APPENDIX 16: SAMPLE BUSINESS PLAN

# A Business Plan

Rocky Mountain Region
of the
USDA Forest Service

Presented by the

Colorado Small Business Development Center

# Forest Service / Small Business Development Center

# Employee Training

Why are we here?

As Forest Service employees, you are dedicated to providing quality customer service while protecting the natural resources of the forest. Many of your customers are served through private businesses operating on the National Forest. These businesses are becoming more complex every day, and it is likely that you are struggling to understand the intricacies of these businesses.

As permit administrators, it is important that you understand basic business principles. This will serve you well in your personal life, as well as your professional career. To help with this scenario, the Forest Service and the SBDC have joined to expand your expertise.

This partnership began when the Grand Mesa, Uncompahgre and Gunnison (GMUG) National Forest and the Delta-Montrose Vo-Tech School, SBDC, and Colorado Outfitters Association worked together to develop a business plan for potential and existing permittees. Since then, the partnership has expanded to become a statewide effort.

So why is this course relevant to you? The Code of Federal Regulations requires special-use permit holders to be financially responsible. It is your job to select a permittee with strong financial capabilities. In order to review the components of a business plan, you must have basic understanding and knowledge of a balance sheet, income statement, and break-even analysis.

Evaluating applicants in a prospectus process has become an overwhelming task. Once a permittee has been selected, the Forest Service wants the business to be a viable and profitable operation. Interpreting financial statements is necessary throughout the business-planning process. Areas that are sometimes confusing include selling a business or selling business assets, as well as when the agency becomes involved in bankruptcies and defaults due to business failure.

The Forest Service is putting a great deal of effort into becoming more customer focused and business oriented. This is a long process; however, it is one that can be accomplished when our employees become knowledgeable of business principles. Communication with permit holders will greatly improve as a result of this training, and our partnership will build more successful businesses.

Name of Company

Address _____

Company Contact _____

Phone _____

(check one)

O Proposal in Response to the Prospectus for:

_____

on the

_____ Ranger District

_____ National Forest

or

O Proposal for Transfer of Permit Currently Issued to:

Existing Permittee Name _____

Address _____

on the

_____ Ranger District

_____ National Forest

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# Part I: The Business

## Purpose and Goals

As we proceed through our business careers, it is vital that we set goals for the future. Although this is difficult and time consuming, the final reward is worth the effort. As you fill in the following, be as realistic as you can. Answers you develop now will be the basis of your business plan.

*What is your purpose in pursuing this business?*

*Define your business goals for the next year and what you foresee five years from now.*

## Description of the Business

This section should describe the nature and purpose of the company, background on its industry, and what opportunities you see for its products or services. It provides you with insights that allow you to better correlate the projections and estimates presented in subsequent sections.

*Brief description of the business.*

*Briefly describe your knowledge of this industry.*

*List the products and services you will provide.*

## Legal Structure

There are several ways in which your business can be legally organized. To determine the best one for you and your organization, you need to seek competent legal and tax advice. To give you a general frame of reference, the more popular forms and their reasons for use are outlined in Part V, Appendices.

*How is your company legally organized?*

*Why is this legal organization most appropriate for your business?*

*Does your operation require a state registration number? YES ____ NO ____ If ``Yes,"please include a copy of the registration in the Supporting Documents.*

*Include any appropriate information, including shareholder or partnership agreements, in the Supporting Documents, and complete the following list of owners:*

| ***Name*** | ***Address*** | ***SSN*** | ***% Ownership*** |
|---|---|---|---|

## Location of Your Business

Describe the planned geographical location of the business and discuss any advantages or disadvantages of the site location in terms of wage rates, labor availability, closeness to customers or suppliers, access to transportation, state and local taxes, laws, and utilities. Describe your approach to overcoming any problems associated with the location.

*Planned geographical location.*

*Discuss advantages or disadvantages of the site location.*

*Describe your approach to overcoming any problems.*

## Market And Customers

The purpose of this section is to present sufficient facts to convince the evaluator that the product or service has a substantial market and can achieve sales in the face of competition. Discuss who the customers are for the anticipated product or service. Where are the major purchasers for the product or service?

*Describe your anticipated target market (e.g., age, income, hobbies, regional, national, international).*

*Describe the size of the current total market and potential annual growth.*

*Discuss your advertising campaign in terms of how, when, and where you will advertise, and estimated annual cost.*

## Competitive Analysis

Each business has (or should have) a uniqueness that separates it from its competitors. Make a realistic assessment of the strengths and weaknesses of competitive products and services, and name the companies that supply them. Compare competing products or services on the basis of image, location, price, advertising, and other pertinent features. Discuss your three or four key competitors and explain why you think that you can capture a share of their business. Discuss what makes you think it will be easy or difficult to compete with them.

