Study Unit 13

Starting a Small Business

Preview

Welcome to Study Unit 13 of your Professional Locksmith course! You've now completed all the study units that deal with the actual techniques and skills of locksmithing. You should have all the technical skills you need to feel qualified to pursue your chosen career as a locksmith.

The next step to starting your career is determining where you want to work. To help you make this choice, Study Units 13 and 14 will provide you with a wealth of information on career possibilities. First, this study unit will show you how to go about starting your own small locksmithing business. Then, Study Unit 14 will continue with information on finding locksmithing jobs and on working in the professional locksmithing field.

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

- List several reasons why small businesses fail and how to avoid them
- Name several sources of information and training available for new business owners
- Prepare a written business plan for your locksmithing business
- List several possible sources of financing for your business
- Explain the importance of accessibility for a business location
- Describe the procedures you can use to assess your competition
- List several ways to establish a business identity
- Name the essential equipment you'll need when first opening your shop
- Explain the steps to take in hiring employees
- List and explain the various types of business records and financial statements

Contents

INTRODUCTION 1

The First Steps
Are You Ready for Your Own Business?
Getting Training
Getting Off to a Great Start

DEVELOPING A BUSINESS PLAN 7

Planning and Setting Goals
Contents of a Business Plan
Writing Your Business Plan

FINANCING YOUR BUSINESS 16

Determining How Much You'll Need
Start-Up Capital and Working Capital
Extra Expenses
Getting Your Loan
Where to Get Loans

PROFESSIONAL SERVICES 24

Getting Professional Advice
Accountant
Insurance Agent or Broker
Attorney
Banker
Marketing or Management Consultant

FINDING THE BEST LOCATION 35

Accessibility
Traffic Flow
The Appearance of Your Shop
Assessing Your Competition
Leasing vs. Buying

ESTABLISHING A BUSINESS IDENTITY 39

Name Recognition
Designing a Logo
Participating in Community Activities
Purchasing a Sign
Advertising

EQUIPMENT AND SUPPLIES 46

Determining What You Need
Cash Register or Cash Box
Telephone
Office Furniture and Supplies
Your "Wish List"

STAFFING YOUR SHOP 52

Deciding Whether to Hire
Job Descriptions and Personnel Policy
Employment Applications
Job Interviews
Dismissing Employees
Subcontractors
Apprenticeship Programs

BUSINESS RECORDS. 59

The Importance of Good Records
Personnel Records
Financial Records
Authorization Records
Computers in Record Keeping

THE KEY TO SUCCESS 66

KEY POINTS TO REMEMBER 66

LOCKING IT UP! ANSWERS 71

EXAMINATION 73

COMING ATTRACTIONS 77

Starting a Small Business

Do You Know . . .

What government agency can help you in starting a small business?

What is a *business plan?*

What are *start-up capital* and *working capital?*

In this study unit, you'll find the answers to these and many more questions about starting your own business.

INTRODUCTION

The First Steps

At some point in every locksmith's career, the question "Should I start my own business?" inevitably arises. Many locksmiths decide that they derive sufficient career satisfaction 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 locksmiths who like the idea of banking the profits from a business instead of receiving a fixed hourly wage. If you're one of these professionals, read on! The information you need to open your own business is now at your fingertips. Even if you're not interested in opening your own business, the following information can help you further your career in someone else's shop.

The first thing you should know about opening your own business is that you don't necessarily have to open a commercial space to be successful. 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 clients 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 passing out flyers at your local churches, schools, and businesses (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 might wish to start out in a commercial space. Many people have successfully done so. However, there are some serious issues you must explore before actually taking this plunge. This study unit is here to help you examine some of the key issues involved in opening and operating a locksmithing business.

Are You Ready for Your Own Business?

Starting your own business will make tremendous demands on you as an individual. From the outset, you should be aware that many small businesses fail within the first three years of operation. You must be committed to work hard to be a success.

If you have a family and all the responsibilities that go along with a family, are you ready to take on the added responsibilities of a new business as well? To help you make this decision, begin by asking yourself the following questions (Figure 1):

- Am I willing to work hard?
- If I operate the business alone, do I have the physical stamina and emotional strength to give sufficient time to both my family and the business?
- 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?

Did you answer “yes” to these questions? Good! That’s the first step. There are many other issues you must take into

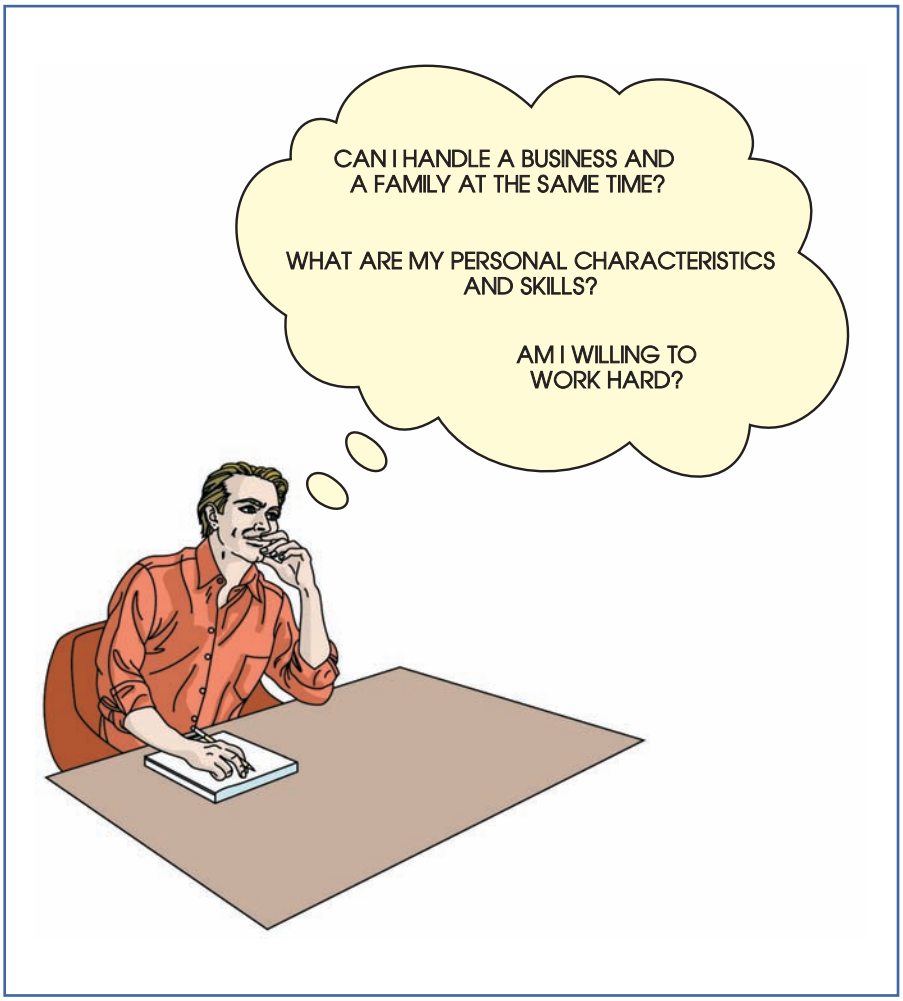


FIGURE 1—Are you ready to start your own business?

account, however. Let's start by looking at some kinds of business training you may be interested in.

Getting Training

Expertise and *experience* are two of the most important elements of a successful business formula. If you don't have experience in running a business, there are several ways that you can get training, help, and advice.

First of all, even though this course provides your initial training in locksmithing, you might want to consider spending some time working with an experienced locksmith before striking out on your own. Doing so will help you obtain practical experience in the everyday workings of a locksmith shop. You may have already acquired experience by working for someone else.



FIGURE 2—A small business management course can be helpful to those just starting out in the business world.

If you've ever taken a business course, you already have some idea of what is involved in record keeping, inventory management, and accounting procedures. If you don't have a business background, you might consider taking a small business management course or seminar offered at a local community college (Figure 2).

The *Small Business Administration (SBA)* offers business courses through its *Small Business Institute* and *Small Business Development Centers*, often in conjunction with local community colleges. These courses are available in most areas, not just in 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

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

Another way to get help in starting a business is to use the services of a business advisor, such as a financial consultant or 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!

Getting Off to a Great Start

The locksmithing business can be lucrative, but success will depend on you. It isn't enough to be a great locksmith; you must also have business sense and wise spending practices. Success also depends on how you promote your business through marketing and advertising and how well you manage the daily operations of the business.

Good management makes things happen. It controls and directs people and events. Good managers have common sense and the ability to make (and stick with) decisions. They're willing to work hard.

If all goes well, you can expect to see your initial investment come back in about five years. Your own expertise and creative skills will play a part in the eventual success of your business. There's no getting away from the fact that some businesses fail. However, if you're aware of why some businesses succeed and others fail, you'll be more likely to succeed yourself. The following is a list of reasons why some small businesses fail:

- Lack of business plan and goals
- Insufficient financing and cash reserves
- Inadequate skills and training of management and employees
- Inadequate public relations and marketing efforts
- Inadequate record keeping
- Lack of creativity
- Insufficient attention to quality control

In spite of all that's been said about the possibility of failure, a locksmithing business has more chance of success than many other types of business. Start-up and overhead costs can be kept as minimal as you like. Also, locksmithing is more recession-proof than other businesses. Your service is a part of daily life, not a luxury. Customers will always need your skills.

If you know your job, price your services fairly, and operate your business in an honest, responsible, and legal manner, there's virtually no reason why you can't succeed and make good money while doing it.

MANAGEMENT CHECKLIST FOR A SMALL BUSINESS OWNER

Yes	No	
____	____	Does your service supply an unfilled need or serve an existing market in which demand exceeds supply?
____	____	Is your service competitive in relation to quality, price, special services offered, promptness of service, and area served?
____	____	Do you understand your customer's needs and desires?
____	____	Are your advertising and promotional programs effective?
____	____	Are you aware of federal, state, provincial, and local laws and regulations that relate to your business, and do you obey them?
____	____	Do you have adequate insurance coverage and/or bonding for your needs?
____	____	Do you maintain complete and accurate records of fees, subcontractors' services and payments, accounts and taxes payable, and expenses?
____	____	Do you submit employees' tax withholdings and your own employee taxes (FICA, FUTA) on a timely basis?
____	____	Do you have sufficient capital for operating expenses and expansion needs?
____	____	Do you prepare budgets, cash flow projections, and profit and loss projections?
____	____	Has your business maintained a good credit rating so that expansion funds will be readily available when needed?
____	____	Do you update your business plan and goals on a regular basis?
____	____	Do you review your operations on a regular basis to ensure quality service, to evaluate the performance of employees and subcontractors, to reduce excessive expenses, and to change outmoded or wasteful business practices?
____	____	Do you utilize your accountant, attorney, and other business professionals when they're needed in order to avoid future problems?
____	____	Have you established hiring and firing practices that will ensure fairness to all applicants and employees?
____	____	Do you provide ample opportunity for employee growth and promotion?
____	____	Do you spend too much time and money on hiring and training new employees without seeing any benefits from your efforts?

FIGURE 3—Business Management Checklist

Figure 3 contains a management checklist that has been tailored for a locksmithing business. If you do decide to open your own business, you should regularly fill out such a checklist to be sure that your business goals are being reached.

Now, let's take a moment to look at your goals and how to achieve them. One of the best ways to examine your business goals is by developing a formal *business plan.*

DEVELOPING A BUSINESS PLAN

Planning and Setting Goals

Planning is the most important stage of any project. Before you get started in business, therefore, it's important to have a "game plan" that describes your ambitions and goals for your business. This game plan should be flexible so that it can change as conditions change. By adopting and sticking to a plan, you can control (as much as possible) the destiny of your business. In other words, you'll run the business; it won't run you.

Your *goals* are your expectations of what your business will do for you. Your goals should be realistic, and you should establish both long-term and short-term goals for yourself. For example, your long-term goal may be to get the business up and running. To accomplish this, you may need to establish a number of short-term goals, such as finding a location, getting a loan, and hiring employees.

Contents of a Business Plan

If you're seriously thinking about starting a commercial business, you should start by drawing up a business plan to clearly identify your business goals. A *business plan* is a written document that describes all areas of your small business. In your business plan, you'll identify what you're selling, where you're selling, and who you're selling to. A good business plan is a blueprint for success. It shows where you intend to go with your business and how much money it will take to get you off to a successful start.

In this next section of the text, we'll briefly consider the contents of a business plan. The major topics in a business plan include the following:

1. The mission of your business
2. The structure of your business
3. A marketing analysis, including any information you have about your competition

4. A description of the daily operation and management of the business
5. Your financial projections for the business

Mission of Your Business

Your business plan should begin with the *mission* (the purpose) of your business as you envision it. Why will your business be needed? What services will you offer and why are they important to the public? What will be the scope of the business (local, county, state, national)? Are you starting a new business or are you taking over an existing one? If you're taking over an existing business, describe its present strengths, your plans to improve the business, and any problems you must overcome.

Next, give some information about yourself that will help others understand you better. Explain why you want to start your own business and what you feel you can offer the public. Include any education or experience you've had that's applicable to the business. Also, include any innovative ideas you have to make your service unique or desirable.

Structure of Your Business



FIGURE 4—In a sole proprietorship, the business is owned and operated by one person.

