycle repair services to the community at a fair price." A business usually has two main reasons for being in existence: (1) to provide a living for the owner and (2) to provide a needed or desired product or service to the public. From the beginning, you should be very clear about the purpose of your business. If you don't know what you want to get out of your business, you won't be able to determine the best way to go about meeting your goals. In your mission statement, you may also wish to include your philosophy of doing business—in other words, the beliefs, attitudes, and ethical values that you'll apply in conducting your business.

## The Nature of Your Service

In this section of your business plan, you'll describe your proposed business, including its name, the address of its location, and a description of the services it will offer. You may want to include a brief description of the services a motorcycle repair business provides; some of the people who may read your business plan (a banker or accountant, for example) may not be completely familiar with the industry.

Next, give information about yourself that will help those who read your plan understand the kind of person you are, why you want to have your own motorcycle repair business, and what you feel you can offer the public. Include any education and experience you've had that's applicable to the motorcycle repair business. Also, include any innovative ideas you have to make your service unique or particularly desirable, and any other personal characteristics that you feel are important to the business and its plan.

## Market Analysis

A *market analysis* contains information about your potential customer market. This includes your defined geographic service area, information about your potential clients, the types of services you'll offer, and

your fee schedules. You might also wish to include a list of your competitors and their fees as a comparison, if you have this information.

Specifically, this section should tell the reader how you intend to reach your market. Include advertising plans, public relations efforts, plans to participate in trade exhibitions and fairs, and the type of professional consultant you'll use to handle your advertising and public relations campaign (if applicable).

## Operation and Management of the Business

Include in this section a detailed description of the type of operation you plan. To give you an idea of how "detailed" you should be, review the following list of facts that you should include:

- Name of the business
- Business structure (sole proprietorship, partnership, or corporation)
- Business location and business hours
- Management personnel, including responsibilities, primary duties, and accountability
- Number and kind of employees you plan to hire, including their duties, responsibilities, and job descriptions
- Your methods for dealing with customers
- Procedures used to hire and pay subcontractors
- Methods used to maintain financial and personnel records
- Accounting procedures, including an indication of whether you plan to employ the services of an outside accountant or hire your own in-house accountant
- Procedures for ensuring that taxes are paid in a timely fashion
- Company policies regarding clients, employees, and subcontractors
- Quality of services and how complaints will be handled
- Procedures for revising goals, policies, fees, records, and responsibilities
- Any other aspect of business operation that may be specific to your business

## Financial Projections

A *financial projection* is simply a projection of the financial activity you expect to take place in your business. A projection isn't just a guess, however; it's based on sound research obtained from your market analysis, your estimates of how much business you can expect, and on current financial conditions (interest rates, rent prices, and so on).

Your *start-up capital* is the amount of money you'll need to get your business's doors open. **Figure 9** shows a worksheet for calculating the start-up costs of a motorcycle repair business. Look over this worksheet now and examine the items that will need to be included in this section of the business plan. Then, if you do decide to start your own motorcycle repair business, you can use this worksheet to calculate your actual start-up costs.

Before granting you a loan for start-up expenses, your lender will require thorough documentation and a detailed business plan. A business loan request will almost always be denied if the owner fails to provide a reasonable plan for succeeding in the business venture—and paying back the loan. You can probably now begin to see how important a complete and detailed business plan can be to your new business.

**FIGURE 9**—You can use this worksheet to calculate the start-up costs for your business.

<b>START-UP COSTS</b>	
<b>Worksheet for a Motorcycle Repair Business</b>	
Office space (down payment for purchase or lease deposit, plus initial rent payment)	\$ _____
Fixture installations, remodeling, redecorating	_____
Utilities (heat, water, electricity, telephone), including deposits and installation fees	_____
Professional services (attorney, accountant, consultant)	_____
Office equipment and supplies	_____
Field equipment, including truck or van, if needed	_____
Insurance premiums	_____
Business permits and state license, if needed	_____
Local and state taxes, if required	_____
Travel expenses	_____
Advertising and promotional materials	_____
Miscellaneous	_____
Total start-up funds	_____
(Less) Cash reserve	_____
<b>TOTAL START-UP FUNDS TO BORROW</b>	<b>\$ _____</b>

To determine your projected profit (or loss) for the first year of your new business, you'll have to estimate your total expenses (working capital) and then subtract this figure from estimated total income. *Working capital* is simply the amount of money you need to operate your business day-to-day.

To estimate total income, you must first project the amount of business you expect to do each month for the first 12 months. From this projection, you can calculate the amount of income you'll receive based on the fees you intend to charge.

Your expenses should be calculated in two separate categories: fixed expenses and variable expenses. *Fixed expenses* are those expenses that don't vary from month to month. Your rent, mortgage, loan payments, property taxes, and insurance are all expenses that will be the same each month. Once you've committed yourself to a lease, a loan, the purchase of equipment, and other binding expenses, you can make an accurate estimate of your fixed expenses.

*Variable expenses* are more difficult to calculate because they vary each month according to the volume of business you do. Variable expenses include the cost of materials, labor, payroll taxes, marketing, and advertising. After you estimate the volume of business you'll do within the first year, you can estimate what your variable expenses will be.

As a business owner, you have some control over variable expenses. For example, if your expenses go beyond your projections, you may be able to reduce or defer some of them. If your income is higher than you expected, start building cash reserves to handle additional salaries, the purchase of additional equipment, and subcontractors' fees.

One mistake that new business owners often make is underestimating the amount of working capital they'll need to keep their business in operation. One way to avoid this mistake is to include a *contingency fund* in your estimate. An extra 10–20 percent of your total is considered to be a reasonable request.

Use the worksheet in [Figure 10](#) to calculate your business operating expenses for the first three months. In your business plan, you should include such estimates for one entire year. Once the first year of your business is complete, you or your accountant will prepare a formal profit-and-loss statement based on actual figures for the year. You should compare these actual figures with your original estimated figures to help you in projecting figures for the second year of operation.

A *cash flow projection* can help you estimate if enough cash (capital plus income) will be available during a projected period (usually the next 12 months). If the projection indicates a *deficit* (inadequate cash on hand to pay bills), you'll need to rethink your capital needs. A worksheet for a three-month cash flow projection is provided for you in [Figure 11](#).

Before you make your final decision about whether to go into business, you should consider your expected *return on investment*, or ROI. Ask yourself: Will the rate of return on the money I invest be greater than the rate of return on the same money invested elsewhere (for example, in stocks, bonds, or certificates of deposit)?

When you start a new business, the ROI must be estimated. If you purchase or invest in an existing business, an actual ROI figure should be available. The ROI is considered to be one of the best ways to determine profitability, which is often the key measure of management efficiency.

### PROJECTED PROFIT-AND-LOSS STATEMENT (For Three Months)

	Month 1	Month 2	Month 3	Total
1. ESTIMATED TOTAL INCOME	\$ _____	\$ _____	\$ _____	\$ _____
2. FIXED EXPENSES				
a. Depreciation	\$ _____	\$ _____	\$ _____	\$ _____
b. Mortgage or rent	_____	_____	_____	_____
c. Insurance	_____	_____	_____	_____
d. Taxes and permits	_____	_____	_____	_____
e. Loan payments	_____	_____	_____	_____
3. TOTAL FIXED EXPENSES (add lines 2a–e)	\$ _____	\$ _____	\$ _____	\$ _____
4. VARIABLE EXPENSES				
a. Salaries	\$ _____	\$ _____	\$ _____	\$ _____
b. Payroll taxes	_____	_____	_____	_____
c. Utilities	_____	_____	_____	_____
d. Maintenance	_____	_____	_____	_____
e. Travel expenses	_____	_____	_____	_____
f. Professional fees	_____	_____	_____	_____
g. Equipment and supplies	_____	_____	_____	_____
h. Advertising	_____	_____	_____	_____
i. Miscellaneous	_____	_____	_____	_____
j. Subcontractors' fees, if applicable	_____	_____	_____	_____
5. TOTAL VARIABLE EXPENSES (add lines 4a–j)	\$ _____	\$ _____	\$ _____	\$ _____
6. TOTAL EXPENSES (add lines 3 and 5)	\$ _____	\$ _____	\$ _____	\$ _____
7. NET PROFIT OR LOSS (before taxes) (subtract line 6 from line 1)	\$ _____	\$ _____	\$ _____	\$ _____

**FIGURE 10—You can use this worksheet to calculate your projected profit and loss for a three-month period.**

Calculating ROI isn't a difficult process. Simply divide the net profits (before income taxes) for a certain period by the net worth at the end of that period. ROI is expressed as a percent. For example, if your net profit before taxes is \$10,000 and your net worth is \$40,000, you would calculate the ROI as follows:

$$\text{net profit} \div \text{net worth} = \$10,000 \div \$40,000 = 0.25 = 25\%$$

**PROJECTED CASH FLOW  
(For Three Months)**

	At Start-Up	Month 1	Month 2	Month 3
1. CASH (beginning of month)				
a. Cash on hand	\$ _____	\$ _____	\$ _____	\$ _____
b. Cash in bank	_____	_____	_____	_____
c. Investments	_____	_____	_____	_____
2. TOTAL CASH (add lines 1a–c)	\$ _____	\$ _____	\$ _____	\$ _____
3. INCOME (during month)				
a. Fees	\$ _____	\$ _____	\$ _____	\$ _____
b. Credit card payments	_____	_____	_____	_____
c. Investment income	_____	_____	_____	_____
d. Other cash income	_____	_____	_____	_____
4. TOTAL INCOME (add lines 3a–d)	\$ _____	\$ _____	\$ _____	\$ _____
5. TOTAL CASH AND INCOME (add lines 2 and 4)	\$ _____	\$ _____	\$ _____	\$ _____
6. EXPENSES (during month)				
a. Salary for owner(s)	\$ _____	\$ _____	\$ _____	\$ _____
b. Wages for employee(s)	_____	_____	_____	_____
c. Subcontractors' fees	_____	_____	_____	_____
d. Taxes	_____	_____	_____	_____
e. Travel expenses	_____	_____	_____	_____
f. Utilities and maintenance	_____	_____	_____	_____
g. Advertising	_____	_____	_____	_____
h. Loan repayment	_____	_____	_____	_____
i. Other cash expenses	_____	_____	_____	_____
7. TOTAL EXPENSES (add lines 6a–i)	\$ _____	\$ _____	\$ _____	\$ _____
8. CASH FLOW EXCESS (DEFICIT) (subtract line 7 from line 5)	\$ _____	\$ _____	\$ _____	\$ _____
9. CASH FLOW CUMULATIVE (monthly)	\$ _____	\$ _____	\$ _____	\$ _____

**FIGURE 11—Use this worksheet to calculate your projected cash flow for a three-month period.**

This completes your business plan. As you can see, creating a good business requires time, thought, and research—but it will be worth the time in the long run. Like goals, however, business plans must be regularly reviewed and revised—to accommodate changes in your operation, the economy, and so on.

In the next section of the study unit, we'll explore the various ways that new business owners can obtain the financial resources they need to get their ventures off the ground. Before continuing, however, take some time to review what you've learned by competing *Road Test 1*.

## Road Test 1



**At the end of each section of *Your Motorcycle Repair Business*, you'll be asked to pause and check your understanding of what you've just read by completing a "Road Test" exercise. Writing the answers to these questions will help you to review what you've studied so far. Please complete *Road Test 1* now.**

1. *True or False?* It's practically impossible to run a successful motorcycle repair business from your home.
2. The organization that provides publications, education opportunities, and consultation services for small business owners is the \_\_\_\_\_.
3. *True or False?* You should have an attorney read any lease before you sign it.
4. An agreement between two or more persons to run a business as co-owners for profit is called a \_\_\_\_\_.
5. To calculate your projected net profit or loss for your first year of operation, you would need to subtract your estimated \_\_\_\_\_ from your estimated \_\_\_\_\_.
6. If your net profit before taxes is \$5,000 and your net worth is \$50,000, your ROI would be \_\_\_\_\_.
7. *True or False?* A written partnership agreement should include an outline of the responsibilities of each partner.
8. A type of business in which one person owns the entire business and holds full control is called a \_\_\_\_\_.

**Check your answers with those on page 89.**

# FINANCIAL CONCERNS

## How Much Money Do I Need to Start?

The term *financing* refers to providing the money (capital) needed to start your business and carry it through the initial period of operation—until you earn enough profit to take care of the business's cash flow needs and a reasonable salary for the owner. To arrive at this figure, you must first answer three questions:

1. How much money do I need to start the business?
2. How much money do I need to stay in business until I earn an adequate profit? For a service business, such as motorcycle repair, you should plan to obtain enough financing to cover the business operation for at least three months. If your marketing analysis and advertising efforts are on target and you've practiced sound management, you can probably expect to reach a break-even point within these three months. A break-even point is the point at which business income equals business expenses.
3. How much money do I have?

Once you have the answers to these questions, simply add together number 1 and number 2, and subtract number 3 from the total.

Another factor, however, is essential in figuring the total financing you require. Unless you keep a salaried job and start your business on a part-time basis, or unless you have other sources of income, you'll need capital for your living expenses until the business provides sufficient profit for you to withdraw a salary. Many would-be business owners who neglect this calculation in estimating their capital needs fail before their business is even up and running.