*Identify three or four of your key competitors.*

*Discuss their strengths and weaknesses.*

Compare your product or service on key areas. For each area of comparison rank yourself and your selected competitors on a scale of 1 (high) to 5 (low). Remember: no ties.

| | | Competitors | | | |
|---|---|---|---|---|---|
| **Area of Comparison** | **You** | **A** | **B** | **C** | **D** |
| Image | | | | | |
| Location | | | | | |
| Price | | | | | |
| Advertising | | | | | |
| Service | | | | | |
| Uniqueness | | | | | |
| Other | | | | | |

Why do you think you can compete with your competitors and capture a share of the market?

## Management

Your management team is the key to turning a good idea into a successful business. The evaluator looks for a committed management team with a proper balance of technical, managerial, and business skills and experience in doing what is proposed. Be sure to include complete résumés for each key management member in the Supporting Documents section.

*List owners and key management personnel and their primary duties. If any key individuals will not be onboard at the start of the venture, indicate when they will join the staff.*

*Discuss any experience when the above people have worked together that indicates how their skills complement each other and result in an effective management team.*

*List the advisors and consultants that you have selected for your venture. Capable, reputable, and well- known supporting organizations can not only provide significant direct and professional assistance, but also can add to the credibility of your venture.*

*Accountant* _____

*Attorney* _____

*Banker* _____

*Insurance Broker* _____

*Advertising* _____

*Others* _____

## Personnel

One of the key elements in any business is PEOPLE. Explain how you plan to recruit, develop, and maintain your workers. List the number of employees you will have, as well as their job titles and required skills.

*Identify essential employees, their job titles, and required skills.*

*Identify the source and your plan to recruit essential employees.*

*Discuss any training or retraining that you plan for your employees. Also, discuss any necessary first-aid certification or recertification, etc.*

# Part II: Financial Data

## Capital-Equipment List

This section will help you plan purchases of capital equipment needed to start your business. Capital equipment is defined as assets which have useful lives of more than one year. Examples include machines, equipment, vehicles, livestock, tack, gear, and computers. Describe the equipment, the quantity, whether the equipment is new or used (N/U), the expected useful life, and the cost. This includes equipment purchased from existing businesses.

| Equipment | Quantity | N/U | Life | Cost |
|---|---|---|---|---|
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| | | | | |
| **Total Cost of Capital Equipment** | | | | **$** _____ |

## Start-Up Expenses

Start-up expenses are the various costs it takes to open your doors for business. Some of these will be one-time expenditures, whereas others will occur every year.

| **Item** | **Cost** |
|---|---|
| Total cost of capital equipment (from page 84) | $ _____ |
| Beginning inventory of operating supplies | _____ |
| Legal fees | _____ |
| Accounting fees | _____ |
| Other professional fees | _____ |
| Licenses and permits | _____ |
| Remodeling and repair work | _____ |
| Deposits (public utilities, etc.) | _____ |
| Advertising | _____ |
| Insurance | _____ |
| Bonds | _____ |
| Advance permit fees | _____ |
| Other expenses: | |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| **Total Start-Up Expenses** | **$** _____ |

## Sources and Uses of Financing

This section is another critical financial forecast. What will be the sources of your initial financing? The following step of how you will use this financing to buy the assets needed to open your doors for business is equally important, and will be of major interest.

Note: This section will not be used if you own an existing business, unless you're planning a major refinancing and restructuring of your business.

On the next page:

- Fill in the cash amounts to be invested by the various owners or shareholders.
- Fill in the market value of noncash assets to be invested by the various owners or shareholders. Examples include equipment, vehicles, and buildings.
- Fill in the bank loans to your business, both short-term (one year or less) and long-term.
- Fill in the amounts of loans secured by your personal assets (for example, your home).
- Fill in any Small Business Administration loans from any other sources.
- Fill in the amounts of cash used to buy various assets in the Uses of Financing section.
- Fill in the noncash assets contributed by the owner (use the same amounts listed in Sources of Financing).
- Estimate your ``working capital'' needs. This is an often misused term, since it strictly means ``current assets minus current liabilities.'' However, we use ``working capital'' here to describe that money which you'll need to pay operating expenses for the first few months of business operation until profits are realized. The number of months working capital depends on the business, but as an absolute minimum you should have three months of expense money in the bank. You should discuss this with your banker, and you may want to consider a pre-approved loan called a ``line of credit,'' from which you draw funds only when you need to have them. DON'T SKIP THIS STEP!
- Total both sections (Sources and Uses); they should be equal.