In the second section of the business plan, define the way in which your business will be structured. There are three major business structures:

Sole proprietorship. The sole proprietorship is the most common form of business ownership. A sole proprietorship is a business that's owned and operated by only one person (Figure 4). The owner receives

all the business's income and maintains sole control of the business. The virtue of a sole proprietorship lies in its simplicity. In a sole proprietorship, you're literally your own boss. However, the main disadvantage of a sole proprietorship is that the owner is responsible for all the business's debts, including all financial and legal claims made against the business. Another disadvantage of a sole proprietorship is that it's more difficult for one person alone to raise funds for business expansion.



FIGURE 5—In a partnership, two or more people share the responsibility of running a business.

Partnership. In a partnership, two or more people co-own and operate a business (Figure 5). The partners combine their capital, labor, skills, and experience in conducting the business. The partners share both the income and debts of the business, and are equally responsible for any legal claims against the business. Thus, all the partners are responsible for the mistakes of one. If you choose to form a partnership, choose your partners carefully and make sure a lawyer draws up a detailed partnership agreement defining the rights and obligations of each partner.

Corporation. A corporation is a complex business structure that may have one or many owners. To make a business into a corporation, the owner or owners must file Articles of Incorporation with state authorities. Under the law, a corporation is considered to be a "person" (Figure 6). As such, a corporation can make contracts, pay taxes, and sell stock to the public. Creditors can only be paid with the corporation's money (not with the personal money of the owners). The principal advantage of a corporation is limited

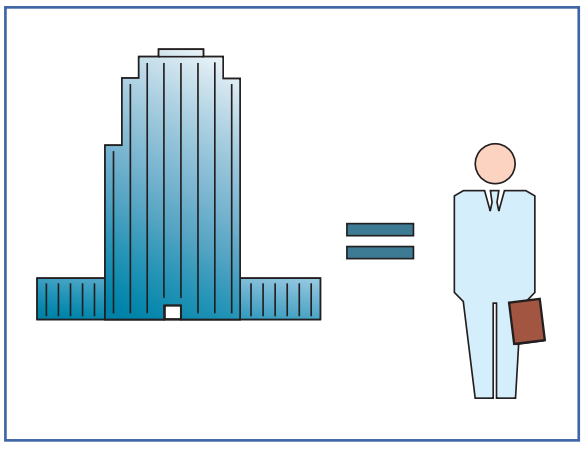


FIGURE 6—A corporation is a business structure that's considered to be a "person" under the law.

liability. That is, the corporation only, and not the owners or stockholders, is responsible for debts or claims against the business.

Marketing Analysis

Once you've described your purpose and business structure, the next topic you should address is the way you intend to market your business. A *marketing analysis* is an explanation of how you'll go about the actual selling of your goods and services. Describe the geographical area you'll do business in, your potential customers, the types of services you'll offer, and your fees.

In addition, any information that you may have about your competitors should be included here. What do your competitors offer? How do you intend to deal with your competition? How will you advertise? How will you draw yourself to the attention of potential customers? Include a description of your advertising plans, public relations efforts, and any plans to participate in trade shows or fairs.

Daily Operations and Management

In this section of your business plan, include a detailed description of your operating and management plans for the business. Include the following information:

- Number of employees you plan to hire, if any
- A detailed list of job descriptions that includes employee duties and responsibilities
- Procedures for using, hiring, and paying subcontractors
- Your methods for dealing with clients
- Accounting procedures, including an indication of whether you plan to employ an outside accountant
- Maintenance procedures for financial and personnel records
- Procedures for paying taxes
- How you'll maintain quality services
- How complaints will be handled

Financial Projections

In this section of your business plan, include realistic estimates of your projected income and expenses for the next three to five years. You should include estimates of your start-up capital needs, projected profit and loss, cash flow, and return on investment. Let's look at each of these estimates in more detail.

Start-up capital. Start-up capital is the amount of money you'll need to get your business's doors open.

Projected profit or loss. To project your profit (or loss) for the first year of your new business, subtract your total expenses (the money needed to operate your business daily) from your estimated total income.

Calculate your total expenses by adding your *fixed expenses* and your *variable expenses.* Fixed expenses are those expenses that don't change from month to month, such as rent, mortgage payments, loan payments, property taxes, and insurance. Variable expenses change each month according to the volume of business you do. Variable expenses include materials, labor, and advertising.

To calculate your total income, estimate the amount of money you expect to earn each month, based on the fees you intend to charge.

Once you've calculated your total income and your total expenses, simply subtract expenses from income; the result is your total profit or loss. If you earned more money than you spent, the amount is your profit. If you spent more than you earned, the amount is your loss. Figure 7 contains a worksheet for calculating your projected business profit or loss for a three-month period.

Cash flow projection. A cash flow projection is an estimate of how much cash will be available during a particular period. If your bills become greater than the amount of cash coming in, you'll need to rethink your capital needs or your anticipated market approach, or both. Figure 8 contains a worksheet for calculating your projected cash flow for a three-month period.

Return on investment. Your return on investment, or ROI, is the amount of profit you'll make from your initial investment. Calculating your ROI for a given time period isn't difficult. Simply divide your net profits (profits before taxes) by

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 7—Worksheet for Calculating Profit and Loss

your net worth at the end of the given 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, calculate ROI as follows:

$$\frac{\text{Net profit}}{\text{Net worth}} = \frac{\$10{,}000}{\$40{,}000} = .25 = 25\%$$

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 8—Worksheet for Calculating Projected Cash Flow

Thus, in this example, you've earned a 25 percent return on your investment for the period. Always ask yourself: Are my profits from this business greater than the profit I could make through some other type of investment (stocks, bonds, or certificates of deposit)? If you could be making a lot more

money elsewhere, you may want to reconsider your business goals.

Writing Your Business Plan

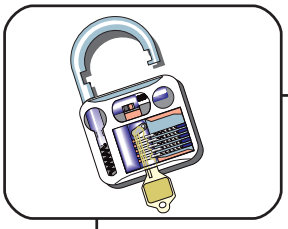
A good way to begin getting your business plan down on paper is to make a rough draft first. Divide a notebook into sections, and label each one according to the categories we've listed above. Then, start jotting down your ideas as they come to mind in each of the categories. Later, you can go back over the plan, making changes and refinements until the plan is in a final form. You may want to have the plan professionally prepared by a typing service into a formal document. Then later, when you go to a bank to apply for a loan, you can present the loan officer with your formal business plan, which will no doubt make an excellent impression (Figure 9).



FIGURE 9—You can present your formal, written business plan to a loan officer when applying for a bank loan.

Well, this completes our discussion of business plans. As you can see, creating a good business plan requires time, thought, and research, but it will be worth your time in the long run.

Now, in the next section of the text, we'll discuss getting financing for your business.



Locking It Up! 1

At the end of each section in your *Professional Locksmith* texts, you'll be asked to pause and check your understanding of what you've just read by completing a *Locking It Up!* quiz. Writing the answers to these questions will help you review what you've studied so far. Please complete *Locking It Up!* 1 now.

Indicate whether each of the following statements is True or False.

_____ 1. Expertise and training are unimportant in starting a business if you have enough start-up capital.

_____ 2. The Service Corps of Retired Executives is a group of accountants who provide free tax preparation services to small business owners.

_____ 3. Many small businesses fail within the first three years of operation.

_____ 4. In a sole proprietorship, two or more people co-own and operate a business.

_____ 5. Start-up capital is the amount of money you'll need to get your business's doors open.

_____ 6. Variable expenses are business expenses that don't change from month to month.

_____ 7. A cash-flow projection is an estimate of how much cash will be available to you during a particular period.

_____ 8. Rent, mortgage payments, loan payments, and insurance are examples of fixed expenses.

Check your answers with those on page 71.

FINANCING YOUR BUSINESS

Determining How Much You'll Need

Different types of businesses require varying amounts of capital (money) to get started. A new business needs capital to buy or rent facilities and equipment, purchase inventory, and run the business until its income grows enough to support its operations. Some new business owners save until they have enough money to open their business venture themselves. However, most new retail businesses need more capital than the owner has available. When this is the case, capital can be obtained through loans.

The first step in obtaining a loan is determining how much money you need. To do this, ask yourself the following questions:

1. How much money do I need to open the business?
2. How much money do I need to stay in business until I earn a profit?
3. How much money do I have?

Figure 10 contains a worksheet that you can fill out to determine how much money you'll need to get your business going.

Start-Up Capital and Working Capital

To start your own business, you need two types of funds: *start-up capital* and *working capital.* We mentioned start-up capital earlier in the text. This is the money that gets your business's doors open, including the money for major equipment (key machines, delivery vans, computers, phone systems, and so on) and supplies. Start-up capital is also used to pay insurance premiums, license fees, and any business-related legal fees you have at the start. The money needed to operate your business every day is called working capital, or *overhead.* This includes money for monthly rent, utilities, employee salaries, and so on.

As a business owner, keep in mind that unless you have some other source of income besides the business, you'll need capital for your living expenses until the business becomes profitable enough for you to draw a salary. Once your shop is

FIGURE 10—Worksheet for Calculating Start-up Capital for a Locksmithing Business

START-UP COSTS

Worksheet for a Locksmithing Business

Shop 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)	_____
Equipment and supplies	_____
Field equipment, including truck or van	_____
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	_____
TOTAL START-UP FUNDS TO BORROW	$_____

completely operational, your business should have enough money to

- Cover the business's expenses
- Meet your personal living expenses
- Maintain a reserve fund (for unforeseen emergencies)

One mistake 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 loan request is considered reasonable.

For a new service business, you should plan to borrow enough money to cover the business operation for at least three months. If you practice sound management, you can probably expect to reach the *breakeven point* within these three months. The breakeven point is the point at which business income equals business expenses.

Extra Expenses

It's no secret that starting a business requires a major financial investment. As with any business, you're bound to run across some hidden costs. Be realistic when apportioning money for expenses, since wise planning and ample capital will give you a far better chance for success. Costs that a new business owner sometimes overlooks include

- Printing costs for such necessities as business cards, invoices, and flyers (Figure 11)



FIGURE 11—New business owners frequently overlook the costs of printing and advertising.

- Advertising costs, whether you advertise in newspapers, the yellow pages, on radio, on television, or through direct mail pieces
- Professional fees (accountants, lawyers, etc.)
- Utilities, garbage disposal, and other similar costs

Getting Your Loan

Getting a loan is an art. And, as with other arts, getting a loan requires a considerable amount of discipline and preparation. Knowing what your bank or other lending institution requires for a loan makes the process easier. Before granting you a loan for start-up expenses, your lender will require you to provide a detailed business plan to demonstrate that you're prepared to spend the money wisely. Loan requests are always denied when a business owner fails to provide a reasonable plan for success—and for paying back the loan. If you want to borrow money, you must know exactly how much you need, why you need it, and how you plan to pay it back. You also must prove that you're a good credit risk (Figure 12).

Before you actually apply for a loan, consider the following important tips:

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

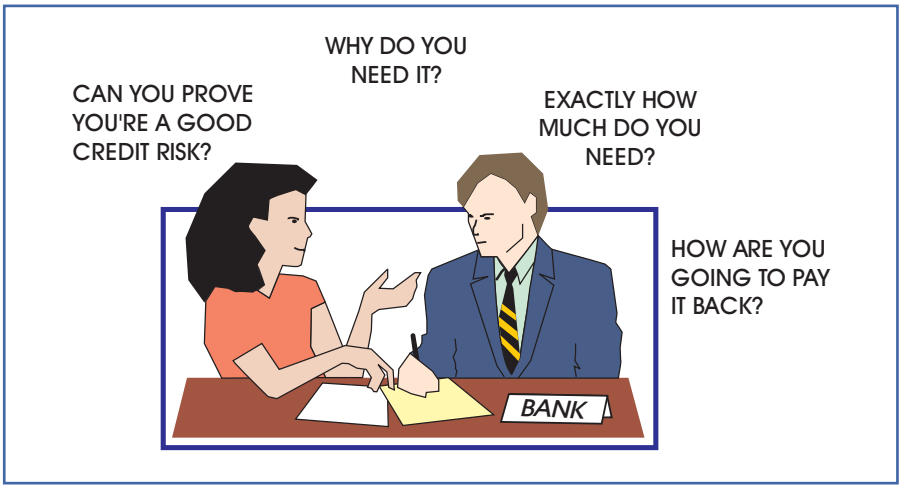


FIGURE 12—When you approach a bank for a loan, you must be prepared to answer numerous questions.

2. Whenever possible, establish and maintain cordial relations 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 although a personal relationship with a loan officer is helpful, you should always shop around to see if other lenders are offering better terms.)

The SBA recommends that a loan proposal contain the following key elements:

- General information—business name and address; names, Social Security numbers, and addresses of principals; purpose and amount of loan request; amount and percent of ownership equity available
- Business description—history, nature, structure, assets, 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 and your niche in the market, and description of your clients and how your business meets (or will meet) their needs
- Financial information—for a new business: projected balance sheet and projected profit and loss statement; for an established business: balance sheet and income statement for past three years; for both new and established businesses: personal financial statement for each principal with 20 percent or more ownership in the business and a list of all 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 are

- A complete business plan that includes an explanation of how the loan proceeds will be used
- A resume 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 preceding two years. Your personal financial statement indicates your total net worth. Make separate lists of all your personal assets and liabilities. 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, or other valuable possessions. Figure 13 contains a worksheet to help

PERSONAL FINANCIAL STATEMENT
as of (date)

ASSETS	
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	_____
TOTAL ASSETS	$_____
LIABILITIES	
Accounts payable	$_____
Notes payable	_____
Mortgages and equity loans payable	_____
Contracts payable	_____
Taxes payable	_____
Other liabilities	_____
TOTAL LIABILITIES	$_____
NET WORTH (total assets less total liabilities)	$_____

Source: Adapted from Small Business Administration "Checklist for Going into Business," 1988

FIGURE 13—Worksheet for Calculating a Personal Financial Statement

you compile a personal financial statement. *Liabilities* include outstanding medical bills, bank loans, mortgages, taxes owed, outstanding contract payments, and all other moneys owed to individuals, organizations, or government agencies. To determine net worth, subtract the total liabilities from the total assets.