Where can you obtain the money needed to start your business? Well, start-up capital can come from many sources. Here are some you might consider for your business:

- Personal savings
- Assets that you can readily convert into cash
- Friends and relatives, some of whom may be willing to lend you money at no interest or at less interest than you would be paying at a bank

- Banks and credit unions, which are the most common sources of funding for small businesses
- Other financial institutions, including savings and loan associations, commercial loan companies, consumer finance companies, and life insurance companies (Note: Some of these institutions will charge higher interest rates than banks or credit unions.)
- Venture capital firms, which provide start-up and operating funds for companies in exchange for equity or part ownership
- Regional and local business development corporations (in some areas)
- The Small Business Administration, either by a direct loan or by guaranteeing a bank loan (within specified limits)

The SBA will consider your business for a direct loan only after you've been turned down by one or two commercial lenders. You must also satisfy certain other requirements, including good character and demonstrated business ability. You must also have additional sources of capital, collateral assets to secure the loan, and enough personal funds to assume a portion of the risk. In a guaranty loan, the SBA guarantees up to 90 percent or \$500,000 (whichever is less) of a loan obtained from a bank or other financial institution.

## Securing a Loan

Getting a loan is an art, and as with other arts, getting a loan requires a considerable amount of discipline and preparation. You may need to apply for a loan to purchase a facility, equipment, materials, and insurance. Knowing what your bank or other lending institution requires for a loan makes the process easier.

To protect themselves against loss, lenders require collateral—any assets that a loan applicant is willing to offer a lender if the applicant defaults on the loan payments. For example, if you want to borrow money to purchase a building or equipment, the lender will write a contract stating that it (the lender) gets your business assets if you fail to meet your loan obligations. Lenders may even take your personal assets to get their money back.

Before applying for a loan, consider the following two important points:

1. Begin your preparation for outside financing before you actually need it. Lenders need time to study your application and approve the loan. It often takes quite a while for the funds to be handed over to you.

2. Whenever possible, establish and maintain personal and professional relationships with loan officers from local lending institutions. This should be done long before you ever ask for a loan. The better the loan officer knows you and understands your proposed business, the greater the possibility you'll have of obtaining favorable loan terms. Keep in mind, however, that while a personal relationship with a loan officer is helpful, you should still "shop around" to see if other lenders are offering better terms.

Opportunities for obtaining loans differ greatly among localities and among loan applicants. Your past credit history is a vital factor, and so is the professional tone of your loan proposal. Most banks will grant loans to small business owners only if they're prepared and organized. If you want to be successful in borrowing money, you must know exactly how much you need, why you need it, and how to pay it back. You also must prove that you're a good credit risk.

To obtain a loan from a bank or other lender, you'll need to present the loan officer with a written loan proposal. An effective loan proposal must include information about you, your business, and your financial needs. The SBA recommends that a loan proposal contain the following key ingredients:

- *General information*—the business's name and address; the names, Social Security numbers, and addresses of principals; the purpose for and amount of the loan request; and the amount and percent of ownership equity available
- *Business description*—history, nature, structure, assets, and number of employees
- *Management profile*—short statement of background, education, experience, skills, and accomplishments of each principal
- *Market information*—complete definition of your service and market, analysis of your competition, your proposed niche in the market, and description of your clients and how your business meets (or will meet) their needs
- *Financial information*—projected balance sheet, projected profit-and-loss statement, personal financial statement for each principal, and a list of collateral to be pledged as security for the loan

In addition to these key elements, a number of documents must also be submitted with your loan proposal. They include

- A résumé of the applicant's education and work experience, with emphasis on particular experience in the relevant field (required for each general partner and corporate officer, as applicable)

- A personal financial statement for each applicant that shows net worth, plus income tax statements for at least the two preceding years
- A complete business plan that includes an explanation of how the loan proceeds will be used
- Start-up expenses and an equipment list
- Copies of the lease agreement and insurance policies
- Credit references for each applicant
- Personal budgets for the first three months of business (if requested)

Your personal financial statement indicates your total net worth. To compile this statement, first calculate the total of all your personal assets, and then calculate a separate total of all your liabilities. To calculate your net worth, subtract the total liabilities from the total assets.

**FIGURE 12—Use this worksheet to prepare a personal financial statement.**

<b>PERSONAL FINANCIAL STATEMENT</b>	
as of ____ (date) ____	
<b>ASSETS</b>	
Cash (including checking accounts)	\$ _____
Savings accounts and certificates of deposit	_____
Stocks, bonds, and other securities	_____
Accounts and notes receivable	_____
Life insurance (cash value)	_____
Motor vehicles (current value)	_____
Real estate	_____
Vested pension plans and retirement accounts	_____
Jewelry, art, or other valuables	_____
<b>TOTAL ASSETS</b>	<b>\$ _____</b>
<b>LIABILITIES</b>	
Accounts payable	\$ _____
Notes payable	_____
Mortgages and equity loans payable	_____
Contracts payable	_____
Taxes payable	_____
Other liabilities	_____
<b>TOTAL LIABILITIES</b>	<b>\$ _____</b>

*Personal assets* include everything you own that has a monetary value, such as a home; other real estate; cars; life insurance; bank accounts; stocks and bonds; and jewelry, art, and other valuables. *Liabilities* include outstanding credit card bills, medical bills, bank notes, mortgages, taxes owed, outstanding contract payments, and all other moneys owed to individuals, organizations, or government agencies. A worksheet for calculating your net worth is provided in [Figure 12](#).

## Paying Taxes

Contact the IRS and your state department of taxation for more information on the taxes you need to pay. You should also consult a professional accountant or tax advisor. Getting the advice of these professionals helps ensure that you're complying with the law without paying too much in taxes.

Every business that shows a profit must pay federal income taxes, in addition to state or provincial income taxes and local income taxes (where required). A business with employees is responsible for submitting withholding taxes collected from the employee's and the employer's share of Social Security (FICA) taxes. It must also pay federal unemployment taxes (FUTA) on a certain percent of each employee's wages. Most states and provinces also have unemployment taxes payable according to their own regulations. Other taxes include sales taxes, local property taxes, and school taxes.

The federal tax liability of a business depends on a variety of factors, including

- Business structure (sole proprietorship, partnership, or corporation)
- Employees (if any)
- Accounting method used by the business
- Depreciation schedules
- Timing of business transactions

As you may know from filing your own personal federal income tax forms, the federal income tax laws are complex and constantly changing. If you begin your own motorcycle repair business, you'll be responsible for paying each tax in a timely manner. If you don't, you may be held liable for penalties and interest. In some cases, the Internal Revenue Service (IRS) can institute criminal action. For these reasons alone, it's to your advantage to employ the services of an accountant or a tax attorney.

To give you an idea of the complexity and volume of IRS regulations, we've provided a schedule that a business must follow in submitting federal taxes in [Figure 13](#). Your accounting records—from which the tax forms are prepared—must also be regularly and accurately maintained.

State, provincial, and local tax regulations vary from region to region. Your accountant or tax attorney (or the local chamber of commerce) can furnish a schedule of such employment taxes and due dates.

Most accountants also keep supplies of state, provincial, and local tax forms. You should request a copy of each form you'll have to file, even if the accountant files your taxes. If you have the appropriate forms, you can then determine what information is necessary for your office records. Good records save the accountant time in preparing your taxes (and thus save you money on the accountant's fee).

### CALENDAR OF FEDERAL TAX FORMS

Date Due	Form	Sent To
January 31	W-2 (Annual Wage and Tax Statement)	IRS
January 31	940 (Employer's Annual Federal Unemployment Tax Return)	IRS
February 28	W-3 (Income and Tax Statement)	Social Security Administration
March 15	1120 (Corporation Income Tax Return)	IRS
March 15	1120S (Small Business Corporation Income Tax Return)	IRS
April 15	1040 (Individual Income Tax Return)	IRS
April 15	1040SE (Computation of Social Security Self-Employment Tax)	IRS
April 15	1065 (Partnership Income Tax Return)	IRS
At time of employment	W-4 (Employee's Withholding Allowance Certificate)	Company file
End of month after close of any quarter	8109 (Coupon booklet for quarterly deposit)	Company's bank account
End of month after close of any quarter	941 (Employer's Quarterly Federal Tax Return)	IRS
15th day of months 4, 6, 9, and 1	1040ES (Estimated Income Tax for Individuals)	IRS

**FIGURE 13**—This chart shows the schedule of dates for submitting various federal income tax forms. You may not need to file all of these forms for your business, but you can use this chart as a reference.

## Insurance

Every small business owner should consider insurance very seriously (Figure 14). Although regulations vary and laws change, you'll be required to have at least some types of insurance for your business. It's a good idea to establish a professional relationship with a competent insurance agent or broker, preferably one who's knowledgeable about the insurance needs of the motorcycle repair industry. This individual will be able to describe adequate coverage for your type of service business and the availability of coverage at the best premium prices.

Most businesses (including motorcycle repair businesses) will require the following types of insurance:

- Fire and theft coverage for the workshop and equipment
- Automobile coverage for any company vehicle, including liability, comprehensive, and collision in adequate amounts that reflect today's medical and property costs
- General liability for any damage or injuries resulting from your actions or the actions of your employees during the course of business operations

General liability insurance is important and highly recommended for most businesses. Liability insurance is needed to protect yourself in case of a lawsuit. If something goes wrong—for example, if a motorcycle is damaged while at your facility, or if a customer is injured on your property—you may be sued. In such a situation, it's important to have adequate insurance coverage to help offset any losses you may incur in a lawsuit. Even if the case is judged in your favor, you may have large legal bills to pay, and your insurance policy may help cover that cost.

**FIGURE 14**—This small business owner didn't have insurance, and suffered substantial losses when disaster struck. Always consider your insurance purchases carefully, and make sure that you have adequate coverage.



Other types of insurance that some larger businesses may want to consider are

- Crime insurance to protect the company from losses from robbery, burglary, employee dishonesty, and vandalism
- Fidelity bonds to protect the company against financial losses from embezzlement by employees who have access to cash receipts and other company funds
- Business interruption insurance to compensate your business for lost revenue during a temporary halt in business caused by fire, theft, or illness of the owner or manager
- Key person insurance to compensate your business when any partners or persons essential to managing the operation become disabled or die
- Product liability insurance to protect your company against claims for defective merchandise

If you hire employees, you're required by law to carry workers' compensation insurance, according to the requirements of your particular state or province. You may also elect to offer group health and life insurance to your employees. Because the price of such insurance is high, some small companies don't offer it to their employees, or may require the employees to pay for part of the premiums. If you do choose to offer group health and life insurance, be sure to deal with a reputable insurance company.

## PROFESSIONAL ASSISTANCE

### Getting the Help You Need

The cost of professional assistance is often overlooked by new business owners, and yet the services of an attorney, accountant, insurance agent, and other professionals are usually necessary when you start a new business.

Here are some general guidelines for securing the services of any professional:

1. Make contact with the professional several months before your business start-up date. In this way, you can obtain any information you need to write your business plan and organize your business operation ahead of time.
2. Don't just hire any attorney or other professional. Shop around until you find one who's familiar with the motorcycle repair in-

dustry, if possible (or a related field such as auto mechanics or auto body work).

3. Be sure that the professional is someone that you feel you can work with and trust.
4. If you don't know anyone in a particular field, ask friends or business acquaintances for leads, or check with referral services or the local chapters of professional associations, such as the American Bar Association or the Association of Certified Public Accountants.
5. Be sure to agree upon a fee before your first chargeable visit with any professional.

Now, let's take a closer look at some of the professionals that you'll need to help you in your business.

## Accountant

If you've had some accounting instruction and don't plan to hire any employees, you may be able to operate your business without the services of an accountant. Keep in mind, however, that your bookkeeping practices must satisfy IRS requirements. Also, remember that a knowledgeable accountant can actually save you more than enough money to pay for his or her services. At the same time, the accountant's fee may be well spent to prevent you from suffering stress at tax time. An accountant is seldom a luxury when you expand beyond a one-person operation, or when your business is structured as a partnership or corporation.

No matter what your business size or structure, an accountant can help you to set up a bookkeeping system for you to follow daily, to control cash flow, and to establish a secure system for handling funds.

## Attorney

Some states and provinces require you to hire an attorney if you plan to organize your business as either a corporation or a partnership. You'll also need an attorney to provide guidance when you're signing contracts or leases. In any case, the advice of an attorney can be helpful in many areas of your business, including

- Choosing the best structure for your business
- Helping you understand your legal rights and obligations
- Arbitrating disputes within your business, with other businesses, or with subcontractors

- Filing necessary paperwork for licenses, permits, and so on
- Preparing partnership agreements
- Handling the legal requirements for corporations

## Banker

Even if you don't need to borrow money when starting your business, you should establish a good working relationship with a banker. In addition to lending money, a banker can help you to choose the best type of checking and savings accounts for your business and provide financial advice. Some banks offer investment and trust management services, pension and profit-sharing plans, credit card merchant memberships, and computerized accounting services. However, always remember that banks are in business to make money, and much of their income is derived from customer fees and interest payments. Therefore, you may want to consult your accountant or a private financial advisor to get completely objective financial advice. It's also important to select a bank that can offer you the services you need as your business expands.

If you do borrow money, be sure to make your loan payments on time. If you can, occasionally make an extra payment on your loan. This faithfulness will help you establish a good credit rating and will cement your relationship with your bank.

On the other hand, if for some reason you can't make a loan payment on time or you run into financial trouble, your banker should be the first to know. Make an appointment with your banker to discuss the problem. A banker will usually be willing to work with established customers to solve their problems or help with a tough situation, assuming that you've maintained an honest relationship and an excellent credit rating up to that point.

## Insurance Agent or Broker

An insurance agent generally represents a single, usually large carrier (company) that provides various types of insurance policies. An insurance broker is usually an independent entity that writes policies for a number of smaller insurance carriers. However, the two terms "agent" and "broker" are used interchangeably in some areas of the country. It's usually best to find one agent or broker who can handle all of your insurance needs.