**Sources of Financing**

| | |
|---|---|
| Investment of cash by owners | $ _____ |
| Investment of cash by shareholders | _____ |
| Investment of noncash assets by owners | _____ |
| Investment of noncash assets by shareholders | _____ |
| Bank loans to business: short term (one year or less) | _____ |
| Bank loans to business: long term (more than one year) | _____ |
| Bank loans secured by personal assets | _____ |
| Small Business Administration loans | _____ |
| Other sources of financing (specify) | |
| _____ | _____ |
| _____ | _____ |
| **Total Sources of Financing** | **$** _____ |

**Uses of Financing**

| | |
|---|---|
| Buildings | $ _____ |
| Equipment | _____ |

| | |
|---|---|
| Initial inventory | _____ |
| Working capital to pay operation expenses | _____ |
| Noncash assets contributed by owners (use same amount as in Sources, above) | _____ |
| Other assets (specify) | |
| _____ | _____ |
| _____ | _____ |
| **Total Uses of Financing** | **$** _____ |

## Monthly Cash Flow Projection

The cash flow projection is the most important financial planning tool available to you. If you were limited to one financial statement, the Cash Flow Projection would be the one to choose.

For a new or growing business, the cash flow projection can make the difference between success and failure. For an ongoing business, it can make the difference between growth and stagnation.

Your Cash Flow Projection will show you:

- how much cash your business will need;
- when it will be needed;
- whether you should look for equity, debt, operating profits, or sale of fixed assets; and
- where the cash will come from.

The cash flow projection attempts to budget the cash needs of a business and shows how cash will flow in and out of the business over a stated period of time. Cash flows into the business from sales, collection of receivables, capital injections, etc., and flows out through cash payments for expenses of all kinds.

A cash flow deals only with actual cash transactions. Depreciation, a noncash expense, does not appear on a cash flow. Loan repayments (including interest), on the other hand, do, since they represent a cash disbursement.

After it has been developed, use your cash flow projection as a budget. If the cash outlays for a given item increase over the amount allotted for a given month, you should find out why and take corrective action as soon as possible. If the figure is lower, you should also find out why. If the cash outlay is lower than expected, it is not necessarily a good sign. Maybe a bill wasn't paid. By reviewing the movement of your cash position you can better control your business.

Use the Cash Flow Projection chart on the next page to make sure you don't omit any ordinary cash flow item. But be sure to add any items that are peculiar to your business.

The level of detail you wish to provide is another judgement call. You may want to provide much more detail than is shown in these examples. You might benefit from breaking down your total cash flow into a series of cash flows, each representing one profit center or other business unit. This can be particularly helpful if you have more than one source of revenue. The accumulated information gained by several projections can be very valuable.

## Cash Flow Projection (or Cash Flow Budget) by Month: Year One

| | A | B | C | D | E | F | G | H | I | J | K | L | M | N |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | **Oct** | **Nov** | **Dec** | **Jan** | **Feb** | **March** | **April** | **May** | **June** | **July** | **Aug** | **Sept** | **TOTAL** |
| 2 | Cash Receipts | | | | | | | | | | | | | |
| 3 | Sales Receivables | | | | | | | | | | | | | |
| 4 | Wholesale | | | | | | | | | | | | | |
| 5 | Retail | | | | | | | | | | | | | |
| 6 | Other Services | | | | | | | | | | | | | |
| 7 | **Total Cash Receipts** | | | | | | | | | | | | | |
| 8 | Cash Disbursements | | | | | | | | | | | | | |
| 9 | Cost of Goods | | | | | | | | | | | | | |
| 10 | Variable Labor | | | | | | | | | | | | | |
| 11 | Advertising | | | | | | | | | | | | | |
| 12 | Insurance | | | | | | | | | | | | | |
| 13 | Legal and Accounting | | | | | | | | | | | | | |
| 14 | Delivery Expenses | | | | | | | | | | | | | |
| 15 | Fixed Cash Disbursements* | | | | | | | | | | | | | |
| 16 | Mortgages (Rent) | | | | | | | | | | | | | |
| 17 | Term Loan | | | | | | | | | | | | | |
| 18 | Line of Credit | | | | | | | | | | | | | |
| 19 | Other | | | | | | | | | | | | | |
| 20 | **Total Cash Disbursements** | | | | | | | | | | | | | |
| 21 | | | | | | | | | | | | | | |
| 22 | **Net Cash Flow** | | | | | | | | | | | | | |
| 23 | | | | | | | | | | | | | | |
| 24 | **Cumulative Cash Flow** | | | | | | | | | | | | | |
| 25 | | | | | | | | | | | | | | |
| 26 | *Fixed Cash Disbursements | | | | | | | | | | | | | |
| 27 | Utilities | | | | | | | | | | | | | |
| 28 | Salaries | | | | | | | | | | | | | |
| 29 | Payroll Taxes and Benefits | | | | | | | | | | | | | |
| 30 | Office Supplies | | | | | | | | | | | | | |
| 31 | Maintenance and Cleaning | | | | | | | | | | | | | |
| 32 | Licenses | | | | | | | | | | | | | |
| 33 | Boxes, Paper, etc. | | | | | | | | | | | | | |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 34 | Telephone | | | | | | | | | | | | | |
| 35 | Miscellaneous | | | | | | | | | | | | | |
| 36 | Total FCD/Year | | | | | | | | | | | | | |
| 37 | FCD/Month | | | | | | | | | | | | | |
| 38 | | | | | | | | | | | | | | |
| 39 | Cash on Hand | | | | | | | | | | | | | |
| 40 | Opening Balance | | | | | | | | | | | | | |
| 41 | + Cash Receipts | | | | | | | | | | | | | |
| 42 | - Cash Disbursements | | | | | | | | | | | | | |
| 43 | Total = New Balance | | | | | | | | | | | | | |