- 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)

Where to Get Loans

Loans can come from many sources (Figure 14). Here are some you might consider for your business:

- Banks and credit unions (the most common sources of funds for small businesses)
- Personal savings
- Assets (possessions) that you can easily 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 pay at a bank
- Private investors, persons other than family members who are willing to loan capital at a lower interest rate than a bank, or who may accept a share of the business instead of a payback
- Partners, persons who contribute funds and participate in the business's daily operation
- Financial institutions including savings and loan associations, commercial loan companies, consumer finance companies, and life insurance companies (*Note:* Some of these institutions will have higher interest rates than banks or credit unions.)

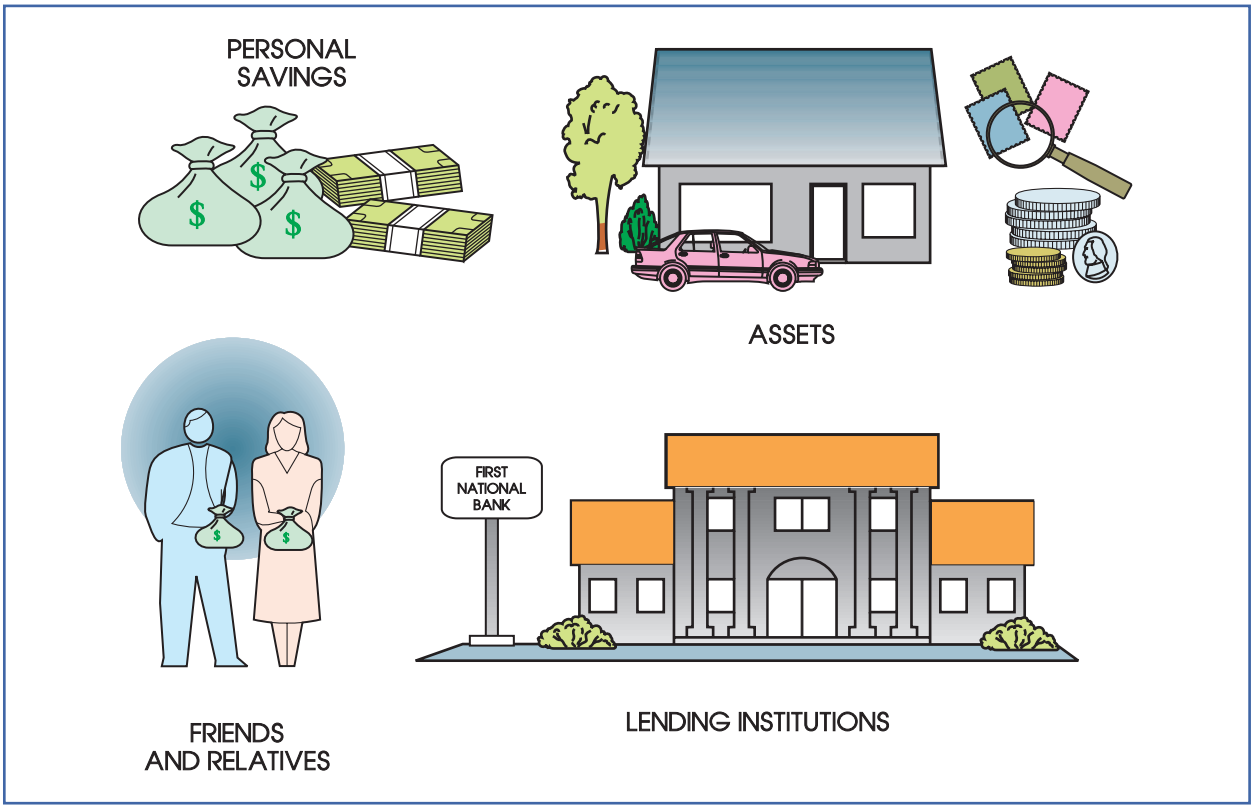


FIGURE 14—Any of these sources may provide you with the funds you need to start a business.

- 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

- 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.

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 will help you establish a good credit rating and cement your relationship with your bank. If for some reason you can't make a loan payment on time or you run into other financial trouble, your banker should be the first to know. Make an appointment with the banker to discuss the problem. Bankers are usually willing to work

with established customers to solve their problems or help with a tough situation.

At the beginning of the loan process, it would be a good idea to seek the advice of an accountant or an attorney. These professionals can provide you with guidance throughout the process of getting your loan. In the next section of the text, we'll discuss how to hire the services of professionals such as attorneys, accountants, and insurance agents. The advice of these professionals will be invaluable to you in the day-to-day running of your shop.

PROFESSIONAL SERVICES

Getting Professional Advice



FIGURE 15—Seek professional advice before making any major business moves.

The old adage "an ounce of prevention is worth a pound of cure" applies very well to the hiring of professionals at the start of your business. For example, a small amount spent up front to hire an attorney or a professional accountant could save you thousands of dollars later on. Always get professional advice and assistance before you make any serious moves or changes in your business (Figure 15).

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 that's familiar with the locksmithing industry.

3. Be sure the professional is someone you can work with and trust.

4. If you don't know anyone in a profession that you need, ask your friends or business acquaintances for leads, or check with referral services or 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.

Accountant

No matter what your business size or structure, an accountant can help you set up a bookkeeping system for you to follow daily, to control cash flow, and to establish a secure system for handling funds. An accountant's services can be invaluable not only in establishing your business, but also on an ongoing basis.

For example, every business that shows a profit must pay federal income taxes, in addition to state, provincial, or local income taxes. Employers are responsible for submitting withholding taxes collected from the employees 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. In addition, in most jurisdictions you'll be required to obtain authorization to collect taxes before you open your doors for business. In some places, this authorization is called a *seller's permit*.

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 business, you'll be responsible for paying all applicable taxes in an appropriate and timely manner. If you don't, you may be held liable for

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	11205 (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 (Estimate Income Tax for Individuals)	IRS

FIGURE 16—Schedule of Dates for Submitting Necessary Federal Income Tax Forms

penalties and interest. For this reason alone, it's to your advantage to employ the services of an accountant.

Figure 16 contains a calendar listing the dates for submitting important tax documents to the federal government.

Insurance Agent or Broker

In a perfect world, insurance wouldn't be necessary. However, our world is hardly perfect and unfortunate incidents do occur. People injure themselves, fires destroy merchandise and buildings, vandals break windows and destroy property, thieves steal merchandise and money, and natural disasters topple buildings to the ground. Business owners must have

some means of protecting themselves from loss, and insurance provides this protection. Although many people are reluctant to pay insurance premiums, when a loss occurs, they realize the true value of insurance coverage.

For this reason, the insurance agent is an important professional that you should consult. Your insurance agent will be invaluable in analyzing your business to determine what type and amount of insurance you'll need. It's a good idea to establish a professional relationship with an insurance agent or broker who is competent and knowledgeable about the insurance needs of the locksmithing industry. This individual should be aware of adequate coverage for your type of service business and the availability of coverage at the best premium prices. Once you've chosen your insurance professional, be sure to keep him or her fully informed about any changes in your operation that could affect your insurance coverage.

Business insurance policies replace merchandise that's damaged or missing (either from natural disasters or as a result of theft or vandalism). Included in an insurance package should be *liability coverage*, which pays for damages if you're sued by a customer or employee who is injured on your premises. If you're uninsured, such losses can put you out of business. As an added benefit, standard business policies also compensate owners for business that's lost if their shops must be temporarily closed following an insured occurrence.

The following is a specific list of the types of insurance a business owner may wish to consider and discuss with an insurance agent:

- *Fire and theft coverage* for the office and equipment
- *Automobile coverage* for all vehicles, including liability, comprehensive, and collision in adequate amounts that reflect today's medical and property costs
- *General liability insurance* for any damage or injuries resulting from your actions or the actions of your employees during the course of operating your business
- *Errors and omissions (E & O) insurance* to protect your business if you or one of your employees errs during a lock installation or other service call

- *Crime insurance* to protect the company from losses from robbery, burglary, employee dishonesty, and vandalism
- *Fidelity bonds* to protect the company against financial loss 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

Finally, if you're operating your business on a full-time basis, you'll need appropriate life and health insurance coverage for yourself, your family, and your employees. As with all other types of insurance, your insurance agent can explain the options and costs associated with providing such coverage.

You'll discover that the liability rates for an alarm installer / locksmith are three times the rates for a locksmith who doesn't install alarms. This is primarily due to the substantial losses a customer can have if the alarm system fails.

Attorney

There's no doubt that at some future time you'll require the services of an attorney. Finding the right attorney up front can help you avoid serious problems in the future. Some states and provinces require you to hire an attorney if you plan to organize your business as either a corporation or a partnership. A sample partnership agreement is shown in Figure 17. In any case, the advice of an attorney can be helpful in many areas of your business, including the following:

- Choosing the best structure for your business
- Interpreting contracts and leases
- Helping you understand your legal rights and obligations

PARTNERSHIP AGREEMENT

AGREEMENT made _____, 19___, among _____, of _____ _____, and _____, of _____.

WHEREAS the parties (hereinafter called the "Partners"), desire to carry on a retail locksmith business in _____, _____; and

WHEREAS the Partners desire to define certain rights among themselves, and to make certain provisions as to their business;

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the Partners agree as follows:

1. Name and Place of Business. The partnership and its business will be conducted under the trade name of _____. The principal place of such business of the partnership will be at _____ _____, or at such other location as the Partners may agree.
2. Business Activities. The Partnership's general business shall be the operation of a retail locksmith business and such other activities as are necessary or incidental thereto.
3. Term. The Partnership will continue until terminated under this Agreement.
4. Books. The Partnership books and records will be maintained at the principal office of the Partnership, and the Partners will have access thereto at all times. The books will be closed and balanced at the end of each year.
5. Capital. The Partners having resolved to make equal contributions to the capital accounts of the Partnership, the partners agree that the capital accounts will continue to be equal, except as hereinafter provided, and in such amounts as the Partners will determine from time to time. If, at any time or times hereafter, further capital will be required for carrying on the business, such capital will be advanced by the Partners in the same percentages as their capital accounts. No interest will be paid on any contributions of capital to the Partnership.
6. Profit and Loss. The net profits and losses of the Partnership will be divided and borne equally among the Partners.
7. Salaries and Drawings. The Partners will receive equal salary for services rendered to the Partnership and the Partners will also have equal drawing and expense accounts, provided that, as to each Partner, the Partner continues to comply with his obligations under Paragraph 8 hereof.
8. Management and Duties. The Partners will have equal rights in the management of the Partnership business, and both Partners will be required to devote substantially all of their time to the conduct of the business. Each Partner will, however, be allowed, to also engage in any other business without the consent of the other Partner so long as such activities do not interfere with the Partners' duties contained herein.
9. Restrictions. No Partner will, without the consent of the other Partner, endorse any note, or act as an accommodation party, or otherwise become surety for any person on behalf of the Partnership. Without the consent of the other Partner, no Partner will, on behalf of the Partnership, borrow or lend money, or make, deliver, or accept any commercial paper, or execute any mortgage, security agreement, bond, or lease, or purchase, or sell any property for or of the Partnership.

(Continued)

FIGURE 17—An attorney can provide you with advice on how to fill out this partnership agreement.

10. Prohibition Against Assignment. No Partner will, except with the consent of the other Partner, assign, mortgage, grant a security interest in, or sell his or her share in the Partnership, or do any act detrimental to the best interests of the Partnership of which would make it impossible to carry on the ordinary business of the Partnership.

11. Bank Account. All funds of the Partnership will be deposited in its name with such banking institution or institutions as the Partners will from time to time determine. All withdrawals therefrom are to be made upon checks signed by either Partner.

12. Death and Disability. (a) Upon the death of either Partner, the Partnership will be terminated as of the date of death of the deceased Partner. Thereafter, the personal representatives of such deceased Partner, or the person or persons to whom such deceased Partner will have bequeathed his interest in the Partnership (all collectively referred to hereafter as the "Estate"), and the surviving Partner will have the following rights, duties and obligations:

    (i) The surviving Partner will be required to purchase the deceased Partner's interest in the Partnership at the price and under the terms determined pursuant to Paragraph 15 of this Agreement, and the Estate of the deceased Partner will be required to sell such interest to the surviving Partner. The surviving Partner must purchase the deceased Partner's interest in the Partnership by giving written notice to the Estate of the deceased Partner within ninety (90) days of receiving actual notice of the death of the deceased Partner, that he or she will purchase such deceased Partner's interest in the Partnership.

    (ii) The term "Estate" for purposes of this Agreement shall be deemed a word of collective reference only. Insofar as it includes any personal representatives and any person or persons to whom any deceased Partner will have bequeathed any interest in the Partnership, its use will not be deemed to bind any such persons to any collective action, and they will each have all of the rights and privileges accorded to the "Estate" of a deceased Partner.