Before you make a decision on your insurance coverage, interview several different representatives and compare the insurance packages they have to offer. You don't pay a consulting fee for these interviews,

whether or not you buy insurance from them. If an agent or broker is unwilling to give you adequate information or time, don't deal with that individual. On the other hand, be sure that you present a clear picture of your operation and your insurance needs.

Once you've chosen an insurance professional, be sure to keep him or her fully informed about any changes in your operation that could affect your insurance coverage.

Since each state or province has its own insurance regulations and insurance commissions, it's often helpful to contact these commissions to obtain information about the various insurance carriers that legally operate in your state or province. You should also file a complaint with this commission if you have a specific problem with the carrier. The complaint procedure is often the only way the commission learns about fraudulent operations.

## Management or Marketing Consultant

A management or marketing consultant may offer marketing services only or a combination of both marketing and management services. A consultant who offers both services can advise you on every aspect of operating your business. The type of consultant you choose, however, will depend on your own knowledge, expertise, available time, and your desire to delegate certain responsibilities to a professional consultant.

A good consultant can specifically advise you about business start-up, advertising and public relations, security measures, employee hiring, fee setting, record keeping, and many other topics that you may not yet realize you need to know. A consultant can also recommend attorneys, accountants, advertising agencies, and other information sources.

Management and marketing consultants usually charge on an hourly, daily, or weekly basis, but you may be able to occasionally hire a consultant with a monthly retainer fee to obtain advice or assistance only when you need it.

## Answering Service

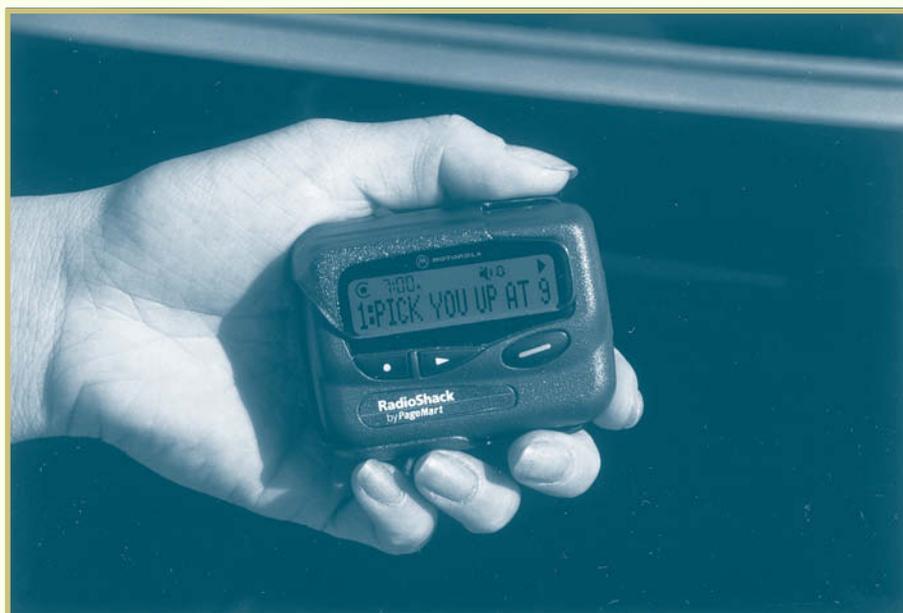
An answering service is invaluable to many small businesses. This type of service takes your business calls and forwards the messages to you.

Unless you or an employee will be able to answer your business phone every single time it rings, you should consider having your calls taken by an answering service. If you miss a call while you're out of the shop or on the road, the potential customer may not call back, and you'll lose valuable business.

If you choose an answering service that offers a paging system, you'll be able to return your calls immediately from anywhere (Figure 15). Remember, unanswered calls mean lost business, and that means lost income. A professional answering service is worth using if you're frequently out of your shop or away from the phone.

Now, take a few moments to review what you've learned by completing *Road Test 2*.

**FIGURE 15**—This type of pager allows you to read the message being sent.



## Road Test 2



1. A personal financial statement is used to indicate your total \_\_\_\_\_.
2. *True or False?* The IRS requires new businesses to strictly follow accounting procedures that are established by the government.
3. The type of expenses that vary each month in direct proportion to the volume of business you do are called \_\_\_\_\_ expenses.
4. The business tax you pay is based on the figure calculated on the \_\_\_\_\_ statement.
5. *True or False?* The money you need to get your business's doors open is called start-up capital.
6. Businesses are required by law to carry \_\_\_\_\_ insurance for their employees.
7. An insurance \_\_\_\_\_ represents one large insurance carrier, whereas a \_\_\_\_\_ represents a number of smaller insurance carriers.
8. Business expenses that don't vary from month to month (such as your rent or mortgage) are called \_\_\_\_\_ expenses.
9. When you're starting a new business, you should prepare a written documentation of your mission statement, marketing analysis, and financial projections. This documentation is called a \_\_\_\_\_.
10. *True or False?* A sentence that describes your business philosophy and the reason for the existence of your business is called a profit-and-loss statement.

**Check your answers with those on page 89.**

## BUSINESS MANAGEMENT

### Management in a Full-Service Motorcycle Repair Shop

There are many different aspects of a motorcycle repair business that will need to be managed. Some people in the motorcycle repair business start by doing repair work in small, home-based shops. Many of them do quite well in these situations. They're skilled at their jobs, get along well with their customers, and get plenty of work to keep busy.

Unfortunately, many home-based business owners are overwhelmed when their businesses grow into full-service motorcycle repair shops. For example, in a home-based business, you may be the only worker. However, as your business grows and the need to hire one or more employees arises, you must be prepared to deal with all of the paperwork and management duties that are involved. Therefore, if you want your business to grow, you'll need to be prepared to take on an increasing amount of business management tasks.

The discussion in this section of your study unit covers some of the more important aspects of business management that you should know about. We'll cover all of the major areas that will need to be managed in a full-service business. As we cover each topic, it's important to remember that all areas of your business must show a profit if you're going to be successful. If a full-service motorcycle repair business is to survive, it must be profitable in both service and sales. We'll look at how this can be achieved in each area of your business.

## Your Management Skills Inventory

Good management makes things happen—it controls and directs people and events. However, you can't become a manager overnight. You'll need to develop your managerial skills with time and experience. This section of your study unit contains some suggestions that can help you to become a good business manager.

*A management skills inventory* is a list of questions that's designed to help you identify the skills you have that will help you to succeed in business. By working through the list of questions and answering them with complete honesty, you can assess your business strengths and weaknesses and pinpoint areas where you may need to improve your skills.

At this time, get out a piece of paper and a pencil and work through the following questions. Remember, the purpose of this skills inventory is to make you aware of your strengths, and also some areas where you may need to learn more information or improve your skills.

- Have you taken any training courses that relate to motorcycle repair?
- Have you had any hands-on experience in motorcycle repair?
- Have you performed a wide variety of different motorcycle repair tasks?
- Are you familiar with the functions and operation of various types of motorcycle repair equipment?

- Are you familiar with the uses of different motorcycle repair products?
- Do you feel that you have the technical skills needed to perform motorcycle repair jobs?
- Are you familiar with a wide variety of different motorcycles and their components?
- Have you ever supervised others while they were working, or trained another person to perform a task?
- Have you ever interviewed or hired another person for a job?
- Do you have any familiarity with payroll issues (keeping track of hours worked, calculating wages, deducting taxes, and so on)?
- Do you enjoy dealing with the public?
- Do you think you would be able to calmly and politely deal with an angry customer?
- Can you drive yourself to accomplish a task that needs to be done?
- Are you willing to work long hours?
- Do you feel that you can overcome obstacles and keep trying even when things don't go well?
- Do you have the financial resources necessary to start a motorcycle repair business?
- Think about how much money you presently earn per year. Do you think you would be able to earn more per year as the owner of a new business?
- Would you be content to work for reduced earnings while your new business is getting started?
- Do you think that now is a good time for going into business in your area?
- Do you feel that you have the initiative and energy to run your own business?
- Do you have good organizational skills?
- Do you know how to plan ahead to avoid problem situations?
- Are your math skills good? Do you think that you could read and understand financial statements?
- Are you thrifty and a good financial planner? Do you think that you could handle the finances of a business?

- Do you enjoy competition?
- Is your family supportive of your new business idea?
- Are you in reasonably good physical condition? Do you think that you can handle the stress of running a business?
- Have you ever taken any courses or read any books about business management, accounting, economics, marketing, or advertising?
- Can you make decisions and follow through on your choices?

These are just some of the questions that are commonly asked of people who are starting new businesses. Look at the answers you wrote down for these questions. If you answered “Yes” to most of the questions in the list, you’re probably in an excellent position to start your own business. Your “Yes” answers indicate the areas in which you have business skills, and you should be proud of every one of those strengths.

Most people who complete this skills inventory will also answer at least a few of the questions with a “No.” Look at the “No” answers on your list now and try to think of ways to change them to “Yes” answers.

A simple visit to the library or local bookstore followed by a little research is one excellent way to help improve many basic business skills. You can improve your motorcycle repair skills by continuing to practice maintenance and repair techniques on motorcycles and ATVs that belong to you, your friends, or your relatives. You can also review the materials from this program to improve your knowledge of repair techniques and equipment, and complete as many of the suggested activities in the practical exercises as possible to gain more hands-on experience.

Another useful skills inventory can be found in the [Appendix](#) at the back of this study unit. You may want to complete that list of questions, too, as an exercise to help you evaluate your management skills and your readiness to start a new business.

## Customer Service

As you know, your relationship with your employees and subcontractors is a vital aspect of business management. Perhaps the most important aspect, however, is your relationship with your customers. Without customers, you wouldn’t have a business.

For this reason, you must consider your customer’s needs during every business decision, no matter how remote they may seem at the

time. Your mission is to provide your customers with the best possible service.

The customers are the most important part of any business and should be given your fullest attention. You should treat each and every customer as if he or she is the most important person in your business. On busy days, when you have hundreds of things to do, a customer with a complaint or a question can seem like an interruption. However, remember that your customers are keeping you in business! If you didn't have customers, you wouldn't have motorcycles to work on or anyone to sell products to.

You may think that if you lose one customer you didn't like because of a history of complaints, it's not particularly important. However, studies have shown that one dissatisfied customer will typically tell between eight and twenty-two other people about his or her dissatisfaction with your business. Can you afford to lose that many potential customers?

The good news is that if a customer complaint is resolved promptly and to his or her satisfaction, that customer has a 95 percent chance of returning to do business with you again. So, you can see that by keeping your customers happy—even the difficult ones—you'll be able to build up a strong and loyal customer base. Remember, keeping customers happy from the start is far easier (and less costly) than trying to regain lost customers.

How can you keep customers happy? The obvious answer is to provide quality service "on time, the first time, and every time." However, quality service is more than just doing the job right. Do you greet your customers in a pleasant, friendly manner? Do you give each customer your undivided attention when you're speaking with him or her? Do you treat your customers as informed consumers, and avoid "talking down" to them? Do you take the time to explain your procedures and answer any questions they may have? Doing this will often reveal the level of service your customers expect. Do you respect customers' schedules and value their time? Keeping appointments and having work completed when you said it would be done will greatly enhance your reputation with busy customers.

Staying in contact with your customers during the repair process is also a good way to promote customer satisfaction. A quick call during the day will enable you to verify the time the motorcycle will be completed or delivered. This is a good time to relay any problems or repairs that may require further attention. At that time, the customer may authorize you to perform the repairs, or opt to return in the future.

If you or an employee makes a mistake, it's important to admit it openly, apologize, and quickly fix the error. Offering some type of compensation (such as a discount or a free upgrade to "deluxe" service) is a good way to calm a dissatisfied customer. Never make a customer "beg" for some sort of compensation. The minimal cost you incur by compensating a customer will be more than made up for with the customer's repeat business, and with good recommendations to other customers.

Another good way to maintain customer satisfaction is to offer *value-added services*. Value-added services are enhancement services that are separate from your actual repair services. For example, before beginning a repair job, you may perform a visual inspection and inform the customer of any other problems you find that need attention. Suppose you determine that a customer's motorcycle needs body work. If you point out this fact to the customer and are prepared to recommend a good local body shop or two, the customer will probably be very appreciative. You may even be able to establish a reciprocal referral service between your business and the local body shops that will generate additional business for both of you. Another example of a value-added service would be to provide free pick-up and delivery of motorcycles and vehicles.

Allowing customers to choose the option of making appointments or just walking in for service is yet another example of a value-added service. Always try to accommodate walk-in customers and fit them into your schedule whenever possible. However, remember that a customer with an appointment must be serviced ahead of a walk-in customer. Otherwise, it defeats the purpose of making appointments.

The following list offers a few additional suggestions on how you can provide quality service to your customers:

- Always be courteous and punctual (even if the customer isn't).
- Complete your work promptly and according to your schedule.
- Provide clearly written estimates and be willing to explain their contents to customers.
- Be considerate of people's feelings, their motorcycles, and their personal property.
- Be honest and maintain your integrity at all times.
- Make yourself available for last-minute or "emergency" service.
- Be willing to modify your methods or policies when customer feedback indicates consistent dissatisfaction.
- Always strive for high quality service, and train your employees in quality control.

## Quality Control

*Quality control* is an important element of any business, but particularly so in the motorcycle repair business. The key to providing consistent, high-quality service is prevention—that is, preventing a poor-quality job from reaching the customer. The keys to preventing poor quality are proper training and supervision of employees, and good follow-up.