## Start-Up Balance Sheet

Balance sheets are designed to show how the assets, liabilities, and net worth of a company are distributed at a given point in time. The format is standardized to facilitate analysis and comparison; do not deviate from it.

Balance sheets for all companies, great and small, contain the same categories, arranged in the same order. The difference is one of detail. Your balance sheet should be designed with your business information needs in mind. These will differ according to the kind of business you are in, the size of your business, and the amount of information your bookkeeping and accounting systems make available.

A sample balance sheet follows.

**Name of the Business**
**Date (month, day, year)**
**Balance Sheet**

| | | |
|---|---|---|
| **Assets** | | |
| Current Assets | | $ _____ |
| Fixed Assets | $ _____ | |
| Less Accumulated Depreciation | $ _____ | |
| Net Fixed Assets | | $ _____ |
| Other Assets | | $ _____ |
| **Total Assets** | | **$** _____ |

Footnotes:

| | |
|---|---|
| **Liabilities** | |
| Current Liabilities | $ _____ |
| Long-Term Liabilities | $ _____ |
| **Total Liabilities** | **$** _____ |
| **Net Worth or Owner's Equity** | **$** _____ |
| (Total assets minus total liabilities) | |
| **Total Liabilities and Net Worth** | **$** _____ |

Footnotes:

## Start-Up Income Statement Projection

Income Statements, also called Profit and Loss Statements, complement balance sheets. The balance sheet gives a static picture of the company at a given point in time. The income statement provides a moving picture of the company during a particular period of time.

Income projections are forecasting and budgeting tools, estimating income and anticipating expenses in the near to middle-range future. For most businesses (and for most bankers), income projections covering one to three years are more than adequate. In some cases, a longer-range projection may be called for, but in general, the longer the projection, the less accurate it will be as a guide to action.

While no set of projections will be 100% accurate, experience and practice tend to make the projections more precise. Even if your income projections are not accurate, they will give you a rough set of benchmarks to test your progress toward short-term goals. They become the base of your budgets.

The reasoning behind income projection is: Since most expenses are predictable and income doesn't fluctuate too drastically, the future will be much like the past. For example, if your gross margin has historically been 30% of net sales, it will (barring strong evidence to the contrary) continue to be 30% of net sales. If you are in a start-up situation, look for financial-statement information and income ratios for businesses similar to yours. The Robert Morris Associates' *Annual Statement Studies* and trade association publications are two possible sources.

Try to understate your expected sales and overstate expenses. It is better to exceed a conservative budget than to fall below optimistic projections. However, being too far under can also create problems, such as not having enough capital to finance growth. Basing income projections on hopes or unjustified fears is hazardous to your business's health. Be realistic; your budget is an extension of your forecasts.

A suggested format for an income projection follows on the next page. The content as shown in the sample may have to be modified to fit your particular operation, but do not change the basic form.