    (b) Upon the disability (as defined in Section 105(d)(4) of the Internal Revenue Code of 1986, as amended) of either Partner, the other Partner will have the option to purchase the disabled Partner's interest in the Partnership at the price and under the terms determined pursuant to Paragraph 15 of this Agreement, and the disabled Partner will be required to sell such interest to the other Partner. This option to purchase the disabled Partner's interest can be exercised at any time after such Partner has become disabled within the meaning of this Paragraph 12 and shall be exercisable by the purchasing Partner giving written notice to the disabled Partner that he desires to exercise such option.

13. Voluntary Withdrawal of Partner. Either Partner will have the right to voluntarily withdraw from the Partnership by giving ninety (90) days written notice to the remaining Partner of his or her intention to withdraw. In such an event, the remaining Partner will have, for ninety (90) days from the receipt of such notice, the option to purchase the interest of the withdrawing Partner at the price and under the terms determined pursuant to Paragraph 15. The remaining Partner's option to purchase the withdrawing Partner's interest will be exercisable by giving written notice to the withdrawing Partner of his or her intention to purchase the withdrawing Partner's interest, within the said ninety (90) day period commencing with the date of the withdrawing Partner's notice of withdrawal from the Partnership. In the event that the remaining Partner does not elect to purchase the withdrawing Partner's interest in the Partnership, the Partners will proceed with reasonable promptness to consummate the liquidation and sale of the business and assets of the Partnership. Any profits or losses which the Partnership realizes during the period of liquidation will be divided and borne equally among the Partners. The proceeds of sale will be divided and borne equally among the Partners.

(Continued)

FIGURE 17—(Continued)

14. Legal Disabilities. Upon the insolvency, bankruptcy, or adjudication of incompetency of a Partner or if a lien, attachment or garnishment is entered against a Partner's interest in the Partnership or its assets or his interest in the Partnership or its assets become subject to equitable distribution in any divorce proceeding (collectively "Legal Disabilities"), the Partnership shall be terminated as of the date of such an event. Thereafter the other Partner shall have all the rights, obligations, and duties hereinabove prescribed in Subparagraph 12(a) for the surviving Partner in the case of death of one of the Partners, and the Partner under such Legal Disabilities and his receiver, trustee, committee, guardian, conservator, or other parties claimant of such Partner shall have all of the rights, obligations and duties prescribed for the Estate of a deceased Partner in such Subparagraph 12(a).

15. Purchase Price and Terms. The purchase price and terms of the purchase of a Partner's interest in the Partnership in the case of death, disability, voluntary withdrawal or Legal Disabilities of a Partner shall be determined respectively as follows:

    (a) In the case of the death or disability of a Partner, the purchase price shall be one-half (1/2) of Monthly Net Profits (as hereinafter defined) for _____ months from the Date of Closing (as hereinafter defined), payable in consecutive equal monthly installments.

    (b) In the case of the voluntary withdrawal or Other Legal Disabilities of a Partner, the purchase price shall be one-half (1/2) of Monthly Gross Commissions (as hereinafter defined) for _____ months from the Date of Closing, payable in consecutive equal monthly installments.

    (c) The term "Monthly Net Profits" means monthly net profits, exclusive of federal, state or local income taxes, determined on a cash basis, received by the Partnership for the month preceding the date on which such monthly installment of the purchase price is due. In no event, however, shall any monthly installment of the purchase price under this Paragraph 15 exceed one-half (1/2) of the highest monthly net profits earned by the Partnership during the twelve (12) month period immediately preceding the Date of Closing.

    (d) In the event of the death, disability, voluntary withdrawal or Legal Disabilities of a Partner, closing shall take place thirty (30) days after the sending of written notice by a Partner that he or she will purchase the other Partner's Partnership Interest as provided herein ("Date of Closing").

16. Compulsory Buy-Out. At any time (other than a time when Paragraph 12, 13 or 14 hereof is operative), either Partner (the "Offering Partner") may send a written notice to the other requiring a compulsory buy-out. The notice shall specify a price for the other Partner's interest in the Partnership and state that the Offering Partner will purchase the other Partner's Partnership interest at that price or sell his or her own Partnership interest to the other Partner at that price. The other Partner must, within six (6) months after such offer, either (i) purchase the Offering Partner's Partnership interest at such price by giving written notice of such to the Offering Partner before the expiration of said six (6) month period or (ii) tender his or her own Partnership interest for purchase at such price. Closing on the sale of a Partner's Partnership interest under this Paragraph shall take place thirty (30) days after the earlier of (i) the sending of written notice to the Offering Partner by the other Partner that the other Partner shall purchase the Offering Partner's Partnership interest or (ii) the expiration of the six (6) month period.

17. Covenant Not To Compete. In the event that either Partner purchases the Partnership interest of the other Partner, the Partner whose Partnership interest is being purchased agrees that, following the date of such purchase, he or she will not, directly or indirectly: (i) hold or acquire an

(Continued)

FIGURE 17—(Continued)

ownership interest in any run business or engage in any other phase of the retail gun business anywhere within a fifteen (15) mile radius of _____ , for a period of five (5) years from the Closing of the purchase of such Partner's Partnership interest; or (ii) use or permit the use of any trade secrets relating to the Partnership (including, without limitation, customer lists, marketing methods, cost, price, and other financial data) and will not, either directly or indirectly, communicate or divulge such trade secrets to any person, firm or corporation whatever.

18. Notices. Notices under this Agreement must be in writing and sent by registered or certified mail, return receipt requested, postage paid, to the Partners at their last address as shown on the records of the Partnership or at such other address with respect to any party hereto as such party may notify the other in writing.

19. Severability. The various provisions of this Agreement are severable from each other and from the rest of the Agreement, and in the event that any part of this Agreement is held to be invalid or unenforceable by a court of competent jurisdiction, the remainder of this Agreement will be fully effective, operative and enforceable.

20. Binding Effect. This Agreement is binding upon and will enure to the benefit of the parties hereto and their respective heirs, executors, administrators, donees, successors and assigns.

21. Governing Law. This Agreement is to be construed and interpreted in accordance with the laws of the State of _____.

22. Entire Agreement. This instrument contains the entire agreement of the parties and cannot be changed orally but only by an agreement in writing signed by the Partners.

IN WITNESS WHEREOF, the parties have signed this Agreement on the day and year above written.

WITNESS:

_____

_____

_____, Partner

WITNESS:

_____

_____

_____, Partner

FIGURE 17—(Continued)

- Arbitrating disputes within your business or with other businesses or subcontractors
- Filing necessary paperwork for licenses, permits, and so on
- Preparing partnership agreements (Figure 17)
- Handling the legal requirements for corporations

As with other professionals, deal with a reputable attorney with whom you feel comfortable. While all attorneys must meet certain requirements to be licensed, some are undoubt-

edly better than others. Your local county bar association can provide you with names of attorneys in your area and their specialties.

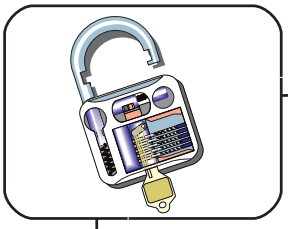
Banker

Whether or not you need to borrow money, you should establish a good working relationship with a bank. In addition to lending money, bankers can help you to choose the best type of checking and savings accounts for your business and provide financial guidance. Select a bank that can offer you the services you need as your business expands.

Marketing or Management Consultant

A *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. Your decision to work with a consultant will depend on your own knowledge, expertise, time available, and your desire to delegate business responsibilities to a professional consultant.

A good consultant can advise you in the areas of business start-up, advertising and public relations, security measures, employee hiring, fee setting, record keeping, and many other details. A consultant can also recommend attorneys, accountants, advertising agencies, and other information sources. A management or marketing consultant usually charges on an hourly, daily, or weekly basis, but you may be able to hire a consultant only when needed for a short period by paying a monthly retainer fee.



Locking It Up! 2

Fill in the blanks in each of the following statements.

1. A _____ is a reserve of money for emergencies.
2. A _____ is the most common source of funding for small businesses.
3. The _____ will consider a small business for a direct loan only after it has been turned down by one or two commercial lenders.
4. A _____ is an authorization to collect sales tax that businesses in most jurisdictions are required to have.
5. _____ is insurance that pays for damages if you are sued by a customer or employee who is injured on your premises.
6. The money you need to operate your business every day is called _____.
7. Your personal _____ is a document indicating your total net worth.
8. A _____ can help you choose the best type of checking and savings accounts for your business.

Check your answers with those on page 71.

FINDING THE BEST LOCATION

Accessibility

If you were to ask any business owner the single most important factor in starting a business, you'd hear: location, location, location! Why? Well, the purpose of a retail shop is to provide a product or service to people who live or work within a specific geographical area. This means that the shop must be easily accessible to customers (Figure 18). How can you judge how accessible a particular location is? Try answering the following questions.

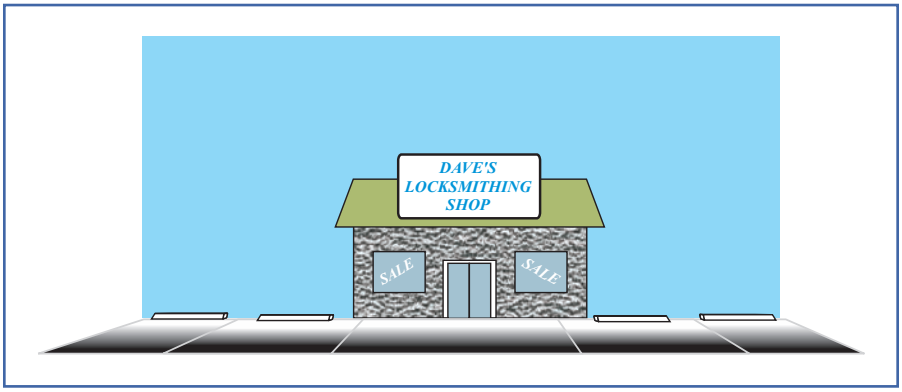


FIGURE 18—An accessible location offers ample parking spaces and unobstructed visibility from the street.

Does the location offer

- Unobstructed visibility from the street?
- A parking lot that can be easily entered and exited?
- Ample parking spaces?
- An entryway that's usable by persons with physical handicaps?
- Nearby businesses that help attract customers?

If you can answer "yes" to these questions, you can consider your chosen location to be extremely accessible to the public.

Traffic Flow

When you're researching the merits of a possible business location, check with your local chamber of commerce, banks,

and real estate companies to get an idea of the average income and annual retail sales figures in the area. Doing so will give you an indication of the health of the area's economy. Another resource you can use is County Business Patterns, which is published by the United States Department of Commerce and contains vital statistics about the county in which you intend to locate your business. Naturally, it's always a good idea to start a new business in an area where customers have money to spend on goods and services.

In order to succeed, a retail business should be located in a high-traffic area—one that draws large numbers of people in cars and on foot. Many city, county, and state transportation departments will provide traffic flow information for major roads. Traffic flow measures the amount of traffic passing through an area. If the traffic flow is high, it usually means a brisk business is possible.

This discussion may be leading you to the conclusion that one of the best places to open a shop is in a major shopping mall, but this isn't usually true. Although the volume of potential customers in a large mall is high, the cost of overhead in many malls is too high for a business to be profitable. However, a small "strip" shopping center, where six to ten stores open onto a shared outdoor parking lot, is sometimes a viable option.

Good news is that, unlike some businesses, a locksmithing business can be successful even in a less-affluent area or a low-traffic area, simply because locksmithing skills are so much in demand. Just about everyone, regardless of their income, needs strong locks on their homes and cars. In fact, the need for security is often greater in neighborhoods that have a crime problem. Also, locksmiths may conduct much business on the road or at people's homes, which makes a large, elaborate shop unneccessary.

One possibility is to simply establish your business in your own home. You could operate out of your kitchen, your basement, a spare room, or your garage. The principal advantage of a home business is the low cost of overhead. This is the way many people start out when opening their own business; you can always move to a professional location later on.

The location of your shop is something only you can decide. But choose it with extreme care and thought. Remember to consider your future needs as well as your present needs

when evaluating any location for your business. There's one exception for locksmiths. Some locksmiths have a mobile only (van) business, and no retail store. For these locksmiths, of course, the shop location isn't very important.

The Appearance of Your Shop

Appearance is important for any business that's visited by its customers. Customers and potential customers alike make their initial judgment about a business from its appearance, so first impressions are important! The building that houses your business and the surrounding area must be attractive and compatible with the quality of your services. Display windows are nice to have, but not as essential for a locksmith as for a retail shop. However, look closely at the windows in any building you consider as a location for your shop.

Assessing Your Competition

One critical area that must be checked out before committing to a location is the strength of your competition. How can you find the competition? First, you can personally scout the area. Then, check the yellow pages of your telephone book. Look under such relevant categories as locksmiths, home security, hardware, building supplies, and so on. Any one of these, even those listed as wholesalers, represents a possible competitor.

One way to analyze competition is to mark off an area on a piece of graph paper to represent a one-mile radius around your proposed site. Sketch in the major streets in the area, and mark the location of all competing businesses within that mile. How many locksmith-related competitors are located within that radius? How many competitors are located within two or three city blocks of your proposed site? If your research shows that there are no serious competitors within one mile of your prospective site, you may have struck gold.