This means that if you have employees doing repair jobs for you, you must make sure that they have proper training in the use of all products and equipment, you must provide adequate supervision so they know what's expected of them, and you must follow up by double-checking their work. Periodic training programs are essential to any quality control program. (A training program could be as simple as demonstrating the proper use of a new tool or product.)

## Laying Out Your Service Department or Workshop

As a motorcycle repair business owner, you'll need to carefully manage the physical facilities of your business. As we discussed earlier in this study unit, the size and type of facility you need will depend on exactly what type of business you have. Regardless of the size of your business, your facility will need to serve several functions. In the following paragraphs, we'll cover some of the important points to keep in mind.

Basically, your facility will need to be large enough to allow you to work safely and efficiently, with a reasonable supply of tools and equipment. The workshop area should be off-limits to your customers for both security and insurance reasons.

Whether you're building a new facility or moving into an existing one, it must be large enough to allow you to work efficiently on the types and numbers of motorcycles and ATVs you plan to repair. This includes making sure that the doors are large enough to get the machines in and out and that they won't be blocked by any equipment that you have in the shop. The number of work bays you'll need depends on the number of employees that you have (if any). A good rule of thumb is that each technician should have two work bays. This allows a technician to work on two motorcycles at one time. For example, the technician can work on one motorcycle while waiting for parts to arrive for the bike in the other bay.

Make sure that the wiring in your repair area is adequate to meet your power tool requirements and that it complies with all safety codes. Keep aisles clear to serve as escape routes in case of a fire, and put extinguishers in easy-to-reach places. Have adequate hoisting

equipment to safely lift the equipment that you work on. Lighting should be good enough to allow you to work safely and efficiently. Wash areas must meet environmental standards and be drained properly.

If you plan to run a full-service facility with a sales department, your facility will need space to accommodate your merchandise inventory. The amount of floor area that will be dedicated to storage and display will be determined by the amount and type of merchandise that you sell.

In a full-service motorcycle repair facility, you'll need three primary areas or zones—sales, service, and administrative. Secondary zones that you may include are parking areas, storage areas, display spaces, aisles and hallways, shipping and receiving areas, rest rooms, and break rooms. As you can see, the layout of a full-service facility can be complex.

As a rule, customers must be able to get where they need to go, but not where you don't want them. In other words, customers should have access to the sales office, display areas, and rest rooms, but not the repair areas, storage areas, or private administrative offices.

Don't overlook the exterior areas of your business. These give your customers the first impression of your establishment. Outside areas can make excellent display spaces, as well as demonstration and testing areas for motorcycle repair products that you sell. You need parking areas as well as adequate space for delivery vehicles to maneuver around your lot.

## Making Your Service Department Profitable

In a full-service motorcycle repair business with several employees, the *service department* will take care of all of the repair jobs. (Usually, a separate *sales department* will take care of the over-the-counter sale of merchandise, supplies, and so on to customers.) The person in charge of the service department is usually called the *service manager*. The service manager may be either the owner of the business or an employee. The service manager's main task is to make sure that all repair jobs are completed properly and on time. Also, the service manager is responsible for dealing with customers, filling out work orders, assigning employees to particular tasks, ordering supplies and equipment as needed for the shop, supervising employees as they work, and complying with safety and health regulations in the workplace. As you can see, the service manager is more than just the "head motorcycle repair technician." In fact, in large motorcycle repair businesses, the service manager may do very little repair work at all. [Figure 16](#) contains a typical job description for a service manager.

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## JOB DESCRIPTION: SERVICE MANAGER

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**Job Title:** Service Manager

**Department:** Service Department

**Reports To:** General Manager

**Supervises:** Shop Foreman, Detailers  
(usually 3–15 persons)

### Job Function:

Manages entire shop operations—schedules shop work, assigns locations and personnel to specific work orders, and maintains standards of efficiency and work output to satisfy customer service needs. Advises customers, determines the amount and estimates the value of shop work required, and makes recommendations to customers for maintenance of their vehicles.

### Primary Duties:

1. Makes assignments in daily operations in shop functions, schedules priority of shop jobs, and plans for orderly flow of work. Plans total shop operations, and keeps detailed records of time and performance of employees.
2. Assigns detailers to specific work orders through the Shop Foreman who supervises shop work.
3. Advises customers of necessary service including estimates of costs involved. Makes recommendations to customers for preventive maintenance requirements including proper care and regular maintenance requirements.
4. Arranges for control of each shop job and the proper charge for labor and materials to the customer.
5. Handles customer complaints and orders rework, when justified, for proper repair.
6. Maintains shop tools and equipment in up-to-date and usable condition and maintains "good housekeeping" practices.
7. Keeps up to date with all bulletins and product information received by the business and informs service personnel regarding such information as it concerns their individual assignments.
8. Maintains a library of service manuals, bulletins, and other service publications for Service Department use.

### General:

The position of Service Manager requires organizational ability and systematic timing if it is to accomplish overall efficiency in producing satisfactory shop work. It requires an adequate knowledge of work processes and requirements for both physical labor and shop equipment. The Service Manager must be capable of accurately judging time and cost involved in projected work assignments.

This important position requires leadership, tact, and knowledge in assigning and instructing workers in the proper performance of mechanical operations safely, and without damage to vehicles or persons. In addition, the Service Manager should have a basic understanding of accounting systems and procedures so that he or she may properly prepare invoices, work orders, work schedules, time reports, and other miscellaneous records as required.

**FIGURE 16—This is a job description for a service manager for a large, full-service motorcycle repair business. Note the wide variety of duties this person is expected to perform.**

A service department doesn't just repair motorcycles—it sells the time and expertise of the motorcycle repair technicians who work there. For this reason, the most important factor to control in a service department is time. If a service department is to be profitable, you must be able to account for all of your employees' time, and bill out as much of it as possible. This billing efficiency is known as the *labor recovery rate* (LRR). The following formula can be used to calculate the LRR for a workplace:

$$\text{percent LRR} = (\text{total hours of labor sold to customers} \div \text{total employee hours}) \times 100$$

In this formula, the *total employee hours* is the total number of hours that you pay your employees for. So, if you have one employee who works 8 hours per day, 5 days per week, this means that you pay for a total of 40 hours of labor every week ( $8 \times 5 = 40$ ). Since there are 52 weeks in one year, this means that you pay your employee for a total of 2,080 hours per year ( $40 \times 52 = 2,080$ ).

In contrast, the *total hours of labor sold* is the number of labor hours that you were able to bill to your customers. So, if you were able to bill your customers for a total of 1,700 labor hours, you would calculate your labor recovery rate as follows:

$$\text{percent LRR} = (\text{total hours of labor sold to customers} \div \text{total employee hours}) \times 100$$

$$\text{percent LRR} = (1,700 \text{ hours} \div 2,080 \text{ hours}) \times 100$$

$$\text{percent LRR} = (0.8173) \times 100$$

$$\text{percent LRR} = 82 \text{ (rounded)}$$

Thus, in this example, your labor recovery rate was about 82 percent, which is quite good.

The problem that occurs when you're calculating labor recovery rates is that it's impossible to bill your customers for all of the hours that your employees work. That is, it's impossible to achieve a 100 percent LRR. Coffee breaks, paid lunch time, sick days, and other various work delays are all examples of time that cost you money but that you can't legitimately charge to customers. You may not think that this "lost time" amounts to much, but in fact, the average workshop can only bill out about 68 percent of the total number of hours their employees work. If your LRR is 55 percent or less, your shop has a serious problem with billing procedures, or there's simply too much lost time. A maximum realistic LRR is about 85 percent for a very efficient shop. Anything higher than 70 percent is good billing efficiency.

Some motorcycle repair technicians charge their customers for labor by the hour (the way that auto mechanics do). Others choose to set a fee for each maintenance and repair procedure, and perhaps one price for “complete” maintenance or overhaul jobs.

However, if you have a larger shop with several employees, it’s very important to figure out an hourly rate for services that you use for *internal* financial calculations. Since you pay your employees by the hour, you need to estimate how many hours it takes to do different jobs so that you can set the correct fee for them.

So, for example, suppose that it takes your employee 8 hours to do a complete maintenance or repair job. If you pay the employee \$10 per hour, it costs you \$80 in labor for the job ( $8 \times \$10 = \$80$ ). So, you need to charge your customer more than \$80 in order to make a profit.

Once you know exactly how long a particular repair job takes to do, you can calculate your labor recovery rate and figure out how much you should charge internally for labor. The amount that you charge per hour internally for labor must be enough to cover your employees’ wages and your overhead, and still leave a reasonable profit.

You can calculate the dollar volume of labor you must sell to break even by using the following formula:

$$\text{break even \$} = \text{total hours of labor sold to customers} \times \text{hourly wage} + \text{overhead}$$

In this formula, the break even \$ is the amount of money that you must earn just to cover all of your business expenses. If you estimate that you can sell 1,700 labor hours per year to customers, you pay your employee \$10 per hour, and your annual overhead costs are \$6,000, you can calculate your annual break even point as follows:

$$\text{break even \$} = \text{total hours of labor sold to customers} \times \text{hourly wage} + \text{overhead}$$

$$\text{break even \$} = 1,700 \text{ hours} \times \$10 \text{ per hour} + \$6,000$$

$$\text{break even \$} = \$17,000 + \$6,000$$

$$\text{break even \$} = \$23,000$$

The result of your calculation is \$23,000. This means that you must bill out \$23,000 worth of repair work to customers every year just to break even. Now, using these numbers, we’ll add a 15 percent profit margin to the calculation. Using the following formula, you can calculate how much you should charge internally per hour for labor:

$$\text{labor charge rate} = \frac{\text{breakeven \$} \times (1 + 15 \text{ percent profit})}{\text{total hours of labor sold to customers} \times \text{percent LR}}$$

$$\text{labor charge rate} = \frac{\$23,000 \times (1 + 0.15)}{1,700 \text{ hours} \times 82 \text{ percent}}$$

$$\text{labor charge rate} = \frac{\$23,000 \times (1 + 1.15)}{1,700 \times 0.82}$$

$$\text{labor charge rate} = \frac{\$26,450}{1,394}$$

$$\text{labor charge rate} = \$18.97 \text{ per hour}$$

So, according to this calculation, if you have an 82 percent LRR, pay your employees \$10 per hour, and have an overhead of \$6,000 annually, you'll need to charge your customers \$18.97 in order to make a profit of 15 percent. Again, you won't actually charge your customers an hourly rate—you'll simply use the figure \$18.97 to calculate how much you'll need to charge for repair work. So, if a particular job takes 8 hours to complete, you would need to charge your customer \$151.76 for the job.

These formulas are very useful for making business financial calculations. Naturally, the actual numbers for your business may be very different. You may have a much lower overhead cost, for example. Also, if you don't have an employee, you can figure the \$10 per hour as your own salary, and use a different profit margin in your calculations.

You can also use these calculations to see how much your profitability would improve if you increase your labor recovery rate or charge your customers more per hour. These formulas can also help you to determine whether it would be more profitable for your business to hire an employee or simply continue to work by yourself.

As you can see, keeping costs down in your shop, charging customers enough for your service, and billing out as much of your employees' time as possible are all important to ensuring that your service department will earn a profit.

One of the best ways to keep track of time in a service department is to have an efficient work order system. *Work orders* serve as a record of the repair tasks that were performed on each motorcycle, but this isn't their only function. Work orders also ensure that all parts and materials were billed to the job, that all labor is accounted for, and that all work was described clearly to the customer.

Of all the paperwork in the service department, the work order is the most important. Many different types are in use today, and a number of different filing methods can be used as well. You should choose a thorough and efficient system for your business.

For example, have your employees write comments on the work orders. This will help you determine if they're losing time while waiting for special parts or materials, or if they don't have the special tools needed to do a particular job. This system will allow you to make adjustments to how your service department is run and lets you know what materials and equipment need to be purchased for the shop. These improvements can help your technicians work more efficiently and help you earn more profits. You may not even realize that these improvements need to be made if your work order management system doesn't pick up on these problems.

Service departments can and should be a profitable part of your business. To maximize your profits, you must truly manage all of its aspects: service, time, employees, customers, paperwork, overhead costs, and labor rates.

## Purchasing Parts and Supplies

In order to keep your business running smoothly and efficiently, you'll need an adequate supply of parts and supplies. Motorcycle repair businesses usually purchase their supplies from distributors in large quantities to help save money. You can use a business directory to locate distributors and suppliers in your area, compare prices, and then use catalogs to develop a list of supplies and equipment that meets your needs.

Most distributors have sales representatives who will travel to businesses to demonstrate their tools and other products. Working with these salespeople, you should be able to equip your facility with a complete line of motorcycle parts and products. Some distributors may also provide training in repair procedures and in the use of some products. This training may be offered through your supplier in the form of classes or seminars, or through printed technical information.

In addition to motorcycle repair supplies, you'll need supplies to maintain the interior and exterior of your building. Regular cleaning products, cleaning equipment, restroom supplies, and so on may be purchased from a variety of locations. The size of your business will determine the best place to purchase these supplies.

For example, if your business facility is small, it may be simplest to purchase these items from a local discount chain or home improvement store. However, if your business is large and you use a lot of supplies, you should probably find a distributor who can provide you with larger quantities of items at a discounted cost.

## Managing Inventory

In a full-service business that sells both products and services, it's necessary to maintain an inventory of supplies and parts. These supplies and parts are used by the service department, and they're also be sold over-the-counter by your sales department. It's very important to control inventory carefully, since keeping an inventory on hand always costs money! The trick is to have enough inventory to meet the needs of your service department and your customers, but not to have too much money tied up in it.