## Income Projection by Month: Year One

| | A | B | C | D | E | F | G | H | I | J | K | L | M | N |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | | **Oct** | **Nov** | **Dec** | **Jan** | **Feb** | **March** | **April** | **May** | **June** | **July** | **Aug** | **Sept** | **TOTAL** |
| 2 | | | | | | | | | | | | | | |
| 3 | Sales | | | | | | | | | | | | | |
| 4 | Wholesale | | | | | | | | | | | | | |
| 5 | Retail | | | | | | | | | | | | | |
| 6 | Total Sales: | | | | | | | | | | | | | |
| 7 | | | | | | | | | | | | | | |
| 8 | Cost of Materials | | | | | | | | | | | | | |
| 9 | Variable Labor | | | | | | | | | | | | | |
| 10 | Cost of Goods Sold | | | | | | | | | | | | | |
| 11 | | | | | | | | | | | | | | |
| 12 | Gross Margin | | | | | | | | | | | | | |
| 13 | | | | | | | | | | | | | | |
| 14 | Operating Expenses | | | | | | | | | | | | | |
| 15 | Utilities | | | | | | | | | | | | | |
| 16 | Salaries | | | | | | | | | | | | | |
| 17 | Payroll Taxes and Benefits | | | | | | | | | | | | | |
| 18 | Advertising | | | | | | | | | | | | | |
| 19 | Office Supplies | | | | | | | | | | | | | |
| 20 | Insurance | | | | | | | | | | | | | |
| 21 | Maintenance and Cleaning | | | | | | | | | | | | | |
| 22 | Legal and Accounting | | | | | | | | | | | | | |
| 23 | Delivery Expenses | | | | | | | | | | | | | |
| 24 | Licenses | | | | | | | | | | | | | |
| 25 | Boxes, Paper, etc. | | | | | | | | | | | | | |
| 26 | Telephone | | | | | | | | | | | | | |
| 27 | Depreciation | | | | | | | | | | | | | |
| 28 | Miscellaneous | | | | | | | | | | | | | |
| 29 | Rent | | | | | | | | | | | | | |
| 30 | Total Operating Expenses: | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | | |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 32 | Other Expenses | | | | | | | | | | | | | |
| 33 | Interest (Mortgage) | | | | | | | | | | | | | |
| 34 | Interest (Term Loan) | | | | | | | | | | | | | |
| 35 | Interest (Line of Credit) | | | | | | | | | | | | | |
| 36 | Total Other Expenses: | | | | | | | | | | | | | |
| 37 | Total Expenses: | | | | | | | | | | | | | |
| 38 | | | | | | | | | | | | | | |
| 39 | Net Profit (Loss) Pre-Tax | | | | | | | | | | | | | |

## Part III: Historical Financial Reports for Existing Business

*Each applicant is required to submit all four items listed below. Failure to receive these items may eliminate the response from further consideration.*

____ Balance sheet (past three years)

____ Income statement (past three years)

____ Tax returns (past three years)

____ Current credit report from major credit bureau

## Part IV: Supporting Documents

*Each applicant is required to submit all five items listed below. Failure to receive these items may eliminate the response from further consideration.*

____ Personal résumés of business owners, officers, and partners

____ Personal financial statements of business owners, officers, and partners

____ Bank or investor letters of intent to finance project

____ Copies of business leases pertinent to this business

____ Copies of all pertinent existing permits or licenses applicable to this business

# Part V: Appendices

## Legal Organization

There are several ways in which your business can be legally organized. To determine the best one for you and your organization, you need to seek competent legal and tax advice. To give you a general frame of reference, the more popular forms and their reasons are outlined below. Business Start-Up Kits and information on registration, licensing, and permit requirements can be obtained in Colorado by calling the Business Assistance Center Hotline: 592-5920 in Denver, or (800) 333-7798 outside the Denver area.

## Sole Proprietorship

A sole proprietorship is a business owned by one person. This form of business is regulated by the state only in that some states (including Colorado) require you to register your trade name to do business as a sole proprietor. You do not have to register with the state if you are operating your business under your own full legal name. (Note: You must be licensed where required, and pay all appropriate taxes. You should also plan to maintain a separate checking account for your business, even if using your own Social Security number).

**Advantages**

- Simple to start.
- Easy to dissolve.
- Owner makes all management decisions.
- Pay only personal income tax; business entity not taxed separately.

**Disadvantages**

- Unlimited liability (owner legally liable for all debts, claims and judgments).
- Difficulty in raising additional funds.
- No one to share the management burden.
- Impermanence (company can't be sold or passed on; however, you may sell or pass on assets of the company).

## General Partnership

A partnership is an association of two or more persons to carry on as co-owners of a business for profit. Some states require that you register your name if it is a trade name (not your full legal name). You must file state and Federal ``information returns,'' but business income and losses flow through to the partners' personal taxes. The business pays no separate income taxes. Partners may share the profits of the business (and the losses) on an equal basis, or may pro rate the proceeds as set forth in a Partnership Agreement. Whichever way you determine to share in the business, you need to have a written Partnership Agreement outlining the ownership, responsibilities, and eventualities of dissolution or liquidation for the business.

**Advantages**

- Simple to start.
- Fairly easy to dissolve.
- Additional sources of capital from partners.
- Broader management base.
- More opportunity for each partner to specialize.
- Tax advantages: no separate income tax.
- Limited outside regulation, compared to a corporation.