Note that the presence of competition in your target area doesn't necessarily mean that you shouldn't start a business there. In fact, competition in any industry should be welcomed because it challenges competing businesses to provide better service and higher quality for their consumers. For example, if a new locksmith shop opens up just across the

street from a well-established shop, both owners will work harder to keep up with trends and satisfy their customers. (Remember, however, that if you take on a competitor directly, you must be absolutely sure that your product and service are superior!)

Once you know who your competitors are and where they're located, take the time to become acquainted with their operations. Visit the shops and check out their inventory and displays. Do certain shops seem to have more walk-in business than others? If so, compare their window displays with those of the other, less busy shops. This will help you see what draws customers in off the street. Also, be aware of the shops' days and hours of business and the presence or lack of "road" services.

Browse through local newspapers and telephone books for competitors' advertisements. Are the ads large? Do they seem effective? Do your competitors provide the kind of service or quality that they advertise? The answers to these questions will enable you to properly evaluate the strength of your competition.

Leasing vs. Buying

Once you've chosen your location, your next question may be: Should I lease or buy the shop? Leasing may be less expensive in the short term; however, you may find that purchasing a space is less expensive in the long term. Rent money, once paid, is gone, but mortgage payments result in equity buildup.

If you do rent a property, be sure to have an appropriate written agreement. This means a well-written lease which clearly spells out the respective parties' rights, duties, and obligations. Have your attorney review a lease before you sign it. Your attorney can explain any provisions in the lease.

Every lease is set for a defined period of time. Building owners generally want long-term leases. They usually ask for three-, five-, or ten-year commitments. As a new business owner, you should be wary of long-term agreements.

If you are intent on buying your own business, a written purchase agreement should be drawn up which spells out the rights, duties, and obligations of each party in the transaction. The agreement should indicate whether a deposit is being made, and, if so, whether it's refundable if the deal falls through. It should also provide a deadline for closing the deal.

ESTABLISHING A BUSINESS IDENTITY

Name Recognition

One of the most important factors in the success of any business is name recognition—how well the public knows the name of your business. Ideally, when someone in your area needs a locksmith, they should think of you first. Name recognition doesn't happen overnight. It's the result of a planned marketing effort on your part. Your retail store must lock its name into your customers' minds every time they come near the business. Location alone doesn't do this. After all, can you recall the name of every store in your local mall? The stores that you can't remember are failing to draw enough attention to themselves.

Developing a business identity begins with the name of your business. The best name is one that's memorable and not easily confused with any other business. Your business name should always reflect what you do. For example, if your name is Dave Smith and your partner is Jerry Johnson, you could call your business Dave and Jerry's. However, this name doesn't tell anyone what you do. Dave and Jerry's could be a restaurant, a garage, or a clothing store as well as a locksmith shop. By the time customers figure out what you do, it may be too late to get their business. They may have already given their business to a company whose name more easily identifies it. Don't make it hard for potential clients to find you. Make the name of your business as unique and unmistakable as possible. In the situation we decribed here, a good name for the shop would be Dave and Jerry's Locksmithing.

Using your own name in the business's name is recommended because it sends the public a message of individuality and shows pride in ownership. For example, Smith's Locksmith Service is better than the generic name Locksmith Service by itself. Another good idea is to include the name of your city or town. For example, Springfield Locksmith is appealing since it identifies the business with the city of Springfield. Using the name of the town also gives the business name a sense of permanance and stability.

If you plan on purchasing a locksmith shop that has already been successfully operating for some time, don't change the business's name. The established name has a recognition

value in the local area that could take years to recreate under a new name. Also, customer's tend to be wary of change. Customers of an established business are more likely to continue coming to the shop if new ownership is introduced gradually. If you intend to change an established shop's name, your best bet is to phase the new name in gradually over a period of time. For example, in an advertisement, you could say "Smith's Locksmithing Shop, formerly The Lock and Key Shop, is proud to announce their grand opening this Friday."

Another consideration when choosing a name is the positioning of the shop's listing in the yellow pages. Names that begin with A are at the top of the alphabetical list, and customers using the yellow pages tend to call the first shop they see in the listing. Also, the largest ads (no matter where they fall alphabetically) are positioned at the beginning of the yellow page listing. You can be assured of getting top billing if you can afford to purchase a large-size ad. If you plan to give 24-hour service, be sure to include that in your ad.

Almost as important as your business's name is its telephone number. A great percentage of a locksmith's business comes from emergency service calls. For this reason, negotiate with your telephone company for a number that's easy to remember. Focus on the final four numbers—for example, a number such as 555-1234 is much easier to remember than 555-6982. Or, you could try to get a catchy word into the number, like 555-LOCK or 555-KEYS. With a clear identity and an easy-to-remember phone number, you'll stand out in a customer's mind when he or she needs to call a locksmith.

Designing a Logo

After you've decided on a name for your business, you should direct your attention to designing a logo. A logo is a graphic symbol that helps the public identify your business at a glance. A well-done logo has the power to draw the public's eye and stimulate interest in your business. Although it isn't absolutely necessary, it's a good idea to incorporate your business's name into the logo. For example, if your logo is an illustration of a padlock and keys, you can put the store's initials on the front of the padlock (Figure 19). If you belong to a professional locksmithing organization, such as ALOA or SAVTA, you should also include that information on your



FIGURE 19—An effective logo will identify your business at a glance.

logo. Customers will eventually begin associating that logo with your shop.

Your logo is very important, so if you can afford it, hire a professional artist or graphic designer to develop it. Not all graphic designers are equally talented at creating logos. The best way to find a good logo designer is to look at other people's business cards and ads. When you see a logo that you think is particularly effective, call the owner of that business and ask for the name of the graphic artist who did the design. You can also ask several designers to show you samples of their work so you can make an informed choice among them.

Designing an effective logo necessitates teamwork between the business owner and the artist. It's important to work with someone that you can communicate with. The artist must have a good understanding of your business and what sets you apart from your competition. The better you can communicate your own business and philosophy, the easier it will be for a graphic artist to capture that in a symbolic design.

Finally, be sure that both you and the designer are perfectly clear about the cost of this work. Agree in advance on what the charges will be if you decide not to use any of the designs recommended by the artist.

Once your logo has been designed, you must use it! Use your logo on signs, in newspaper and magazine advertisements, in the yellow pages, on the sides of delivery vehicles, and on your business cards, stationery, bills, work clothes, brochures, and so on (Figure 20). Any material that's seen by the public should include your logo. Once your business has been established for a while, people will begin to associate your logo with your business.

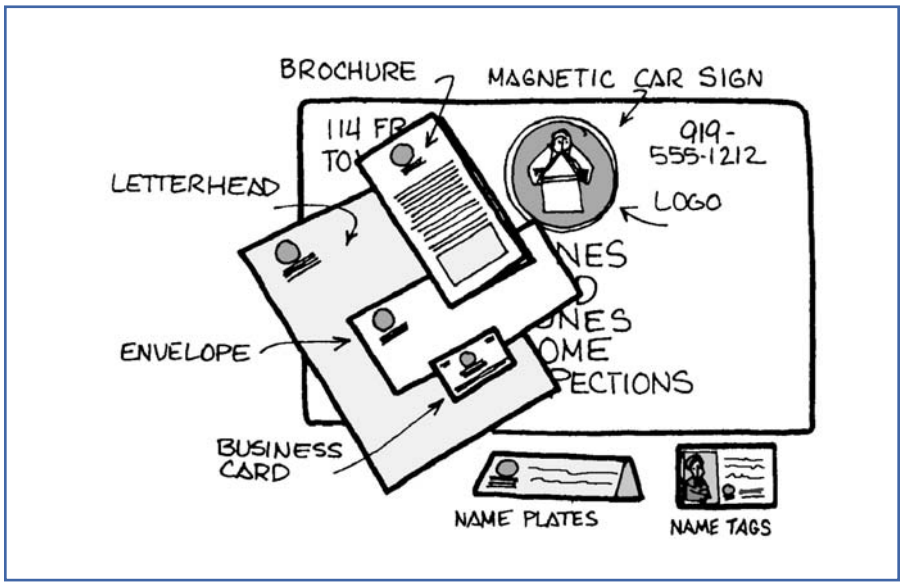


FIGURE 20—Once you have a business logo, use it everywhere!

Participating in Community Activities

Another excellent way to establish your business identity is to participate in local community activities. One of the best ways to do this is to join your local chamber of commerce, business groups, or charitable organizations. Volunteer your time or donate products or services for a worthy local cause. Sponsor a local sports team or children's club. The more active you are, the more familiar your business will become within your community.

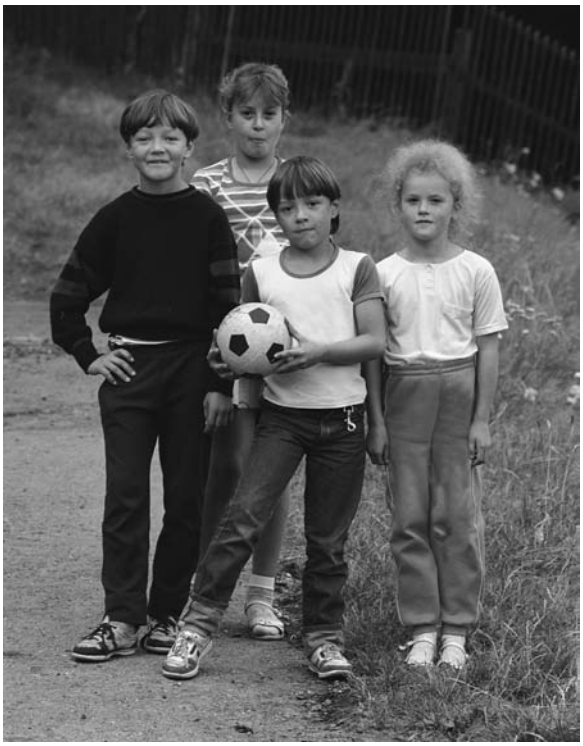


FIGURE 21—One way to attract favorable attention to your business is to sponsor a local sports club.

Becoming involved with community, civic, and professional groups helps not only your community but your business as well. Find a civic group or organization that shares a common interest with you (Figure 21). Attend a few meetings and if the group offers what you're looking

for, and you feel you have something to contribute, join. The fellowship you'll experience by participating in these groups is enjoyable, and some of the friends made through attending meetings and functions will become your customers.

Yes, joining community organizations can help your business, but be careful that you don't join more groups than your schedule will permit. When you become overcommitted, you won't fulfill any of your responsibilities well. In this case, your business reputation may be hurt instead of helped.

Purchasing a Sign

Most businesses need a clearly visible, lighted sign to identify it and tell potential customers what products or services are offered inside (Figure 22). Your sign is your outdoor advertising, so choose its design, materials, and placement with care. Remember, your sign will be seen by your customers for a long time to come; it should be attractive and eye-catching, and visible from a distance for anyone walking or driving by.

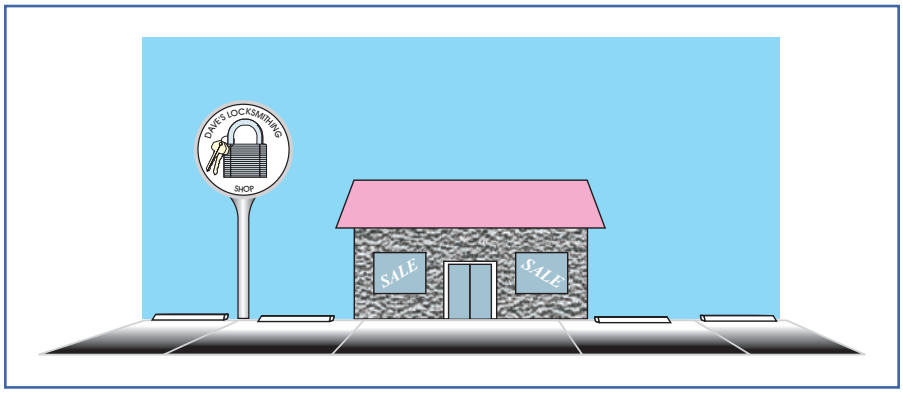


FIGURE 22—A clearly visible, lighted sign will identify your business to potential customers.

Most communities require a permit and an annual fee for any type of sign that's lighted, suspended, or attached to a building's exterior. In addition, many malls, neighborhood shopping centers, business blocks, and historic districts have their own committees that advise a business on the types of signs that are permitted and those that aren't. If your sign conforms to accepted guidelines, your permit is usually issued by the city, township, or zoning office the same day that you apply. You can see that, before signing a lease, it's important to research

any ordinances that may affect your business. Before purchasing any signs, you should submit the exact specifications to the zoning office for approval. You certainly don't want to purchase a sign that you won't be allowed to use! Again, if a locksmith has a mobile only business, the only sign the locksmith will need will be on the van. Some locksmiths use detachable magnetic signs, because an unattended locksmith van attracts thieves.