Your storage area should be large enough to store your sales inventory and your supply of motorcycle repair products, without wasting valuable space that could be used for work areas. The storage area should also keep your merchandise secure and in good condition. Excessive heat, cold, or dampness can damage parts and equipment and therefore produce losses and warehouse expenses. Your storage area should be laid out so that you and your employees can find needed items quickly and efficiently. A modern storage unit will often allow you to store a large number of items in a very small area in a well-organized, easy-to-use fashion.

Some business owners think that, once an item is bought and paid for, it no longer costs them money. In truth, however, an item will cost you money for as long as it remains in your inventory. The cost of keeping an item in inventory can be broken down into warehouse costs, interest costs, insurance costs, and property costs.

*Warehouse costs* are associated with losses and damage to inventory as a result of storage in your facility. For example, let's say that you're moving a box of motorcycle repair supplies when a bottle of solvent falls to the floor and breaks. The solvent is lost, and you've just paid a warehouse expense. Other warehouse expenses include lighting, heating and cooling, cleaning, utilities, and any other expenses for the upkeep of the storage facility.

Two types of *interest expenses* are associated with inventory. First, if you "borrow" money to pay for your inventory (either by paying on credit to the manufacturer or by actually borrowing money from a bank to pay for the goods), you'll pay interest on it. Second, even if you pay for your inventory up front, you still incur an "opportunity" interest expense, because you've lost the interest that your money could be earning if it had been invested elsewhere.

*Insurance costs* are directly related to the amount of inventory that you have on hand. The more of your inventory that needs to be insured against loss due to fire, flood, or theft, the more you'll pay in insurance premiums. In other words, a technician who has \$5,000 worth of supplies in inventory will pay much more insurance than a technician who only has \$500 worth of supplies on hand.

*Property expenses* are the share of building improvements, mortgages, and construction costs that can be applied to your inventory. For example, if you build a new shed that will be used only for storage, the shed will depreciate (lose value) over time. The depreciation costs can be applied as a storage department property expense. If you buy a building for your motorcycle repair business, some of your mortgage payment should be counted as a storage department expense. One way to do this is to have each department cover a certain percentage of the property expense according to the amount of business that department generates.

When you look at these expenses on a per-item basis, they may not seem like much to worry about. However, a good rule of thumb is that these expenses amount to approximately 2 percent of your average monthly supplies inventory, or 24 percent of your total supplies inventory for the year. If your business has \$1,000 worth of supplies on hand at any given time of the year, this 24 percent will amount to \$240, or almost  $\frac{1}{5}$  of the total value of the supplies. Therefore, as you can see, the costs of maintaining an inventory are too great to be ignored.

The best way to reduce inventory maintenance costs is to reduce the amount of available inventory on hand. By doing this, you'll pay lower insurance premiums, lose less due to breakage and damage, reduce your interest costs, and be able to use space for work areas rather than storage. However, if you reduce your inventory too much, you won't have enough products on hand to keep customers satisfied and meet service department needs. The solution is to manage your inventory efficiently, and keep a good supply of your fastest-moving items on hand. Monitor your stock frequently so that you can avoid running out of the products you use the most. A daily check is one of the best ways to avoid any chance of running out.

When it comes to managing inventory, always keep the number "2" in mind for the following reasons:

- If you don't sell or use at least two of a given item per year, you shouldn't stock it. (It's obviously not one of your fastest-moving items.)
- If an item has been in your inventory for more than two years, you should get rid of it. (The item is slow-moving or obsolete.)
- If your turnover rate on an item isn't at least 2×, you're stocking too many of that item.

*Turnover* is the number of times a given item is sold or used each year. You can calculate the turnover rate by using the following formula:

$$\text{turnover rate} = \text{cost of goods sold} \div \text{average inventory at cost}$$

You can calculate your turnover rate for a particular item, or for your entire inventory. You can also calculate it on a weekly, monthly, or annual basis. As an example, let's say your business bought a total of \$2,500 worth of supplies last year (including shipping costs and taxes on the items). Let's also assume that when you checked your inventory, you had \$1,200 worth of supplies on hand at the beginning of the year, \$800 worth of supplies in the middle of the year, and \$1,000 worth of supplies at year's end. Your average annual inventory at cost can be calculated as follows:

$$\$1,200 + \$800 + \$1,000 = \$3,000$$

$$\$3,000 \div 3 = \$1,000$$

If your total cost of goods sold was \$2,500 and your average annual inventory at cost was \$1,000, then your annual turnover for your entire inventory would be calculated as follows:

$$\$2,500 \div \$1,000 = 2.5\times$$

An annual turnover of 2.5 $\times$  is considered acceptable. A turnover rate of 3 $\times$  is even better. If your turnover rate drops below 2 $\times$ , you'll know that you're not moving your inventory quickly enough.

The term *percent fill* is used to indicate how many of your customers get the products they need when they visit your store. In other words, if 100 customers come into your store looking for a particular product, and 95 of them leave with the item in hand, you have a 95 percent fill rate. The other 5 percent will either have to wait for you to special-order the item they want, or they'll go elsewhere to purchase it.

It's important to avoid falling into traps when you're managing a sales department. Obviously, the higher your percent fill rate is, the happier your customers are. However, if you have a very high percent fill rate, you may be stocking too many items and have a slow-moving or obsolete inventory. Thus, you don't want to stock hundreds of items just to be able to satisfy every single customer request. While you want to have a good percent fill rate, you also want to maintain a good turnover rate. You should stock the items that you sell the most, not a lot of items that customers almost never ask for.

So, in order to effectively manage your sales department, you'll need to balance inventory costs with customer requests, and your prices with your costs. You'll also need to maintain both a good percent fill and a good turnover rate. Fortunately, there are several computer software packages that can help you manage an inventory. This software can help you monitor your current inventory, identify obsolete

or slow-moving products, provide sales histories for selected items, make stock orders for you, and locate products by number. According to recent estimates, the large majority of small businesses use a computer to track inventory, and more are beginning to use computers for this purpose every day.

## The Retail Display Area

The showroom or sales area of your business is what your customers see the most, and it should be attractive and well laid out. Remember that most customers make their final purchase decisions in the store. So, until they leave the building, you have a chance to get customers to purchase additional items simply by exposing them to more.

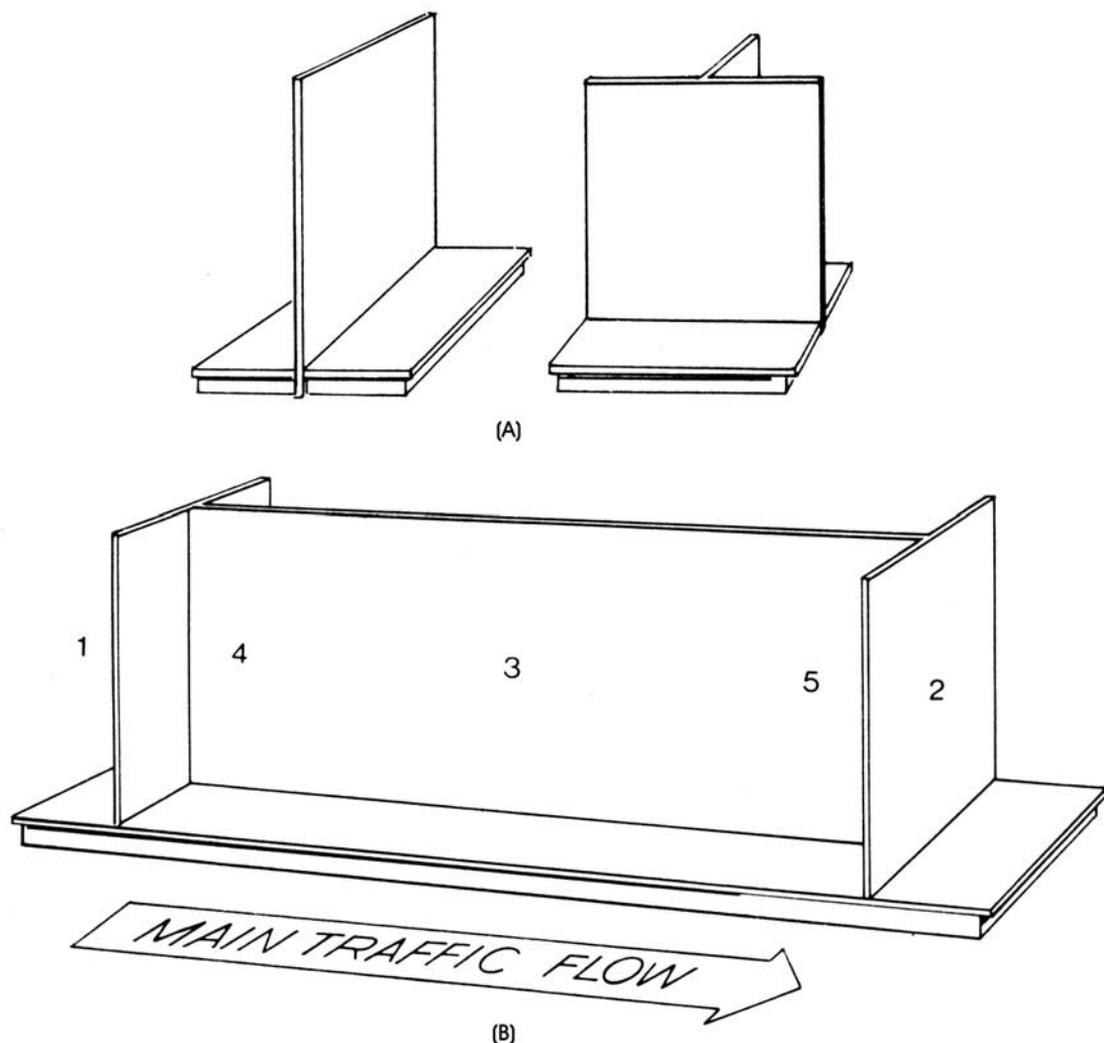
For example, if customers come into your business to pick up their motorcycles, instead of making them wait near an empty counter, try installing customer retail zones, as shown in [Figure 17](#). A *customer retail zone* is an area near the counter where merchandise is displayed to attract customers' attention.

By effectively displaying impulse items near the counter, you can get customers to purchase items they didn't think of when they first came in. In grocery stores, this zone is the area where candy, magazines, lottery tickets, and seasonal items are displayed. In a motorcycle repair shop, examples of impulse items you could display in a customer retail zone include key rings, air fresheners, cup holders, and small tools. Every item you sell will add up to extra profit for your business.

Another way to sell additional items is to use product grouping in your displays. Put related items together in an eye-catching display, and a customer who came in for one item may leave with several other related items.

**FIGURE 17**—This illustration shows how impulse items are displayed on the counter in a typical customer retail zone to attract customer attention. Customer retail zones are used in all types of stores and service shops. (Courtesy of Don's Power Equipment Inc., Portland, Maine)





**FIGURE 18**—Figure 18A shows how an endcap can be placed in front of a gondola to form shelf space at the end of an aisle. In Figure 18B, the areas of a gondola are ranked from 1 to 5 in order of the most attention-getting (area 1) to the least attention-getting (area 5).

*Gondolas* are the most commonly used shelf units in the retail business today. They're expensive, so it's important that you make good use of them. Having a well-supplied gondola is like having an extra salesperson in your business. Customers can look at the display on the gondola and find exactly what they need. However, you should remember that certain parts of a gondola unit are more eye-catching than others, as [Figure 18](#) shows. The *endcaps* (the shelving units that cover the ends of the gondola) and the shelves that are located between waist level and eye level are usually given the most attention by customers. Therefore, place the products you most want the customers to see in those areas, and place your backup stock or less popular items on the less-visible shelves.

A well-stocked gondola gives the customer the impression that you have a good selection to choose from and that you have reasonably priced, fast-moving inventory. If many of your shelves are empty or dusty, it gives the impression that your inventory doesn't sell very quickly or is overpriced.

Figure 19 shows how fronting or facing a gondola helps make a display more attractive. When you *front* a gondola, it means to fill the empty spots on the shelves and to move merchandise to the front edge of the shelves to make them appear full.

**FIGURE 19—This figure shows how a gondola display should be “fronted” daily. This means that you should keep the shelves well stocked, clean, and attractive.**

(Courtesy of Don's Power Equipment Inc., Portland, Maine)



For those who don't feel comfortable setting up their own displays, many manufacturers will offer suggestions or assistance on how to display their merchandise. For example, some manufacturers will provide a *plan-o-gram* that shows how to display products on a shelving unit. A plan-o-gram is a map of a shelving unit that tells a retailer how much shelf space is needed to display products, how many of each product will be needed to stock the display, and how to set up the display in the most attractive and effective way.

Outside displays are just as important for your business as those inside. They're usually the first impression your customers get of your business, and they may be the only impression prospective customers get as they drive by. So, you should keep the outside areas of your business neat and well maintained. A little landscaping can help, as can keeping the lawn mowed and the garbage picked up. Use a large sign to inform customers of special prices and services. Be sure to change the sign frequently to give people driving by the impression that you're doing good business.

Now, take a few moments to review what you've learned by completing *Road Test 3*.