**Disadvantages**

- Unlimited financial liability for all general partners (some partners' personal debts can even be charged to the business).
- Difficulty if raising outside capital.
- Divided authority.
- Continuity problems (business dies when any partner leaves or dies, unless succession has previously been spelled out in a Partnership Agreement. Partnership terminates in the event of a personal bankruptcy on the part of any partner).
- Difficult to find suitable (compatible) partners.
- One partner may be responsible for the actions of another partner, regardless of whether that partner had prior approval.

## Corporation

There are two types of corporations generally recognized today: a regular ``C'' corporation, organized under the laws of the state in which you do business; and an ``S'' Corporation, so designated by the IRS and not necessarily recognized by your state.

A corporation is a business entity separate and distinct from its owner(s) or shareholder(s). You must file incorporation papers with the state of your choice. The corporation must file annual reports with the Secretary of State, and may have to file separate quarterly income tax returns. The corporation exists forever, can be bought and sold, and is regulated by the state. In Colorado, information about forming a corporation can be obtained from the Secretary of State's Office, 1560 Broadway, Denver; (303) 894-2251, or from the Business Assistance Center.

**``C'' Corporation Advantages**

- Limited liability (as long as you *act* like a corporation-which means having a separate checking account and phone number, paying interest on any borrowed money, keeping up a corporate record book, filing annual reports, meeting with your Board of Directors at least annually, etc.).

- Easier to bring in additional capital.
- Ownership is transferable.
- Company has continuous, perpetual existence.
- Possible tax advantages (seek adequate advice from a tax professional).
- Gives you more sense of permanence, thus more ``weight,'' in the business world.

**``C'' Corporation Disadvantages**

- More expensive to organize.
- Highly regulated.
- Extensive record-keeping requirements.
- Double taxation (corporation pays its own income taxes; if you pay yourself a salary or a dividend, you also pay personal income taxes).
- Shareholders/Board of Directors may counter your management decisions.

**``S'' Corporation Advantages**

- Filing a Subchapter Selection with the Internal Revenue Service allows you to be taxed on your corporate profits through your personal tax return.
- You still maintain the limited liability of a corporation.
- If you have additional personal income against which to deduct company losses, or if your personal tax rate is lower than the corporate tax rate, this form may be advantageous for you. Again, please seek professional tax advice to make this determination.

**``S'' Corporation Disadvantages**

- There are some restrictions on S Corporations, mainly in how you can sell your shares. You can have a maximum of 35 shareholders, all of whom must be U.S. citizens, and be individuals (not corporations).
- You must request permission from the IRS to be an S Corporation, and generally, must maintain the calendar year as your fiscal year.

We suggest that, if you intend to be an ``S'' Corporation, you do so at the inception of your incorporation to meet IRS deadlines, and to be able to pass all losses on to the shareholders.

## Limited Partnership

In a Limited Partnership, there are two kinds of partners: general partners, who carry full liability; and limited partners, who carry limited liability. Limited partners must make known, through filing with the

Secretary of state, that they indeed are limited partners, and they may not participate in the day-to-day management of the business. Again, as in the ``S'' Corporation, profits from Limited Partnerships are taxed through each partner's personal tax return. Limited partnerships are popular in industries where a great deal of ``up-front'' money is needed for projects that are expected to produce a high return, such as in real estate, energy, movie production, and sports teams.

## Limited Liability Company (LLC)

While wearing the corporate form, essentially, an LLC is similar to a Limited Partnership, except the general partner also carries limited liability. Profits are taxed through individual owners' personal tax returns. The advantage of this form over an ``S'' Corporation is that other corporations may be owners, and the Limited Liability Company may also hold 100% ownership in subsidiary companies. If you are a small corporation, but have interest from institutional or corporate investors, this form of organization may hold distinct advantages for you.

Be aware, however, that the LLC is a relatively new business form. Legal precedents have not yet been set to outline clearly all the legal and tax ramifications of this form of organization. If interested in becoming an LLC, you are strongly urged to seek competent, professional legal and tax advice.

## Break-Even Analysis

You certainly don't want to sell your product or service below cost, expecting to make it up in volume! To avoid this difficulty, you need to know how much to sell each month in order to stay afloat, or to make a certain amount of profit.

Separating your costs into two categories, fixed costs and variable costs, will help with this. Some costs won't readily fall into one or the other category. These are termed ``semi-variable.'' If you wish to get very specific, there are some more sophisticated techniques to help you sot these costs out. Generally, however, place the cost into the category to which it *most* conforms.