Advertising

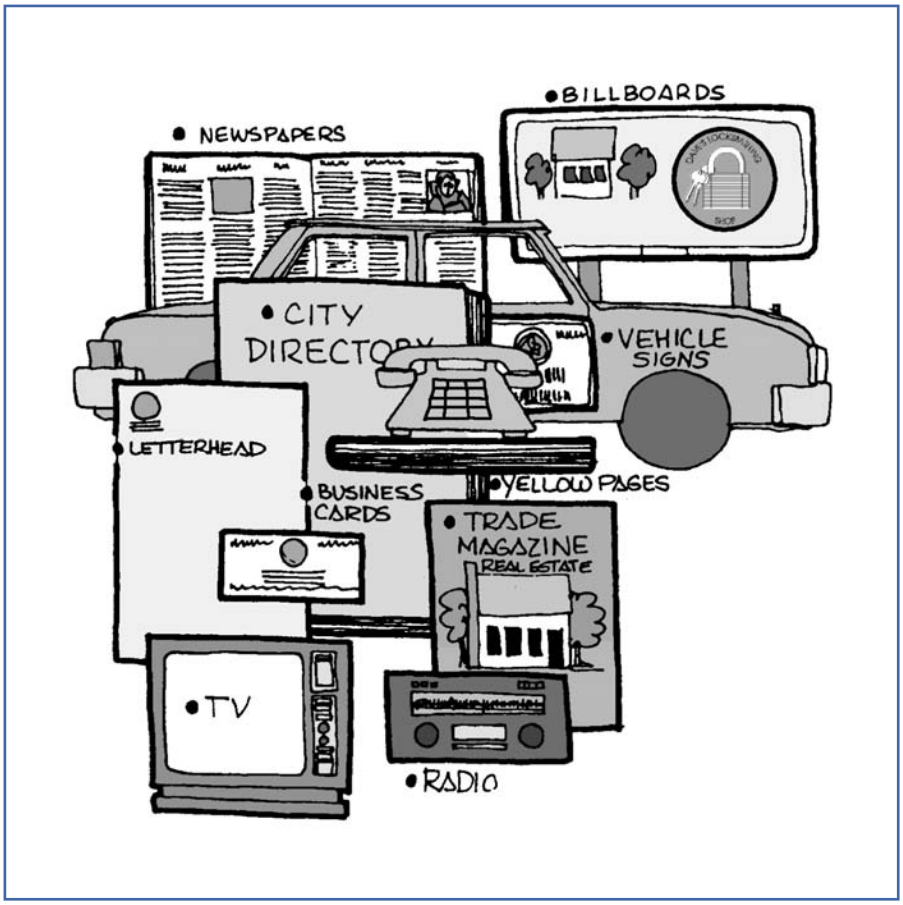
Customer goodwill and a good business reputation take years to develop. For this reason, the best way for a new business to bring in new customers is to *advertise.* The key to advertising is getting your message to your desired audience. That means advertising yourself, your services, your merchandise, and your prices.

The means of getting your message out through advertising are fairly straightforward. They consist of television, radio, and the print medium (i.e., newspapers, magazines, or direct mailing) (Figure 23). While television advertising gets at a large audience, it's also very expensive, usually beyond the reach of most individuals. The cost of even a 30-second television spot could swallow up a week's pay and then some, and that doesn't include charges for peak-hour advertising with its corresponding higher rates.

Radio is a far less expensive means than television for getting your message to the public. If you decide to use radio, make sure you choose a station and commercial times that will be heard by those needing locksmithing services. For example, it doesn't make sense to advertise your services during a children's program, even if you get a bargain price for the time slot. Make sure you choose both the station and your market segment carefully! Depending on the station, you can usually run several 30-second advertising spots each day for a week for about what it would cost to take your family out for dinner.

For a new business, the print medium is probably the most effective method at the most reasonable price. Newspapers, local magazines, classified ads, the Yellow Pages, and direct mail campaigns are all effective, and are far less expensive than television and radio. The Yellow Pages are the best place to advertise.

FIGURE 23—These are just some of the advertising possibilities available to new business owners.



You can also pool your advertising resources with others, and this can be a useful means of bringing in new business. These kinds of group ads are most successful when you advertise with others not in direct competition with you in your community, but who still have a common interest with you in the type of products being advertised. For example, you could pool your resources with a local homebuilder, car dealer, hardware store, private security company, or anyone else who has a business related to locksmithing.

In addition, some manufacturers and suppliers offer *co-op advertising programs*. In these plans, the manufacturer or supplier pays for all or part of your business ad, and you advertise that you use their products. If you're interested in these kinds of ads, you should contact the manufacturer or supplier.

EQUIPMENT AND SUPPLIES

Determining What You Need

The office equipment that you buy at start-up will depend on your business operation and your circumstances. The two most important decisions to make are (1) how much you can afford to spend and (2) what you expect the equipment to do for your business operation. A good idea is to make two lists—one for the absolute necessities and the other for things you would like to have. Let's start by looking at some of the "must-have" equipment. The items we'll discuss here are general office equipment only. We'll discuss specialized locksmithing tools and supplies in the next study unit.

Cash Register or Cash Box

A cash register or box of some kind is necessary in any business. You'll need a secure locking area to keep your change and incoming cash. If your business is very small, you may be able to use a locking cash box (and a calculator) at the start. Or, a simple cash register may be adequate (Figure 24).

If your shop is larger or if you expect your business to grow quickly, an electronic or a computerized point-of-sale (POS) cash register (like those commonly used in supermarkets) may be the right choice for you. A point-of-sale cash register is programmed to help you keep track of your inventory. Your inventory list is programmed into the computer. Then, each time you ring up a sale, the item is automatically deducted from your total inventory. The computer records what is sold and what remains in stock.

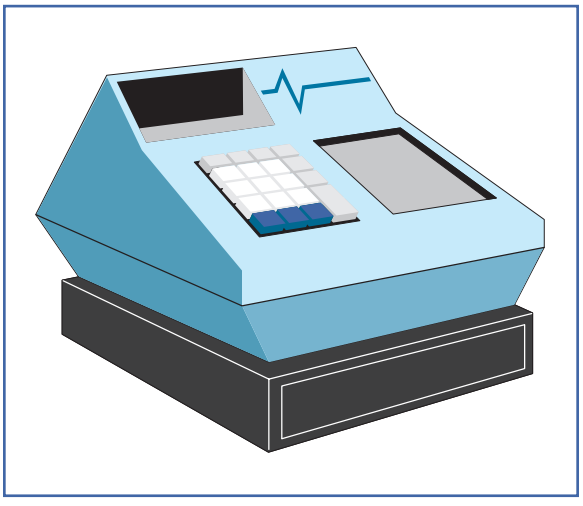


FIGURE 24—This simple cash register may be adequate for your business at the start.

While you can purchase a new cash register from a business supplier,

remember to check out your local classified ads to see if any used equipment is available. You may be able to get an excellent bargain on equipment from a shop that's going out of business.

Telephone

Between 50 and 80 percent of your business will be transacted over the telephone once your shop becomes established. Obviously, then, an efficient telephone system is a top priority. The telecommunications industry is highly competitive these days, so shop around to find the most suitable, reliable, and affordable telephone system you can.

The system you select should have enough incoming lines to handle the calls from customers, vendors, and on-the-road employees. Make sure the system you choose is expandable, so it can grow with your business. Remember, many of your customers will be calling for emergency service, so if they get a busy signal, they'll call another locksmith. If you're frequently on the road doing service calls or are otherwise out of your shop, consider using a professional answering service.

No matter how efficient your phone service is, there will be times that you'll have to put callers on hold. Your system should provide either music or information about your business to waiting callers. This lets customers know they haven't been disconnected and keeps them from hanging up.



FIGURE 25—The person answering your business phone should always be courteous and helpful.

Finally, make sure that the person answering your phone has a clear and pleasant speaking voice and enough knowledge of your business to answer customer questions. In addition, the person answering the phone should be polite and helpful at all times (Figure 25).

Remember, the telephone call will be the first impression most customers have with your business!

Cellular Phones

A *cellular phone* is a type of telephone that can be used in a car or van. The phone system uses available radio channels to transmit calls. The term *cellular* refers to the way that the local geographical area that the phone serves is divided into small sections, or *cells*. Cellular phones have a limited range but are very useful for receiving service calls while you're on the road.

Paging Systems

Another phone option you may want to consider is the *paging system*. In a paging system, you wear or carry a small electronic receiver device (the *pager*). When a person wants to reach you, they dial your phone number. Their call is answered by a computer system. Depending on the type of system, the person may leave a vocal message or simply type in their phone number.

The computer system will then "call" you on your electronic pager by sending an electronic signal. The signal makes a beeping noise on your pager. Then, depending on the type of system, you may need to call the number of the service to get your message, or the caller's phone number may appear in a small window on the paging device, in which case you can call them directly. Some locksmiths call forward from their regular phones to their cellular phones.

Office Furniture and Supplies

No matter how small your shop and office, you'll need some furniture and fixtures. A desk, chair, desk lamp, bookcase, chairs for waiting customers, and a secure metal file cabinet are essential. Your file cabinet should be fireproof and have a strong lock on it to protect the security of your documents. The lock that comes on a file isn't very strong. The file can be made much more secure by adding a locking bar or a caterpillar hasp and a padlock.

Some standard office supplies you'll need include staplers, paper clips, pens, pencils, sales slips or booklets, memo pads, scissors, tape, price stickers, and an appointment calendar.

Your "Wish List"

Now, let's look at some non-essential items you may wish to purchase for your shop. These items may be included in your "wish list" of items to be purchased in the future.

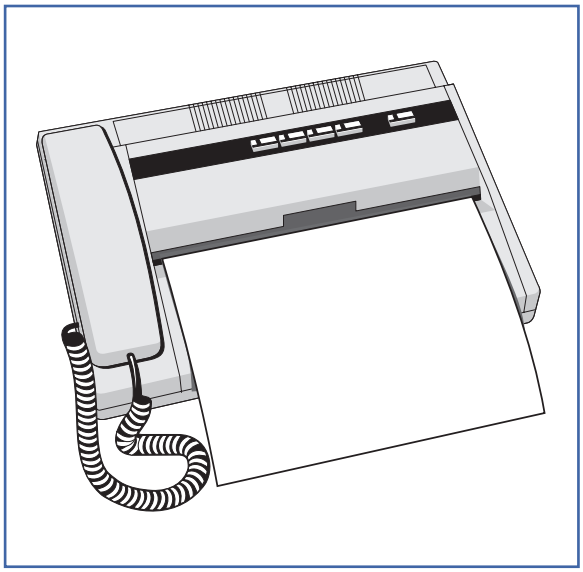


FIGURE 26—A fax machine is used to send documents instantly from place to place.

A *fax machine* (Figure 26) is a useful device used to send documents instantly from place to place. The machine is attached to telephone lines. A fax machine allows you to send in orders for supplies, receive letters and documents from customers or manufacturers, and so on.

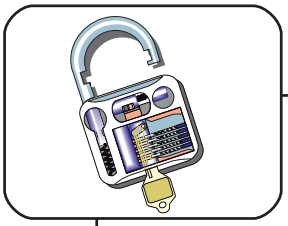
A *photocopier* will be useful for making copies of documents for record keeping purposes.

A personal *computer* has many uses in a small business. Many software packages with practical business applications are now available. You can use your computer to keep records, do your taxes, and even balance your checkbook. However, a personal computer may be impractical unless you or your employees know how to use it. You can find a wide variety of computer books and teaching aids in any computer store. Be sure to shop around and consider your needs carefully before you purchase a computer system.

A personal computer is almost a necessity for locksmiths to keep track of their key blanks. There are eight or nine common key blank manufacturers, and all use different reference letters / numbers. The hard copy cross-indexes refer to two or three manufacturers. To do a hard copy crossover is sometimes almost impossible. However, with a computer, you can

type in any manufacturer's number and come up with the other numbers and where the blank is used. There are at least two software suppliers that provide this service.

All of the devices we've mentioned here are fairly expensive and not generally essential to a business that's just starting out. However, later on when your business expands, you may find these machines to be valuable timesavers that can increase your profits.



Locking It Up! 3

Indicate whether each of the following statements is True or False.

_____ 1. Traffic flow is the number of new businesses opening annually in a city or town.

_____ 2. It's always better to buy a business location than to lease it.

_____ 3. It's unimportant for a business's name to identify the type of business it is.

_____ 4. One excellent way to establish your business identity is to participate in local community activities.

_____ 5. You can expect to transact only about 10 percent of your business over the telephone.

_____ 6. A fax machine is an essential piece of equipment when you're first opening up a shop.

_____ 7. If you purchase an established locksmith business, you should always change the name of the shop before opening.

Check your answers with those on page 71.

STAFFING YOUR SHOP

Deciding Whether to Hire

Loyal and efficient employees can be your company's most valuable asset. They can create more goodwill than the most extensive public relations program you could ever afford. It isn't easy to find good workers, but in this section of the text, we'll give you some tips on how to go about hiring and managing employees.

The number of employees you hire at start-up, if you hire any at all, is a personal decision based on your needs. The size of your operation, how you plan to run your business, and the availability of subcontractors are all factors to be considered when hiring workers. You can hire full-time, part-time, or temporary workers depending on your needs and the size of your business. No matter what type of worker you select, however, remember that you should only hire employees if the amount of business you do justifies the need for more help.

Hiring an employee is an economic decision. As an employer, you'll be responsible for paying the employee's salary and benefits, as well as workers' compensation insurance, and half of the employee's social security taxes. Because of all this extra expense, any employee you hire must produce extra income for your business. This income can be earned in two ways: through higher production or greater sales.

To make hiring worthwhile, an employee should generate an increase in business earnings at a rate *three times* the employee's salary. For example, if you hire an assistant at a salary of $15,000 per year, your gross sales should increase by $45,000 (3 x $15,000). A very good employee can increase your earnings by an even greater amount.