## Road Test 3



1. In a full-service motorcycle repair business that has several employees, the \_\_\_\_\_ department will take care of all repair jobs, and the \_\_\_\_\_ department will take care of the over-the-counter sale of merchandise, supplies, and so on to customers.
2. A list of questions that's designed to help you identify your business skills is called a \_\_\_\_\_.
3. A good way to calm a dissatisfied customer is to apologize, admit your error, and offer some type of \_\_\_\_\_.
4. List three examples of value-added services you can offer to your customers.
5. *True or False?* The workshop area should be off-limits to your customers.
6. When designing a floor plan for your business location, a good rule of thumb is to allow each technician to have two \_\_\_\_\_.
7. In a full-service motorcycle repair facility, you'll need to allow space for three primary work areas. These areas are \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.
8. *True or False?* An area near a counter where impulse items are displayed for sale is called a product grouping.
9. The term that's used to indicate how many of your customers get the products they need when they visit your store is called \_\_\_\_\_.
10. Of all the paperwork in the service department, the \_\_\_\_\_ is the most important.
11. *True or False?* If your turnover rate is more than 3 $\times$ , you're not moving your inventory quickly enough.
12. A good way to maintain customer satisfaction is to offer enhancement services called \_\_\_\_\_ services.
13. The most commonly used shelf units in retail businesses today are called \_\_\_\_\_.
14. In a retail sales area, placing several related items together in an eye-catching display is called \_\_\_\_\_.

**Check your answers with those on page 89.**

## EMPLOYEES

### The Difference Between Employees and Subcontractors

The main differences between employees and subcontractors relate to liability, taxes and withholding, personnel and training policies, record keeping, methods of payment, legal standing in relation to the business, and other factors.

A *subcontractor* is simply an individual (or a business) who is contracted to perform part or all of one of your jobs. A motorcycle repair technician may use a subcontractor to perform certain specialized jobs that the technician doesn't have the time or the specialized skills to perform. For example, a motorcycle repair technician may send a customer's motorcycle to a subcontractor to have body work done, the exterior painted, or a seat reupholstered.

Subcontractors generally perform work at their own facilities, using their own materials and tools. By using a subcontractor, the motorcycle repair technician can prevent having to hire full-time employees to perform these specialized jobs. Also, using subcontractors in this way allows the motorcycle repair technician to offer a fuller range of services to customers, without having to actually perform all of those services personally.

In contrast, *employees* are considered to be a part of your business. You must provide the workspace, tools, and materials for your employees to use. Your employees are listed on your company payroll, taxes must be withheld from their salaries, and the company must pay a share of FICA and other taxes. Company insurance policies must include liability for employees' actions while they're working for the company, workers' compensation, and, frequently, health and life insurance benefits. Paid vacations and other benefits are also expected (and upheld by law in some cases) for employees, and salaries must meet federal and state minimums.

### Your Personnel Policy

Before you hire your first employee, you should establish a *personnel policy*. Keep the policy simple at first. Later, as your company grows and changes, you can revise the policy. As each new employee begins work (or even before), he or she should be given a printed copy of your personnel policy.

Your personnel policy should include every item that indicates what you expect of your employees and what they should expect from you and the company in return.

The following topics should form the core of your personnel policy:

- Business days and hours (including information on paid holidays, lunch and other breaks, and penalties for tardiness)
- Pay periods and paydays
- Overtime policy
- Leave policy (including information about vacations, sick leave, personal and emergency leaves, and leaves without pay)
- Benefits
- Statement of equal employment opportunity (if applicable)
- Employee restrictions (including restrictions on the use of alcohol, tobacco, and drugs; locations where food and beverages may be consumed; use of telephone for personal calls; and work attire)
- Statement of procedure for handling harassment
- Statement of confidentiality of employee records
- Procedure for handling employee complaints
- Probation periods, promotions, and raises
- Insubordination
- Procedures for dealing with employees who commit unlawful acts (consult with your attorney on this procedure)
- In-house training programs and other educational opportunities (including payment of tuition or scholarships for outside seminars, correspondence courses, college courses, or vocational courses)
- Schedule of employee evaluations
- Procedure for reporting a job-related injury or illness
- Termination procedures

You might consider this list to be very long at first sight, especially if you have only one or two employees. However, attention to these details at the outset can prevent wasted time, hard feelings, poor employee morale, and even lawsuits. A business owner who has a strong personnel policy (but one that's fair to everyone) will spend a lot less time dealing with employee complaints and questions. It's amazing how much of your valuable work time can be taken up in dealing with disgruntled employees, as well as by the inefficiency that's almost always found in a company that has no personnel policy.

## Job Descriptions

Before you even begin to look for your first employees, you should write a job description for that employee's position. That way, when you approach employment agencies or place ads in the newspaper, you'll be able to describe exactly what kind of person you're looking for, based on the duties and responsibilities in the job description.

Some employers overlook this vital element of management—often to their detriment. If you're not specific about an employee's duties and responsibilities, you'll often have employees sitting around without enough to do, getting angry because some employees do more work than others, or refusing to do tasks that they think aren't included in their jobs.

Job descriptions explain the needs, the duties, the responsibilities, and the accountability of each employee. They can also subtly provide the challenges for employees to seek as they expand their horizons and accept additional responsibility. As employees enlarge their capabilities, they head toward the next rung of the career ladder. The upward mobility of competent employees can have a direct impact on the success and profits of your company.

Writing a job description is sometimes a bit tricky for the first-time business owner. To get yourself started, divide a sheet of paper into four columns with the following headings:

1. What the employee has to know to handle the job
2. What duties the employee must perform from the outset
3. What extra duties you want the employee to perform once he or she is accustomed to the job, including a timetable for successful accomplishment, if applicable
4. What you expect the employee to learn from performing the job (that is, the inherent challenges in the job)

## Personnel Management

Managing employees is perhaps one of the least liked aspects of running a business. One reason is that managing employees involves so many unknowns and so much risk. When you're the only employee of your business, you don't have to be concerned with anyone else's performance, productivity, or health. However, when you have several other people working under you, you have to consider their needs and deal with their problems.

Loyal and efficient employees can be your company's most valuable asset. They can create more goodwill than the most extensive advertising or public relations program you could ever afford. Therefore, you will do well to treat these employees with "tender loving care" and offer them opportunities to expand both your company and their roles in its operation.

The primary goals of personnel management are (1) to hire and train individuals who are most suited to your business mission; (2) to make effective use of their skills; and (3) to direct and encourage employee growth to benefit both the employees and the company. (The SBA offers publications that can help you to develop a training program, measure employee performance, delegate responsibility to employees, and prepare a personnel policy.)

Your actions, decisions, and policies will determine the degree of your employees' commitment and motivation. First, you must make employees feel that they're a part of the company. To do this, you must provide an excellent training program, delegate responsibility and authority, and give the employees a share in the decisions that affect their jobs and the goals of the company. They should feel they have some control over the actions of the company in which they're involved. Second, you must reward your employees when their actions result in increased efficiency, profits, and goodwill of your company. Rewards can include merit raises, promotions, sales commissions, profit-sharing plans, bonuses, cash awards, and stock options (if your company is incorporated).

## Hiring Employees

The number of employees you hire at start-up, if you hire any at all, is a personal decision based on the size of your operation, your work load, the availability of family members to help you, and the possibility of hiring subcontractors as needed. Some positions may need to be filled by an experienced technician, while others involve simpler tasks that could be performed by an unskilled "technician's helper." No matter how many employees you plan to hire, remember to follow the legal hiring and firing guidelines (Figure 20).

Some possible sources for employees are

- Your state's or province's employment agency (services are usually free)
- Private employment agencies (fees are charged to either applicants or employers)
- "Help-wanted" ads placed in local newspapers
- Job applicant pools at local schools and colleges

**FIGURE 20**—The U. S. Department of Labor distributes charts of their rules that must be displayed and followed.



The best way to avoid problems is to hire good employees right from the start. This means having a thorough application and interview process. The first step in the hiring process is to have prospective employees fill out applications. When you're first beginning your business, you may purchase a preprinted application form from an office supply store, or you may choose to design your own application. Designing your own is actually preferable because then you can ask for only the information that you need. Preprinted applications may request information that's unsuitable for your business. However, in designing your own application, you may wish to use a preprinted form as a guide. A sample application is provided for you in [Figure 21](#).

You may also require applicants to submit a résumé and a letter of application. Read between the lines on all these documents. Are there unexplained gaps in the person's employment history? Are the documents completed correctly? Poorly written resumes may not seem like much of a problem, but consider this: if a person isn't willing to be careful when filling out an application for a job, how careful will that person be when performing repair jobs for you? Also, you'll want to hire someone who has reasonably good reading and writing skills.

After you've reviewed the applications you've collected, select the applicants who seem promising and invite them to visit you for a job interview. Your interview should be thorough. When you conduct a job interview, your intention is to get as much information as you can about the applicant—in his or her own words. Try to uncover any potential problem areas, and listen for clues that may point to an applicant's strong and weak points. Before the interview, make a list of questions you want to ask the applicant. The list will help you keep on track during the interview and also prevent you from forgetting important questions. Take notes during the interview, and be sure to call several references for each applicant to verify previous employment or scholastic records.

## EMPLOYMENT APPLICATION

For Office Use Only

Dept. \_\_\_\_\_ App. Filed \_\_\_\_\_  
 Occupation \_\_\_\_\_ App. Acc. \_\_\_\_\_  
 Rate \_\_\_\_\_ Emp. No. \_\_\_\_\_

Date \_\_\_\_\_

Name in Full (Please Print)	Social Security No.
Present Address (Include Zip Code)	Phone

**The Age Discrimination in Employment Act of 1967 prohibits discrimination on the basis of age with respect to individuals who are at least 40 but less than 70 years of age.**

Do you have any physical condition which may limit your ability to perform the job(s) applied for?

Type of Work Desired	Wages Expected
----------------------	----------------

Previously Employed Here?       No  
 Yes      From \_\_\_\_\_ to \_\_\_\_\_ Dept. \_\_\_\_\_

Have you any relatives or friends in our employ?  
 No  
 Yes      Name \_\_\_\_\_ Relationship \_\_\_\_\_

In case of accident or emergency, notify	Phone Number
--	--------------

Address (Include Zip Code)

Education	Name and Location of School	Years	Course of Study		Did You Graduate	Remarks
			General	Special		
Grammar School						
High School						
College or University						
Business or Trade School						

Have you served an apprenticeship?	How Long?	Trade?
------------------------------------	-----------	--------

Where Served?	When Served?
---------------	--------------

Mechanical Experience

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Include additional remarks on other side of application.  
(See other side.)

**FIGURE 21—A sample of part of a job application is shown here.**

When conducting an interview, ask the applicant specific questions, such as, "What did you do on your last job? How did you do each task? What was the reason for specific job functions?" Then, evaluate the applicant's answers in an attempt to determine if the person is actually as experienced and knowledgeable as he or she claims to be. Look for sincerity, honesty, and integrity in the applicant's answers. Remember to keep your questions focused on the applicant's work experience, education, and qualifications for the job. It's illegal to ask any questions about an applicant's religion, national origin, marital status, age, ages of children, or other personal matters that could result in discrimination (or even the appearance of discrimination).

During the selection process, look for someone with training or experience in the motorcycle repair field. Even if an applicant has a certificate or diploma in some related field from a technical school, junior college, or vocational training program, it shows that the person has a commitment to education and to keeping his or her job skills current. Such an employee can be a valuable asset to your company.

Once you've narrowed the field of initial applicants down to two or three people, bring the applicants back for a second interview. At this time, you can ask them to demonstrate their hands-on ability. Ask the applicants to demonstrate a process on an actual motorcycle, or ask them specific questions about how they would handle different repair situations. Asking very specific professional questions will tend to reveal the extent of the person's technical knowledge.

By using a thorough screening process during hiring, you'll avoid many problems with poor employees in the future. Think of hiring an employee as making an investment of your time, money, and business reputation. The actual cost of keeping an employee, including Social Security taxes, workers' compensation insurance, and benefits, is usually one-third more than the person's hourly wage. So, if you pay a worker a wage of \$9 per hour, the actual cost including these other expenses will be \$12 per hour. Make sure that the investment you make in an employee will pay for itself.

Even if you don't hire certain applicants, you should keep a file of their applications. Later, when positions open up, you can check this file and see if one of the applicants is still available. Contact those people and see if they're still interested in a job with you at that time.

Once you've hired a good employee, you'll obviously want to keep that person working for you for a long time. After all, you'll make a significant investment of time, training, and money in each of your employees. In order to keep good employees, you'll need to offer competitive wages, good working conditions, and adequate benefits.

The simplest form of compensation for employees is a straight hourly rate. The problem with the hourly rate is that it doesn't motivate the employee to perform better than average. Therefore, it may be wise to incorporate some type of incentive into your pay plan, such as guaranteed raises, bonuses, first picks on days off, or discounts on merchandise. You may also decide to pay the employee a commission on each motorcycle he or she works on. These types of job incentives encourage employees to perform better all the time.

## Conducting Employee Performance Evaluations

Periodic *employee performance evaluations* are essential in good personnel management. When a person first starts working for you, you'll probably place them on a brief probationary period (usually about two weeks) to ease them into the job, allow time to work out any serious problems, and make sure that they're completely suitable for the job. (Note that your probationary period, if you have one, should be discussed during the interview.) A performance evaluation is a necessity at the end of an employee's probationary period so that you can determine whether the employee should remain with your company. After that, an evaluation should be scheduled for at least once a year to review the employee's job performance.

Performance evaluations help correct small problems before they become bigger. If an employee is consistently late, for example, or displays other problem behaviors, these can be discussed during the evaluation. Or, perhaps an employee's job performance is good overall, but he or she needs additional training, or needs to be informed of job changes that you intend to make. The performance evaluation is a good time to discuss issues like these. Most employees appreciate a regular performance evaluation because it gives them a chance to voice their concerns and to be recognized for good performance.

You can choose from a variety of formats for the evaluations, including checklists, specific questions that require more than a "yes" or "no" answer, or a rating system based on various aspects of the job (for example, ratings that range from "excellent" to "unacceptable"). A sample evaluation form is shown in the [Appendix](#).