### Variable Costs

These costs vary directly with the sale of your product or service: costs you won't have if you don't make the sale. (If I rent motor boats, I won't have gas costs if I don't rent any boats. The gas costs are variable costs.) Generally, materials and labor to make the product or produce the service are considered variable costs. Note: Just because a cost changes from month to month does not make it a ``variable cost.'' Ask yourself, ``If I didn't have the sale, would I have the cost?''

### Fixed Costs

If you answered ``Yes'' to the above question, you have a fixed cost. These are costs you will have to pay regardless of whether you sell your product. In the example above, gas costs are variable, but the monthly interest payment for the motor boat is fixed. Telephone costs are usually considered fixed costs, as well. Other examples of fixed costs might include automobile expenses, administrative salaries, rent, bank charges, insurance, and utilities.

### Breaking Even

Since variable costs vary with sales, and we need to cover fixed costs as well, a formula has been developed that helps us determine if we are selling below cost.

Sales Price Per Unit Sold minus Variable Costs Per Unit Sold will give us the Contribution Margin (per unit sold). This tells us how much we have left over on each sale to contribute to our fixed costs. If we know what those fixed costs are for each month, we can divide them by the Contribution Margin to see how many units we have to sell.

**(Sales Price) - (Variable Costs) = Contribution Margin**

**(Fixed Costs) ÷ (Contribution Margin) = Break-Even Point in # of Units that Must Be Sold**

Another method is to look at the total dollar volume you must sell instead of the number of units. This is done by expressing the Contribution Margin as a percentage of the Sales Price and then dividing the Total Fixed Costs by that percentage.

**(Contribution Margin) ÷ (Sales Price) = % of Sales Price**

**(Total Fixed Costs) ÷ (% of Sales Price) = Break-Even Point in Dollar Volume that Must Be Sold**

**Example of Break-Even Point**

The Bar-O Guiding Company wants to sell three-day fly-fishing trips for $1,250 per person. The variable costs of the trip amount to $475 per person. The fixed costs of licensing, insurance, Forest permit, etc., is $10,000. How many trips will the Bar-O Guiding Company need to sell to break even? How much total dollar volume must it sell?

**Determining # of Units to Break Even**

| **Step 1:** | **Example** | **Your Figures** |
|---|---|---|
| Sales Price | $ _____ | $ _____ |
| - Variable Costs | $ _____ | $ _____ |
| = Contribution Margin | $ _____ | $ _____ |
| **Step 2:** | | |
| Fixed Costs | $ _____ | $ _____ |
| ÷ Contribution Margin | $ _____ | $ _____ |
| **= Break-Even-Point # of Units** | # _____ | # _____ |

**Determining Dollar Volume to Break Even**

| **Step 3:** | | |
|---|---|---|
| Contribution Margin | $ _____ | $ _____ |
| ÷ Sales Price | $ _____ | $ _____ |
| = % of Sales Price | % _____ | % _____ |
| **Step 4:** | | |
| Fixed Costs | $ _____ | $ _____ |
| ÷ % of Sales Price | % _____ | % _____ |
| **= Break-Even-Point Dollar Volume** | **$** _____ | **$** _____ |

# Case Studies
from the
# USDA Forest Service

## Case Study #1

The circumstances and discoveries involved in this case study became one of the catalysts for requiring more detailed financial information from permit applicants.

A Concession Permit process was underway, when one of the respondents reported his/her assets as follows:

``A 1970 Ford ½-Ton Pickup,
$1,000 in cash,
2 Teenage Children,
1 Small Baby,
and a plastic bag full of diapers."

Although humorous, upon questioning the applicant, this response was offered seriously, with the intent to provide financial data. Forest Service staff felt that a more complete solicitation for financial information would generate more accurate responses.

## Case Study #2

During a process that involved a transfer of a permit to a new owner, a Forest office requested information under a new business plan format. The narrative portion suggested that the company possessed the technical capability to perform the permit; however, upon review of the income statement projections, it became obvious that the principals of the firm were weak in accounting and forecasting.

By checking each line item in the income statement projections, it was discovered that the company projected just 29¢ per meal for its customers.

## Case Study #3

In the transfer of ownership and permit of a large, operating lodge on a Ranger District, the business plan format was used to reveal several financially weak applicants. Three submissions, in particular, are of note because each presented strong technical capabilities. In the past, any of these three could have achieved the permit if their candidacy was based solely on their narrative.

1. The first applicants, although strong in their program plan and service, showed no personal or business assets, whatsoever.

2. The second presented only $400 in cash, and the common stock of the mother of the lead principal.

3. The third showed sufficient cash for opening capital; however, the principals' projections were so far above the known activity level, they retracted their proposal when questioned about their financial expectations.

The fourth applicant passed both the technical and financial capability criteria.