Before hiring an employee, you must obtain a federal employer identification number. In most states and provinces, you must also register with the employment department.

Job Descriptions and Personnel Policy

Before you hire an employee for a position, you should prepare a job description and a personnel policy. A *job description* is a written plan of an employee's duties, responsibilities, and authority. Include in the description anything that applies specifically to the job's requirements and conditions. When you approach employment agencies or place ads in the paper, 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.

Writing a job description is sometimes a bit tricky for a 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
4. What you expect the employee to learn from performing the job

A *personnel policy* is a contract between you and your employees which outlines standards of conduct and procedures for your business. When an employee is hired, you and the new employee will sign the contract, indicating that you've reviewed it and agreed to it.

Some items you should include in your personnel policy are the following:

- How employees are expected to report to work (punching a time clock, signing in)
- Pay periods and paydays
- What employees should do if they're unable to come to work
- What benefits the employees will receive (medical / dental insurance, vacation days, sick leave, paid holidays)
- Employee restrictions (restrictions on the use of drugs, alcohol, and tobacco; locations where food and drink can

be consumed; use of telephone for personal calls; office dress codes)

- Whether weekend work and overtime are required
- In-house training programs and other educational opportunities (including payment of tuition or scholarships for outside seminars, correspondence courses, or college or university courses)
- Schedule of employee evaluations
- Procedure for reporting a job-related injury or illness
- Termination procedures

Your personnel policy should also include incentives to get your employees to work harder. Such incentives include

- Sales commissions
- Promotions based on merit
- Regular raises based on performance
- Employee discounts on products sold in-house

Your state or provincial labor department can provide you with excellent material on the rights of both employers and employees. Use this information to help develop your personnel policy.

Employment Applications

Once you've developed written job descriptions and a personnel policy, you're ready to begin the search for employees. Some possible sources for employees are

- State or province employment agency (services are free)
- Private employment agencies (fees are charged to either applicant or employer)
- Help wanted ads placed in local newspapers
- Job applicant pools at local schools and colleges

Any persons who wish to work for you will first submit a written job application to you. A job application is a printed form that asks for a variety of important personal and professional information about the prospective employee. You can purchase a preprinted job application form from an office

supply store, or you can design your own application. However, in designing your own application, you should use a preprinted form as a guide. A sample job application is provided for you in Figure 27.

One of the best ways to evaluate the skill level of a job applicant is to check his or her PRP (Professional Registration Program) level. The PRP is a program started by ALOA (Associated Locksmiths of America) about 10 years ago. Its primary goals were to show the public the skill level of the locksmith they were hiring, to show the locksmith where he or she needed to study more, and to prepare for licensing of locksmiths.

The levels are CRL (Certified Registered Locksmith), CPL (Certified Professional Locksmith, and CML (Certified Master Locksmith). Each level requires taking and passing an exam with 9–12 sections. Each section must be passed to achieve a specific level.

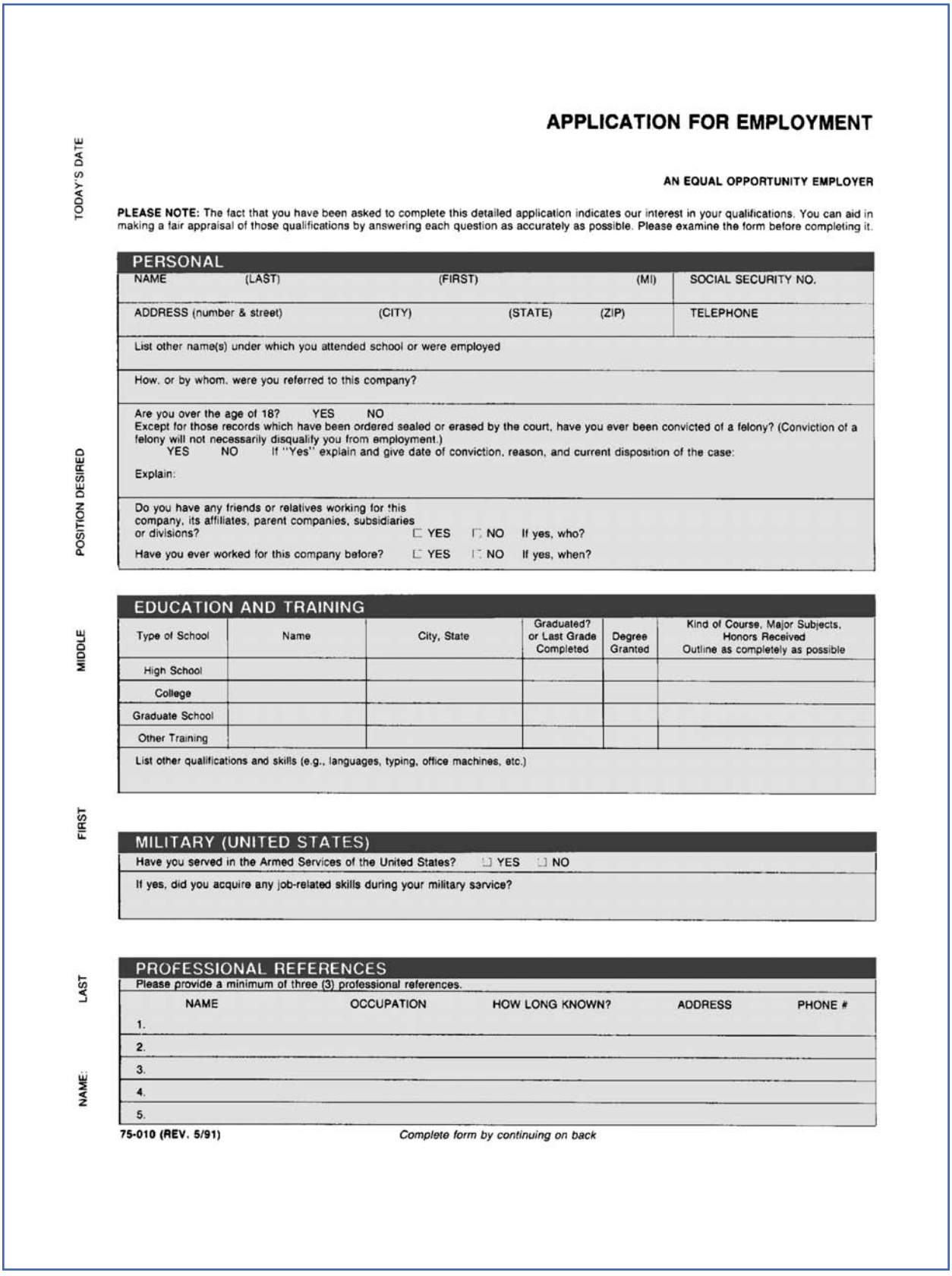
The original program resulted in permanent ratings. The program has been revised to require annual educational activity on the locksmith's part to maintain each level.

Many customers now require at least a CRL to do their lock work.

Job Interviews

Once you've reviewed the job applications submitted by prospective employees, you'll need to decide who you want to talk to in person. This is called the job interview. 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. Before the interview, make a list of questions you want to ask of the applicants. The list will help you keep on track during the interview and also prevent you from forgetting important questions.

Ask specific questions: What did you do on your last job? What was your reason for leaving? What type of experience do you have? Then evaluate the applicant's answers to determine if he or she really has the skills and experience claimed on the application. Look for sincerity, honesty, and integrity in the applicant's answers.



TODAY'S DATE

POSITION DESIRED

MIDDLE

FIRST

LAST

NAME:

APPLICATION FOR EMPLOYMENT

AN EQUAL OPPORTUNITY EMPLOYER

PLEASE NOTE: The fact that you have been asked to complete this detailed application indicates our interest in your qualifications. You can aid in making a fair appraisal of those qualifications by answering each question as accurately as possible. Please examine the form before completing it.

PERSONAL

NAME (LAST) (FIRST) (MI) SOCIAL SECURITY NO.

ADDRESS (number & street) (CITY) (STATE) (ZIP) TELEPHONE

List other name(s) under which you attended school or were employed

How, or by whom, were you referred to this company?

Are you over the age of 18? YES NO

Except for those records which have been ordered sealed or erased by the court, have you ever been convicted of a felony? (Conviction of a felony will not necessarily disqualify you from employment.)

YES NO If "Yes" explain and give date of conviction, reason, and current disposition of the case:

Explain:

Do you have any friends or relatives working for this company, its affiliates, parent companies, subsidiaries or divisions? ☐ YES ☐ NO If yes, who?

Have you ever worked for this company before? ☐ YES ☐ NO If yes, when?

EDUCATION AND TRAINING

Type of School	Name	City, State	Graduated? or Last Grade Completed	Degree Granted	Kind of Course, Major Subjects, Honors Received Outline as completely as possible
High School					
College					
Graduate School					
Other Training					

List other qualifications and skills (e.g., languages, typing, office machines, etc.)

MILITARY (UNITED STATES)

Have you served in the Armed Services of the United States? ☐ YES ☐ NO

If yes, did you acquire any job-related skills during your military service?

PROFESSIONAL REFERENCES

Please provide a minimum of three (3) professional references.

	NAME	OCCUPATION	HOW LONG KNOWN?	ADDRESS	PHONE #
1.					
2.					
3.					
4.					
5.					

75-010 (REV. 5/91) *Complete form by continuing on back*

FIGURE 27—A Sample Job Application (Partial)

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 age, religion, national origin or race, marital status, and other personal matters. This is considered to be discrimination, and a job applicant could sue you if you even appear to be discriminating against them for any reason.

Dismissing Employees

If you hire someone who doesn't perform as you expected, you may have to dismiss that employee. Firing an employee isn't always a simple matter; most jurisdictions have laws that protect employees from unfair dismissal. You should fully inform yourself on the federal and local labor laws that apply to your business. This way, if you must dismiss an employee, you'll know what the law requires and what procedures you must follow. The consequences of not following the established procedures can be heavy: the employee can sue for lost earnings, reinstatement, and punitive damages.

Even if the laws in your jurisdiction don't require it, always document each employee's work history in writing. This information is needed to protect yourself in case you have to dismiss an employee. Document tardiness, absenteeism without advance notification, poor job performance, and insubordination.

Annual performance reviews should also be performed for each employee. A performance review is a meeting between you and the employee where the employee's job performance is discussed. Problem areas in need of improvement should be brought up at these meetings, and exceptionally good performance should also be noted. The review document should be signed by both the employer and the employee. Such documentation will help back you up if an employee challenges your decision to dismiss him or her, and files a grievance with the labor board.

Subcontractors

A *subcontractor* is an individual or a business contracted to complete all or part of another person's contract. A locksmithing business may use subcontractors to answer telephones and schedule work assignments, type, keep accounting records, operate a computer, or clean the shop. In addition, a locksmith may hire another locksmith to perform specialized services (such as safe opening, auto work, and so on).

Before a subcontractor performs any services, he or she should sign an agreement with you. A subcontractor agreement should specify, in precise terms, every aspect of the relationship between you and the subcontractor. Seek the assistance and advice of an attorney in the preparation of a subcontractor agreement. Once a subcontractor has signed an agreement with you, give him or her a copy of the agreement and keep the original in your permanent file.

A subcontractor is responsible for paying his or her own income tax and Social Security tax. Subcontractors' agreements must clearly indicate that subcontractors will handle all of their own tax responsibilities and carry proper and adequate insurance. Subcontractors who don't actually represent your company to the public, however, may not be required to carry liability insurance. (Check with your insurance broker or attorney about your insurance obligations relating to specific types of subcontractors.) Thus, you can see that hiring subcontractors simplifies accounting record keeping for you, and involves less responsibility and liability than for full-time employees.

Apprenticeship Programs

Since most fully qualified professional locksmiths wish to open and run their own businesses, it's sometimes difficult to find good assistants for your shop. For this reason, many locksmiths provide apprenticeship programs to interested employees. Under an apprenticeship program, an employee can serve as an apprentice to a professional locksmith until he or she has the skills needed to be qualified as a professional. (While no formal apprenticeship requirements are generally necessary, you may wish to speak with and meet other professional locksmiths to determine what type of arrangements are typical in your area.) Providing apprenticeships is an excellent

way to obtain skilled workers without the expense of paying subcontractors.

BUSINESS RECORDS

The Importance of Good Records

Good record-keeping is 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.

A locksmithing business usually maintains the following records (at the minimum):

- Personnel records
- Client records
- Financial Records



FIGURE 28—An efficient record-keeping system will allow you to find any needed information quickly and easily.

An accountant can help you set up a record-keeping system (Figure 28). After the system is established, your accountant may keep all 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.

Now, let's take a look at each one of these types of records.

Personnel Records

As a business owner, you should keep a separate file for each employee and subcontractor. Keep all personnel files in a secure place—in a locked cabinet with a key or combination, or in a separate computer file with special access. Never allow any 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.

Each personnel record should contain the following information:

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

You should also maintain a separate file for each subcontractor who performs services for you. Each file should contain the following three documents:

1. The original agreement signed by you and the subcontractor
2. Personal information sheet (the subcontractor's name and / or business name, address, and telephone number; names of all persons employed by the business; home

telephone number of the person responsible for the operation of a subcontractor company; employer identification number or Social Security number, as applicable; types and numbers of licenses, if applicable; and any other desired information, such as previous experience, number of years in the business, and names and addresses of references)

3. Assignment sheet that lists, by column, the location of each assignment, dates started and completed, amount and date of payment, and any other information you require. (You may also wish to note any exceptional events, such as injuries or damages that occurred during a job, customers' comments, or your own notes.)