Regardless of the format used, the evaluation process should always allow for frank discussion between the employee and the evaluator without fear of recrimination. A positive emphasis will obtain the best results. The evaluator should highlight the employee's good points and offer help in any areas of failure or weakness. Often, just showing a personal interest in the employee during the evaluation is sufficient impetus for an employee to improve his or her performance.

## Maintaining Personnel Records

As a business owner, you should keep a separate file for each employee. Keep all personnel files in a safe place—in locked cabinets with keys or combinations (only available to authorized personnel) or in a separate computer file with special access. Never allow an employee to see another employee's personnel record, and don't give out any information in an employee's personnel file to anyone, inside or outside the company, without the express written consent of the employee or unless it's in accordance with a court order.

Each personnel record should contain, at a minimum, the following information:

- Personal information (name, address, telephone number, Social Security number, emergency contact phone number)
- Pre-employment papers (application, resume, references)
- Job information (title, job description, wage rate or salary, and benefits)
- Payroll information (hours worked each pay period; leave accumulated and used per pay period; total gross earnings per pay period less total deductions; date, check number, and net amount of each payroll check)
- Performance information (evaluations, merit raises, promotions, awards, and so on)
- Education information (record of all education and training completed during employment period)
- Leave without pay
- Termination information (date, type, reason, rehire status, copies of company's reference letters to future employers)

## BUSINESS RECORDS AND FINANCIAL STATEMENTS

### The Importance of Good Records

Good records are a must for every successful business. Without them, you don't know where you've been or where you're going. If something hasn't worked in the past, it's not likely to work in the future. Complete and accurate records can keep you from making the same mistake twice.

The records that you keep will depend on the type and structure of your business, the type of information that you feel is vital to your business and its growth, and the way in which you intend to use this information. The IRS doesn't require that businesses maintain any specific type of accounting records, documents, or record-keeping systems. The record-keeping method that a business uses is the owner's choice. However, in most tax matters, the burden of proof lies with the taxpayer—in other words, with you. Since it's impossible for you to store every business transaction in your memory alone, you'll need to keep a good record of all of your income, expenses, and deductions in permanent files (on paper, in a computer, or both).

A small-business owner also needs to become proficient at reading and understanding various financial statements and documents. This doesn't mean that you have to be a certified public accountant or a math wizard, but you will need to be able to monitor the performance of your business on a daily, weekly, monthly, and annual basis.

An excellent reference about financial record keeping is "Keeping Records in Small Business," a publication of the U.S. Small Business Administration (Management Aids Number 1.017). This reference outlines some of the basic types of records that a small-business owner must keep. You may purchase a software package designed for financial record keeping, hire someone else to keep your records for you, or develop your own system. Whatever you choose to do, your record-keeping system should be easy to understand, simple to use, informative, and accurate.

At a minimum, a motorcycle repair business will usually need to maintain the following records:

**Customer records.** You should keep an accurate, up-to-date record of all services performed for customers, as well as a record of their payments.

**General journal and individual accounts.** All receipts of incoming funds and all funds paid out should be entered daily in a cash journal. Separate accounts for receipts and for disbursements may also be used if desired. All funds that pass in and out of your business should go through a separate checking account set up for the business.

**Payroll records.** These records must include the amount and the date of all wages or salaries paid to employees, which are subject to withholding taxes.

**Profit-and-loss statements (actual and projected).** Your business tax is based on the bottom line (profit and loss) of the actual profit-and-loss statement. Projected statements are also necessary and should be prepared at least quarterly to help you make sound estimates of quarterly taxes and help you plan steps for minimizing your total taxes.

**Balance sheets.** A balance sheet is a statement of the financial condition of a business. It shows an itemized list of the assets, liabilities, and owner's equity at a given date.

**Records of fixed assets and depreciation.** Any asset that's depreciated should be included in this record. Examples are vehicles, office equipment, and any large, specialized equipment you use for repairs or testing. The IRS allows a variety of depreciation techniques that can be used to defer or reduce taxes. Therefore, a good record is essential to receive maximum tax advantages.

**Corporation records.** Additional records are required for corporations, including the salaries and benefits paid to its officers and dividends paid to stockholders. These records should be established according to your accountant's recommendations.

If filing income taxes, paying employees, balancing accounts, and even paying your bills is more paperwork than you're willing to do yourself, you may want to contract many of these tasks out to a professional accountant or payroll firm. An accountant can help you set up a system that incorporates any records that you or your accountant feel you need. After the system is established, your accountant may keep all records except the daily income and expense records, or you may decide to maintain all the books until you turn them over to your accountant at tax time.

Whatever you decide, in order to satisfy IRS requirements, you must keep accurate, consistent, and permanent records of all income, expenses, and allowable deductions for the business. In addition, these records should allow you to prepare accurate projections for your business and provide consistent figures for comparison. Projections and comparisons are necessary functions of good management.

Now, let's take a closer look at some of these records.

## Customer Records

Each time you perform a repair job, you should maintain a record of the customer, his or her motorcycle or ATV, and the procedures that were performed on the machine. Like a person's medical or dental record, the repair and maintenance record contains a complete account of what has been done to a motorcycle (and when). Repair and maintenance records can help the customer (and the technician) plan for future maintenance jobs on the same machine.

The information that you include in your customer records can also help you plan future marketing efforts. Accurate customer records provide an overall picture of your repair business—how many jobs you perform daily or weekly; the percent of repair jobs you perform by geographical location; special customer needs and requests; what products and methods work best; and other factors that are useful to know for business-planning purposes.

A customer record should include at least the following information:

- The customer's name, address, and telephone number (home and business)
- The motorcycle's model name and year
- The date and time the repair or maintenance job was performed
- The exact procedures that were performed at that time
- The exact tools, equipment, and products that were used in performing the job
- Any special instructions or requests
- Any unusual circumstances or problems that were encountered in performing the job
- A copy of the service order form, parts lists, and any sales invoices
- A record of the fee charged and the date and method of payment
- The way in which the customer first heard about your business

## General Journal and Individual Accounts

A general journal is often called a “book of original entry.” In a general journal, you'll daily record each of your business's transactions for the day. In this way, the general journal can serve as a chronological record of all your business transactions.

The information in the general journal will eventually be transferred into separate accounts (expense, income, accounts payable, and so on). Preprinted accounting books that can be used as general journals are available at office supply stores and discount chains. A section of a page from a general journal is shown in [Figure 22](#). As you can see, a general journal provides space for the date of the transaction, the name of the account to which the transaction is to be transferred, a column for indicating that the transaction has been posted (transferred) to its own account, a debit column, and a credit column.

GENERAL JOURNAL										PAGE			
DATE	ACCOUNT TITLES AND EXPLANATION	POST REF.	DEBIT				CREDIT						

**FIGURE 22**—A sample page from a general journal is shown here.

The information from the general journal should be posted into separate accounts at least every week. The number and type of accounts you set up for your business will depend on the volume of your business, debts owed, assets owned, and many other variables. If you're unfamiliar with accounting procedures, your accountant can help determine the number and types of accounts you should maintain.

Some of the more common accounts are

- Income accounts
- Accounts payable (if you buy equipment "on time")
- Notes payable (if you have outstanding loans)
- Expense accounts (rent, utilities, insurance)
- Tax accounts

You may have noticed that there has been no mention of accounts receivable. This type of account is used to record outstanding customer payments. However, since your repair services will be paid for when the customer picks up his or her motorcycle, there should be no need to use accounts receivable.

The advantage of these individual accounts is that when they're regularly and properly maintained, you can see at a glance how you stand in various areas of your business. For example, if you want to know how much you still owe on supplies or equipment you purchased, you can simply look in your accounts payable for that information.

## Payroll Records

If you hire employees or use subcontractors, you'll need to maintain payroll records for them. Payments to subcontractors are posted in expense accounts, but you must also maintain a file that contains information about each subcontractor you use (names, social security numbers, and addresses). For employees, you must keep personnel files and expense accounts for wages, salaries, and employment taxes. Finally, you need a record of all tax payments to federal, state, provincial, and local governments.

## Profit-and-Loss Statements

A *profit-and-loss statement (P&L)* is a summary of business income and expenses over a specified period of time that shows the profit or loss for that period. A formal P&L is very similar to the projected profit-and-loss statement you prepared at startup. Basically, a P&L contains a list of income, expenses, and net profits (or losses) before taxes.

If an accountant handles your books, he or she will usually furnish a formal P&L statement on a periodic basis, preferably at least quarterly. A quarterly statement helps you verify estimated taxes and adjust payments up or down in order to avoid penalties at the end of the year. For management purposes, however, you may prefer monthly P&L statements so that you can readily determine when particular expenses begin to get out of line.

A P&L statement demonstrates the financial gain (or decline) of a business over a given period. You can use a P&L to compare the goals of your business plan with actual dollars-and-cents figures. You can then use this information to determine where to concentrate your management efforts.

## Balance Sheets

A *balance sheet* is a formal statement of the financial condition of a business. It shows an itemized list of assets, liabilities, and owner's equity at a given date, and is usually prepared at the end of the P&L period. The owner's equity, or capital, is determined by subtracting the total liabilities from the total assets. Potential lenders and investors are particularly interested in a company's balance sheets.

A sample balance sheet for a fictitious small business is shown in [Figure 23](#). Under the equity section, the withdrawals of \$28,300 are the amounts that the owner has taken from the business throughout the year. The total amount is the motorcycle repair technician's "salary" for the year. Even after the withdrawal of this amount, the value (equity) of the business has increased by \$7,576.75 in one year. Notice that the bottom line of the balance sheet (total liabilities and owner's equity) equals total assets.

**FIGURE 23**—This illustration shows a sample balance sheet for a fictitious small business.

<b>John Doe Balance Sheet December 31, 19XX</b>		
<b>ASSETS</b>		
Cash		\$ 23,450.00
Prepaid insurance		675.60
Equipment assets:		
Office equipment	\$25,010.00	
Less accumulated depreciation	<u>4,733.50</u>	20,276.50
Field equipment	18,254.00	
Less accumulated depreciation	<u>7,323.50</u>	<u>10,930.50</u>
Total assets		<u><u>\$ 55,332.60</u></u>
<b>LIABILITIES</b>		
Accounts payable		\$ 17,969.45
Notes payable		6,347.75
Subcontractor fees payable		450.00
Employees' withholding tax payable		615.48
FICA tax payable		317.80
Insurance payable		450.60
Accrued bank credit card expense		<u>75.20</u>
Total liabilities		\$26,226.28
<b>OWNER'S EQUITY</b>		
I. N. Specter, capital:		
Capital, January 1, 19XX		\$21,349.57
Net income for year	\$36,056.75	
Less cash withdrawals	<u>28,300.00</u>	<u>7,756.75</u>
Capital, December 31, 19XX		<u>\$29,106.32</u>
Total liabilities and owner's equity		<u><u>\$55,332.60</u></u>

## Computers in Record Keeping

A computer may be very useful for recording and controlling the financial aspects of your business, but it isn't the answer to all problems. For example, a computer isn't efficient or cost-effective unless you or one of your employees knows how to use it for accounting or record-keeping purposes. If you operate a one-person business, you may find it less expensive to turn over your financial records to an accountant and spend your time doing repair jobs. However, if you already own a personal computer, and you or one of your employees is proficient in using it, you can probably save money on accounting fees by keeping your own financial records.

In many businesses, computers can increase productivity. Software programs are available that can quickly track business performance and compile charts, graphs, and projections. A computer can be a useful tool in your decision making and marketing development process.

Before you purchase a computer for your business, seek the advice of a computer consultant, who can help you choose the best system for your needs. The wide variety of hardware (the computer itself and its components) and software (computer programs) that's available makes it difficult for a novice computer buyer to correctly determine their needs. A professional consultant will be able to offer useful (and often money-saving) advice. Don't forget to consider the future abilities of a computer system when making your choice. You don't want to invest a lot of money in a computer that will be obsolete in just a few months.

Finally, before purchasing a computer system for your company, ask owners of other service businesses what systems they use. They may be able to offer you some useful advice. Keep up with new developments in the computer field through stories in news magazines. All of these efforts will help you make the right choice when purchasing a computer system for your business.

## ADVERTISING

### The Importance of Advertising

The old saying "it pays to advertise" is true, but advertising can cost a lot of money. The key is to learn how to make the most of the advertising dollars you have. Even if you're opening a one-person business, you must set aside enough money to promote your business in the beginning and to continue some type of advertising later.

Some new business owners try to avoid spending money on advertising, but this is usually a mistake. Advertising is an essential part of any business operation—it's needed to attract new customers and to inform existing customers about new services or products. Advertising is an important part of every business—new or old, large or small. You must keep your business in the public eye in order to begin and maintain a business.

Advertising is a controllable business expense. Before your business even opens, you can decide how much to spend on advertising by preparing an advertising budget. As soon as you open your doors, advertising salespeople will immediately approach you with advertising deals “that you just can't pass up.” If you've prepared a budget beforehand, it will be easier to say no to some of these enticements. A good rule of thumb is that approximately one percent of the annual gross income of your business should be spent on advertising. So, if you have a gross business income of \$30,000 annually, you should plan to spend about \$300 on advertising.

If you can afford to hire a professional agency to promote your business, do so. Advertising is a science that involves factors such as demographics, market share, and frequency. A local advertising agency will have information on the demographics in your service area, and they'll be able to determine your market share and the best frequency for your ads. An agency can help you with all the phases of planning your ad campaign (including the establishment of your advertising budget).