Observations from both the CPA and SBDC Director who performed the financial analyses are interesting, as well:

``Some applicants present a business plan that suggests they are a much larger operation than they really are...conversely, some seem to understate their scope of resources, maybe to appear as a smaller operator. Unfortunately for both models, financial-statement analysis usually reveals the truth."

``Slick presentations should not carry more weight in the decision process...if a firm responds with the required components, it should be on a level playing field with other similar applicants."

## Available Business Resources

The following offices are available as resources to those interested in responding to a prospectus that offers an opportunity to supply a recreation activity to the Forest visitor.

**USDA Forest Service**
**Rocky Mountain Regional Office**
740 Simms, P.O. Box 25127
Lakewood, CO 80225
(303) 275-5350

**Arapahoe and Roosevelt National Forests**
Administrative Offices
2150 Centre Avenue, Building E
Fort Collins, CO 80526
(970) 295-6600

**Bighorn NF**
1969 South Sheridan Avenue
Sheridan, WY 82801
(307) 672-0751

**Black Hills NF**
Rural Route 2, Box 200
Highway 385 North
Custer, SD 57730-9501
(605) 673-2251

**Grand Mesa, Uncompahgre & Gunnison NFs**
2250 Highway 50
Delta, CO 81416-8723
(970) 874-7691

**Medicine Bow - Routt NFs**
2468 Jackson Street
Laramie, WY 82070
(307) 745-2300

Steamboat Springs Office
29587 West U.S. 40, Suite 20
Steamboat Springs, CO 80487
(970) 879-1870

**Nebraska NF & Associated Units**
125 North Main
Chadron, NE 69337-2118
(308) 423-0300

**Pike and San Isabel NFs**
1920 Valley Drive
Pueblo, CO 81008
(719) 545-8737

**San Juan - Rio Grande NFs**
1803 West Highway 160
Monte Vista, CO 81144
(719) 852-5941

Durango Office
701 Camino del Rio
Durango, CO 81301
(970) 247-4874

**Shoshone NF**
808 Meadow Lane
Cody, WY 82414
(307) 527-6241

**White River NF**
9th & Grand, P.O. Box 948
Glenwood Springs, CO 81602
(970) 945-2521

**Office of Outfitter Registration**
1560 Broadway, Suite 1340
Denver, CO 80202
(303) 984-7778

**Colorado Outfitters Association**
P.O. Box 440021
Aurora, CO 80044
(303) 368-4731

## Colorado Small Business Development Centers

Adams State College
School of Business, Room 105
Alamosa, CO 81102
(719) 589-7372

Community College of Aurora
9905 East Colfax Street
Aurora, CO 80010-2119
(303) 341-4849

Colorado Mountain College
215 9th Street
Glenwood Springs, CO 81601
(970) 928-0120

Boulder Chamber of Commerce
2440 Pearl Street
Boulder, CO 80302
(303) 442-1475

University of Colorado at Colorado Springs
Pikes Peak Community College
CITTI Building
1420 Austin Bluffs Parkway
Colorado Springs, CO 80933
(719) 592-1894

Colorado Northwestern Community College
50 College Drive
Craig, CO 81625
(970) 824-7078

Delta Montrose Vocational School
1765 U.S. Highway 50
Delta, CO 81415
(970) 874-8772

Denver SBDC
1445 Market Street
Denver, CO 80202
(303) 620-8076

Fort Lewis College
1000 Rim Drive
136-G Hesperus Hall
Durango, CO 81301-3999
(970) 247-7009

Morgan Community College
300 Main Street
Fort Morgan, CO 80701
(970) 867-3351

Mesa State Community College
Western Colorado Business Development Corp.
304 West Main Street
Grand Junction, CO 81505-1606
970) 243-5242

Aims Community College
Greeley and Weld Chamber of Commerce
902 7th Avenue
Greeley, CO
(970) 352-3661

Red Rocks Community College
Lakewood SBDC
1726 Cole Boulevard
Building 22, Suite 310
Golden, CO 80401
(303) 277-1840

Lamar Community College
2400 South Main Street
Lamar, CO 81052
(719) 336-8141

Pueblo Community College
900 West Orman Avenue
Pueblo, CO 81004
(719) 549-3224
(Satellite)
3080 East Main
Cañon City, CO 81212
(719) 275-5335

Trinidad State Junior College
136 West Main Street
Trinidad, CO 81082
(719) 846-5644

Front Range Community College
3645 West 112th Avenue
Westminster, CO 80030
(303) 460-1032
(Satellite)
125 S. Howes St., Ste. 105
Fort Collins, CO 80526
(970) 498-9295

Lead Center
Colorado Office of Business Development
1625 Broadway, Suite 1740
(303) 892- 3809
Lead Center