In each file you may also choose to include a copy of any correspondence sent to or received from the subcontractor, and any other information or document relative to the individual or company.

Financial Records

The following financial records should be maintained by every business.

Checkbook. All funds that pass in and out of your business should go through a separate checking account set up for the business.

General journal. All receipts of incoming funds and all funds paid out should be entered daily in a cash journal. Separate journals, one for receipts and one for disbursements, may be used if desired.

Balance sheet. A balance sheet is a formal statement of the financial condition of a business. It shows an itemized list of the total assets, liabilities, and owner's equity at a given date. (The owner's equity is equal to the total business assets minus total liabilities.) Potential lenders and investors are particularly interested in a company's balance sheets. Figure 29 shows a sample balance sheet for a fictitious locksmithing company.

Records of fixed assets and depreciation. Any asset that's depreciated should be included in this record. Examples are vehicles, office equipment, and any special equipment you use for inspections.

FIGURE 29—Balance Sheet for Dave's Locksmithing Shop

DAVE'S LOCKSMITHING
Balance Sheet
December 31, 19XX

ASSETS		
Cash		$ 23,450.00
Prepaid insurance		675.60
Equipment assets:		
Office equipment	$25,010.00	
Less accumulated depreciation	4,733.50	20,276.50
Field equipment	18,254.00	
Less accumulated depreciation	7,323.50	10,930.50
Total assets		$ 55,332.60
LIABILITIES		
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		75.20
Total liabilities		$26,226.28
OWNER'S EQUITY		
Dave's Locksmithing, capital:		
Capital, January 1, 19XX		$21,349.57
Net income for year	$36,056.75	
Less cash withdrawals	28,300.00	7,756.75
Capital, December 31, 19XX		$29,106.32
Total liabilities and owner's equity		$55,332.60

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.

Corporation records. Additional records are required for corporations, including the salaries and benefits paid to its officers and dividends paid to stockholders.

Profit and loss statements (actual and projected). Your business tax is based on the bottom line (profit or 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.

Authorization Records

One of the most important records for a locksmith to keep is the opening authorization form. It's imperative that locksmiths get an authorization filled out and signed whenever opening a car, home, safe, or anything that's locked, especially when the customer isn't known to the locksmith.

There are various authorization forms available to the industry or you can make your own or incorporate the authorization into your invoice forms. A sample form is shown in Figure 30.

AUTHORIZATION FORM

Date: _____

Last Name: _____ First Name: _____

Address: _____

_____

Home Phone: _____ Work Phone: _____

Photo ID#: _____ Issued by: _____

I hereby certify that the information on this form is correct, that I have the authority to open the locked property described, and that I shall indemnify and hold harmless the locksmith providing me with lockout services.

Signature: _____

VEHICLES

Make _____ Model _____

Owner: _____ Year _____ Color _____

_____ License/Tag No. _____ State: ___

DWELLINGS

Address: _____

Owner: _____ _____

_____ _____

COMMENTS: _____

_____

_____

FIGURE 30—Locksmiths must keep careful records of all authorization forms.

If you're opening a safe for an estate, have *all* the executors sign as well as the attorney who's handling the estate.

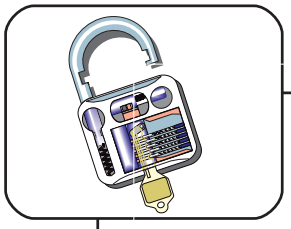
Don't just rely on the signed form. Assure yourself that the customer has legal access to the car, home, safe, etc. This can be done for a car opening by checking the registration and a picture operator's license.

Computers in Record Keeping

A personal computer can be a tremendous asset to record keeping. Many easy-to-use commercial software programs are now available at local stores that can simplify all types of financial and business record keeping. However, a computer won't be cost-effective unless you or one of your employees knows how to use it. If you have a one-person operation, instead of buying your own computer, you may find it less expensive to turn over your records to an accountant or bookkeeper for processing. On the other hand, if you employ a clerk or office assistant, you can save money on accounting fees if one of those employees can use a computer in-house. For many businesses, computers can directly result in increased profits. Your time can be better spent doing locksmithing work than in sitting at your desk with a pile of papers and a calculator in front of you.

Before you purchase a computer system for your business, seek the advice of a professional computer consultant. He or she can help you choose the best system for your reporting and accounting needs. In addition, consider the future capability of a computer when making your choice. You don't want to spend thousands of dollars on a system that will be obsolete in several years.

Finally, before purchasing a computer system for your company, check around with owners of other service businesses and interview as many computer sales representatives as possible. Keep abreast of current and projected developments in the computer field through articles in computer magazines. All of these efforts will contribute to your making the best choice of a computer system for your business.



Locking It Up! 4

Write a brief definition for each of the following terms.

1. Job description

   _____

2. Personnel policy

   _____

3. Performance review

   _____

4. Employment application

   _____

5. Job interview

   _____

6. Subcontractor

   _____

Check your answers with those on page 71.

THE KEY TO SUCCESS

The decision of whether or not to open your own business may still be down the road for you, but this study unit has shown you some of the considerations involved in starting a business. Remember that while owning a business is challenging, it's also very rewarding!

You've learned that the first and most important step in starting a business is to develop a business plan. That way, you'll be able to organize your thoughts and examine your goals. You'll also have a professional-looking document that you can show to loan officers when you begin searching for business financing.

We discussed the importance of choosing the proper location for your business and how to establish your business identity in your community. You learned what equipment is essential to opening a business. We covered some of the issues involved in hiring employees. Finally, you learned about the importance of keeping good records for your business.

KEY POINTS TO REMEMBER



Two important elements to running a successful business are expertise and experience. In addition to this course, you could gain training through working with a veteran locksmith, taking a course at a local college, or attending subject-related seminars. To help you with the business aspect, the Small Business Administration (SBA) offers courses, publications, and advice through the Service Corporation of Retired Executives (SCORE).



A successful business is the result of a thorough business plan. This plan includes short- and long-term goals, a definition of the purpose of your business, operating and management plans, income and expense estimates, and how you intend to structure your business.



The three major business structures are

1. Sole proprietorship, which is a business owned and operated by one person

2. Partnership, in which two or more people combine their resources to run the business

3. Corporation, which is a more complicated business structure. A corporation makes contracts, pays taxes, and sells stock to the public.



To establish your business you need money. Start-up capital is the money needed to launch your business and working capital is the money used to keep your business running.



Capital can be acquired through loans. The many sources of loans are

- Banks and credit unions
- Personal savings
- Assets
- Friends and relatives
- Private investors
- Partners
- Corporations
- The Small Business Administration



Atop the list of priorities for starting your career as a locksmith is finding the best location for your business. A good location should offer ample parking, visibility, neighboring businesses to attract customers, and heavy traffic flow. Also, be wary of locating too close to your competition.



Just as important as choosing a good location is to the success of your business, so is choosing a name for your business. Your customers need to be able to identify your business. A keen logo will also help your business's identity.



Once your business is established and is prospering, you may find it necessary to hire employees. Before you do, develop a personnel policy to include your employee's benefits, salary, procedures, restrictions, etc., and write a job description to include your employee's responsibilities and duties.



Accurate and thorough business records will keep your business running smoothly. You'll need to maintain financial, client, and personnel records.

Do You Know Now . . .

Below are the answers to the questions asked at the beginning of this study unit.

What government agency can help you in starting a small business?

The *Small Business Administration (SBA)* can help anyone interested in starting a small business. The SBA provides information, seminars, and other business services for a nominal charge, and can also provide loans for qualified applicants.

What is a *business plan?*

A *business plan* is a written document that describes all areas of your small business. In your business plan, you'll identify what you're selling, where you're selling, and who you're selling to. A good business plan is a blueprint for success. It shows where you intend to go with your business and how much money it will take to get you off to a successful start.

What are *start-up capital* and *working capital?*

Start-up capital is the money that gets your business's doors open, including the money for major equipment (key machines, delivery vans, computers, phone systems, and so on) and supplies. Start-up capital is also used to pay insurance premiums, license fees, and any business-related legal fees you have at the start. The money needed to operate your business every day is called *working capital* (or *overhead*). This includes money for monthly rent, utilities, employees, and so on.

NOTES

Locking It Up! Answers

1

1. False
2. False
3. True
4. False
5. True
6. False
7. True
8. True

2

1. contingency fund
2. bank or credit union
3. Small Business Administration
4. seller's permit
5. Liability insurance
6. working capital
7. financial statement
8. Banker

3

1. False
2. False
3. False
4. True
5. False
6. False
7. False

4

1. A job description is a written plan of an employee's duties, responsibilities, and authority.
2. Your personnel policy is a contract between you and your employees that outlines standards of conduct and business procedures.
3. A performance review is a meeting between you and your employee to discuss the employee's job performance.
4. An employment application is a printed form that asks a prospective employee for personal and professional information.
5. A job interview is a personal interview with a job applicant.
6. A subcontractor is an individual or a business contracted to complete all or part of another person's contract.

NOTES

Starting a Small Business

EXAMINATION NUMBER:

03101300

Whichever method you use in submitting your exam answers to the school, you must use the number above.

For the quickest test results, go to
http://www.takeexamsonline.com

When you feel confident that you have mastered the material in this study unit, complete the following examination. Then *submit only your answers to the school* for grading, using one of the examination answer options described in your "Test Materials" envelope. Send your answers for this examination as soon as you complete it. *Do not wait until another examination is ready.*

Questions 1–20: Select the one best answer to each question.

1. The *breakeven point* is the point at which

   A. variable expenses become fixed expenses.
   B. your start-up loan is completely paid back.
   C. your working capital equals your start-up capital.
   D. business income equals business expenses.

2. Which government agency offers information, advice, and seminars to new business owners?

   A. Small Business Administration
   B. Small Business Development Center
   C. Small Business Institute
   D. Internal Revenue Service

3. A formal written business plan should start with a statement of

A. your profit intentions.
B. your financial needs.
C. the mission of your business.
D. your personnel policy.

4. What is the first step in starting a business?

A. Finding a location
B. Writing a formal business plan
C. Hiring employees
D. Purchasing business insurance

5. The purpose of a personnel policy is to

A. inform employees of rules, regulations, and expected job performance.
B. improve accounting procedures.
C. keep salary costs down.
D. let the public know what you expect from your staff.

6. Which business structure has only one owner who is responsible for the business and all its debts?

A. Capitalism
B. Sole proprietorship
C. Corporation
D. Partnership

7. Which of the following statements about a business telephone system is true?

A. Most callers don't mind being put on hold for several minutes if they really want your services.
B. A business telephone system should have enough incoming lines so that callers rarely encounter a busy signal.
C. The manner in which your employees answer the phone has no bearing on your business.
D. A single telephone line is usually sufficient for a large locksmithing shop.

8. Working capital is money that is used for

A. day-to-day operating expenses.
B. covering the business owner's personal expenses.
C. the first month's rent or lease on a business site.
D. business expansion.

9. A *business logo* is

A. a special type of business card designed for locksmiths.
B. used only to identify large corporations.
C. an advertisement in the local Yellow Pages.
D. a symbol or picture that represents your business.

10. What is a *performance review?*

A. A policy that states the minimum standards each employee must meet
B. A notice that says the employee is about to be dismissed
C. An outline of the duties and responsibilities of each employee
D. A meeting between employer and employee to discuss the employee's job performance

11. A written statement describing the duties and responibilities of an employee is called a

A. job application.
B. personnel policy.
C. job description.
D. resume.

12. The Small Business Administration will consider you for a business loan if

A. you've been turned down by one or two commercial lenders.
B. a bank or other lending institution guarantees the loan.
C. you have no other sources of capital.
D. your collateral is insufficient for a bank loan.

13. What is your *return on investment?*

A. An estimate of how much cash you have available during a particular period.
B. The amount of profit you make from your initial investment.
C. The amount of money you take in during your first month in business.
D. The total of your fixed expenses and variable expenses.

14. Unfortunately, many small businesses fail within the first

A. year.
B. five years.
C. two years.
D. three years.

15. What is the greatest disadvantage of a shopping mall location?

A. Not enough customers
B. Store spaces too small
C. Not enough parking
D. High cost of overhead

16. An employee's address, telephone number, Social Security number, and original job application will be kept in your

A. client records.
B. personnel records.
C. balance sheet.
D. profit and loss statement.

17. Your company's logo should

A. be as large as possible.
B. include at least six colors.
C. be designed even before you write a business plan.
D. be eye-catching and memorable.

18. Your company's name should always reflect

A. what your business does.
B. how much money you earn.
C. your customer's needs.
D. your own name.

19. If you hire an employee at a salary of $18,000 per year, how much should your gross sales increase?

A. $18,000
B. $36,000
C. $54,000
D. $25,000

20. Which of the following professionals would be best to consult about your taxes?

A. Insurance agent
B. Attorney
C. Accountant
D. Banker

COMING ATTRACTIONS

You may have noticed that there are a number of important business issues that we didn't discuss, such as advertising, setting prices for your services, locksmithing laws, finding a job, and buying tools and supplies. The good news is that all of these topics are covered in detail in the next study unit! By the time you finish that study unit, you'll have all the knowledge you need to start working as a professional locksmith. You've almost reached your goal, so keep up the good work! Good luck with your continuing studies!