If you're unable to hire a professional ad agency to handle your advertising campaign, you might seek the help of professional advertising people on the staff of local newspapers, as well as in radio and television stations. These professionals can help you determine your advertising needs and develop an advertising plan.

Beware of advertising salespeople who want you to spend your total advertising budget with them. A good ad person will suggest a mixed media campaign to give you the most effective use of your advertising dollar. Obviously, if your advertising works and your business is successful, you'll have even more money to spend on advertising.

## Advertising Considerations

When you're purchasing advertising, you'll need to decide on both the type of advertising you want and the locations where you want to place your ads. You can use your advertising to describe the type and quality of your service, or you may present an “educational” ad that explains, for example, how regular motorcycle maintenance can improve performance. A good advertising sales representative can help you to work out the details of your message.

The medium you use for your advertisements will depend on

- The cost of the ads in each medium
- The geographic area covered by the medium
- The number of people reached by the medium
- The type of people reached by the medium

The number of people reached by any one medium must be considered in conjunction with the type of people reached. For example, a radio station that plays current popular music may have a large listening audience. However, if most of the listeners are teenagers who aren't likely to be potential clients, you may want to consider placing your ad elsewhere. Reaching your target market should be the goal of any advertising.

Paid advertising includes a wide variety of possibilities, including the following:

- Newspapers
- Local magazines or business publications, especially ones that focus on motorcycle sales and service
- Radio
- Television (generally expensive for a new business)
- Direct mail (brochures, newsletters, flyers)
- Discount coupon flyers or booklets (often published by local chambers of commerce or business associations)
- Business cards and stationery
- Billboards
- Ads on public transportation vehicles and at stops
- Giveaway items (pens, key chains, calendars, hats, letter openers, notepads)
- Yellow pages of the telephone book

Each of these methods has advantages and disadvantages. Newspaper ads are the most common type of advertising because they're easy to produce and relatively inexpensive; they can be as large or small as you like, and they're circulated to a large potential customer base. One disadvantage is that not all of your potential customers may get the newspaper or bother to read through all of it, so they may not see your ad.

However, a good way to get the attention of customers is to offer special incentives or coupons in your newspaper ad. One advantage of coupons is that they allow you to monitor the effectiveness of your advertising. As customers use the coupons, you can see how many were directed to your business by that advertisement. Note that when you include coupons in an ad, it's a good idea to state the savings as a specific dollar amount rather than a percentage. Most customers like to know exactly how much money will be discounted from their bill.

Trade magazines and publications circulate to a more focused audience, which can be good or bad depending on what you're trying to do with your advertising campaign. These ads are generally of higher quality than newspaper ads, but they usually cost more as well.

Printed materials such as business cards and brochures are relatively inexpensive and can be widely distributed. In fact, printed materials are probably the most cost-effective way to reach a large customer base. You can give business cards directly to prospective customers, or send brochures and flyers out in direct mailings.

Direct mailings are an excellent form of advertising for motorcycle repair businesses. You can take a mailing list of your current customers, or buy a mailing list from a similar business, and mail brochures directly to this customer base to alert them of upcoming sales, special events, or new products and services. One consideration, however, is the cost of postage. Look into all of your available postage options at the post office. If your mailings are sufficiently large, you may be able to qualify for bulk postage rates.

To develop business cards and business forms, you might want to seek the help of a printer with an internal art department. Usually, an artist can offer suggestions on the designs for these materials. Get to know your printer very well. Since you'll be using several printed forms—letterhead, business cards, invoices, and so on—you'll need to be able to work with your printer. Find someone who is interested in doing a good job for you.

Signs and displays at your business are relatively inexpensive, last a long time, and make your shop look better. However, they don't reach out to new customers—they only reach those who are already in your shop. Billboards or road signs can be seen by people outside your store, but it's more difficult to change them often and keep them current and attractive. Television ads, which are usually the most attractive of all ads, can show your repair techniques and procedures in action. These ads are so expensive, though, that small businesses can't usually afford to have one produced. In contrast, radio advertising is much less expensive than television advertising and it can get a great deal of information across to the public in a short time. However, it's sometimes tricky to get your ads on the right radio stations at the right times to reach your potential customer base.

Another method that you can use to advertise your service is to make cold calls. *Cold-calling* requires you to go out into the business community and try to get people interested in your services. For this reason, cold-calling may best be described as “hands-on advertisement.” For example, you can visit companies in your area and present them with special offers or coupons for their employees.

You can also use the Internet to help your advertising needs. The Internet is growing every day, and just about every business you can imagine has its own home page or website. Because of the unlimited information sources and the easy access, the Internet can provide an inexpensive and reliable means of advertising that millions of people will be able to read.

Of course, you don’t have to use all of the advertising possibilities that are open to you. Doing so is usually beyond the budget of a new small business, anyway. However, you should definitely consider listing your business in the yellow pages of the telephone book.

## Buying Space in the Yellow Pages

Buying advertising space in the yellow pages is an opportunity that only comes along once a year, so you must plan ahead. When you’re in the planning stages of developing your business, call the telephone company’s business office for instructions on how to contact yellow pages advertising representatives. Once you contact a representative, find out the deadline for submitting an ad for the next telephone book and the date that the book will be released. At this time, let the representative know that you want to buy an ad so that you’ll be contacted when the time arrives. You can also request a rate card, but you may not get a direct answer on the cost of various size ads until the salesperson calls on you personally.

Usually, if you have a business telephone listing, you’ll qualify for a one-line listing in the yellow pages at no extra charge. Ask a telephone sales representative for current details about cost, placement, and design of yellow pages ads. He or she should be happy to send you all the information you need to make a good choice.

When you’re considering the composition of your ad, look in the yellow pages under “Motorcycles” and “All-Terrain Vehicles” to see if any competitors are operating in your area and what type of advertising they’re buying. Use the information sent to you by the yellow pages representative to evaluate the competitor’s ad. If you can afford to purchase a larger or a more distinctive ad than the competitor’s, do so. Since the purchase of a yellow pages ad is a major investment, you should use the expertise of the phone company staff or seek out an advertising agency for help. This is too important a decision to be made on the spur of the moment with little thought or planning.

If you feel that you can or must design your own ad for the yellow pages, consider that the headline is generally judged to be the most important item in a display advertisement. The second most important item is your telephone number. The headline will get the public's attention, and the telephone number will tell them how to contact you. The goal of a yellow pages ad is to get people to call you on the telephone. The rest is up to you. You're the one who must sell your services—an ad can't do this for you.

There's no single correct answer as to how you should run an advertising campaign for a small business. Effective advertising is really more of an art than a science. Fortunately for business owners who aren't particularly experienced in advertising matters, some product manufacturers offer assistance by providing preprinted advertisements or suggested scripts for radio and television ads. This is a great service to technicians who are affiliated with one or more product manufacturers. Now, take a few moments to review what you've learned by completing *Road Test 4*.

## Road Test 4



1. The owner's equity in a business is calculated by subtracting the total \_\_\_\_\_ from the total \_\_\_\_\_.
2. A method of advertising in which you visit companies in your area and present them with special offers or coupons for their employees is called \_\_\_\_\_.
3. An individual or a business who is contracted to perform part or all of one of your jobs is called a \_\_\_\_\_.
4. A written document that indicates what you expect of your employees and what they should expect from you and the company in return is called your \_\_\_\_\_.
5. *True or False?* Advertising is not a controllable business expense.
6. The best way to ensure that you hire good employees is to use a thorough \_\_\_\_\_ and \_\_\_\_\_ process.
7. The type of business record that contains an up-to-date listing of all services performed for a customer and a record of payments is called a \_\_\_\_\_.
8. *True or False?* Employee performance evaluations should be held at least once a year.

(Continued)

## Road Test 4



9. The actual cost of keeping an employee, including Social Security taxes, workers' compensation insurance, and benefits, is usually \_\_\_\_\_ more than the person's hourly wage.
10. In order to keep good employees working for you, and to encourage employees to perform better all the time, it's a good idea to offer some type of \_\_\_\_\_ in your pay plan.
11. *True or False?* When conducting an interview, you should never ask an applicant questions about his or her religion, national origin, marital status, or age.
12. The most common type of advertising is the \_\_\_\_\_ ad, because these ads are easy to produce and relatively inexpensive.
13. Although some forms of advertising may be beyond the budgets of many small businesses, one form of advertising you should definitely consider is listing your business in the \_\_\_\_\_.
14. *True or False?* When you include coupons in an ad, you should always state the savings offered as a percentage.

**Check your answers with those on page 90.**

## *NOTES*

# Road Test Answers

## 1

1. False
2. Small Business Administration
3. True
4. partnership
5. expenses, income
6. ROI = net profit ÷ net worth  
ROI = \$5,000 ÷ \$50,000 = 0.1, or 10%
7. True
8. sole proprietorship

## 2

1. net worth
2. False
3. variable
4. profit-and-loss
5. True
6. workers' compensation
7. agent, broker
8. fixed
9. business plan
10. False

## 3

1. service, sales
2. management skills inventory
3. compensation
4. Before beginning a repair job, perform a visual inspection and inform the customer of any problems; provide free pick-up and delivery; and offer customers the option of making appointments or just walking in for service.
5. True
6. work bays
7. sales, service, administrative
8. False
9. percent fill
10. work order
11. False
12. value-added
13. gondolas
14. product grouping

## 4

1. liabilities, assets
2. cold-calling
3. subcontractor
4. personnel policy
5. False
6. application, interview
7. customer record
8. True
9. one-third
10. incentive
11. True
12. newspaper
13. yellow pages of the telephone book
14. False

# *Appendix*

This Appendix contains several useful resources for new small business owners. The first resource is a list of agencies that provide information to small businesses; the second is a management checklist that you can periodically use to evaluate your business management methods; and the third is a sample employee performance evaluation form.

## AGENCIES PROVIDING ASSISTANCE TO SMALL-BUSINESS OWNERS

### U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in *The Small Business Directory*. For a free copy write to: SBA Publications, P.O. Box 1000, Fort Worth, TX 76119.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs, and contract assistance. Ask about

- **Service Corps of Retired Executives (SCORE)**, a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops, and seminars to prospective and existing small business people.
- **Small Business Development Centers (SBDCs)**, sponsored by the SBA in partnership with state and local governments, the educational community, and the private sector. They provide assistance, counseling, and training to prospective and existing businesspeople.
- **Small Business Institutes (SBIs)**, organized through SBA on more than 500 college campuses nationwide. The institutes provide counseling by students and faculty to small-business clients.

For more information about SBA business development programs and services, call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722).

### Other U.S. Government Resources

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the "bookstore" heading. You can request a *Subject Bibliography* by writing to **Government Printing Office**, Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

- **Consumer Information Center (CIC)**  
P.O. Box 100  
Pueblo, CO 81002
- **Consumer Product Safety Commission (CPSC)**  
Publications Request  
Washington, DC 20207
- **U.S. Department of Agriculture (USDA)**  
12th Street and Independence Avenue  
SW, Washington, DC 20250

The CIC offers a consumer information catalog of federal publications.

The CPSC offers guidelines for product safety requirements.

The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

(Continued)

- **U.S. Department of Commerce (DOC)  
Office of Business Liaison**

14th Street and Constitution Avenue, NW  
Room 5898C  
Washington, DC 20230

DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

- **U.S. Department of Health and Human Services (HHS)  
Public Health Service  
Alcohol, Drug Abuse and Mental Health Administration**

5600 Fishers Lane  
Rockville, MD 20857

Drug-Free Workplace Helpline: **1-800-843-4971**. Provides information on Employee Assistance Programs.

National Institute for Drug Abuse Hotline: **1-800-662-4357**. Provides information on preventing substance abuse in the workplace.

The National Clearinghouse for Alcohol and Drug Information: **1-800-729-6686** toll-free. Provides pamphlets and resource materials on substance abuse.

- **U.S. Department of Labor (DOL)  
Employment Standards Administration**

200 Constitution Avenue, NW  
Washington, DC 20210

The DOL offers publications on compliance with labor laws.

- **U.S. Department of Treasury  
Internal Revenue Service (IRS)**

P.O. Box 25866  
Richmond, VA 23260  
1-800-424-3676

The IRS offers information on tax requirements for small businesses.

- **U.S. Environmental Protection Agency (EPA)**

- **Small Business Ombudsman**

401 M Street, SW (A-149C)  
Washington, DC 20460  
1-800-368-5838 except DC and VA  
703-557-1938 in DC and VA

The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

- **U.S. Food and Drug Administration (FDA)  
FDA Center for Food Safety and Applied Nutrition**

200 Charles Street, SW  
Washington, DC 20402

The FDA offers information packaging and labeling requirements for food and food-related products.

# EMPLOYEE PERFORMANCE EVALUATION

## Part I—Employee Identification

Name \_\_\_\_\_ Job Title \_\_\_\_\_

## Part II—Verification of Initial Face-to-Face Discussion

An initial face-to-face discussion of functions, responsibilities, and training objectives for this rating took place on \_\_\_\_\_ Employee Initials \_\_\_\_\_ Supervisor's Initials \_\_\_\_\_

## Part III—Job Functions, Responsibilities, and Employee Training Objectives (Beginning of Rated Period)

### Job Functions

### Responsibilities

### Employee Training Objectives

#### Courses Completed

#### Courses Needed

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## ONLINE EXAMINATION

For the online exam, you must use this

**EXAMINATION NUMBER:**

**03302200**

**When you're confident that you've mastered the material in your studies, you can complete your examination online. Follow these instructions:**

1. Write down the eight-digit examination number shown in the box above.
2. Click the **Back** button on your browser.
3. Click the **Take an Exam** button near the top of the screen.
4. Type in the eight-digit examination number.