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INTRODUCTION

Purpose

The purpose of this report is to provide an in-depth description and analysis of the wholesale farm machinery equipment industry standard industrial classification (SIC) 5083, defined as:

Establishments primarily engaged in the wholesale distribution of agricultural machinery and equipment for use in preparation and maintenance of the soil, the planting and harvesting of crops, and other operations and processes pertaining to work on the farm or the lawn or garden; and dairy and other livestock equipment (OMB, p.298).

This report focuses on franchised wholesale farm equipment dealers for two reasons:

- Of the 13,862 establishments in SIC 5083 in 1982, 13,079 were merchant wholesalers; 428 were manufacturers' sales branches and offices; and 355 were agents, brokers or commission merchants (Census Bureau 1985, pp.1-10). "Wholesalers" include establishments primarily engaged in selling merchandise to farm users, although those

in the farm machinery business generally refer to dealers as "retailers" (Census Bureau 1985, p.iv).

- In 1982 (latest data), SIC 5083 had sales of \$27.5 billion. Approximately 80 percent of sales were from the farm machinery and equipment commodity lines, and over 70 percent of those sales were to farmers (Census Bureau 1985, pp.3-8 and 4-9).

The Equipment Dealers Cost of Doing Business for the years 1984 through 1988, published by the North American Equipment Dealers Association, provided much of the financial information in this report. This association has 7,866 members, of whom 7,001 are franchised agricultural (ag) dealers. This figure represents over 90 percent of all the franchised ag dealers in North America, making the information highly representative of the industry (Editor, Equipment Dealers Cost 1989).

U.S. Industrial Outlook, Industry Surveys, and Industry Journal provided information on the background of and outlook for the industry. Financial information was obtained, reviewed and analyzed from Dun and Bradstreet Industry Norms--Three Year Edition, 1988-1989; 1989 Robert Morris and Associates Annual Income Statement Studies; Dun and Bradstreet Industry Norms and Key Business Ratios--Library Edition, 1986 through 1988; and FEWA Median Operating Ratios Report (undated).

INDUSTRY AND BUSINESS ENVIRONMENT

Nature of the Industry

Sales growth for the farm machinery and equipment business depends on

- age of existing equipment in use
- crop prices
- stability of export markets
- acreage planted
- land values
- government subsidies and drought relief
- interest rates (Industry Surveys 1989, p. S-33).

COMPOSITION

Structure, Size and Number of Firms

Of the 13,862 establishments in SIC 5083 (1982), 77 percent were corporations, 17 percent were individual proprietorships, 5 percent were partnerships, 0.2 percent were cooperative associations, and 0.2 percent fell into the "other" category (Census Bureau 1985, pp.1-244). Almost 85 percent of the firms were single-unit establishments (Census Bureau 1985, pp.3-8).

The mean sales per establishment in 1982 equaled \$1,984,872. Just over 29 percent of the firms had sales between \$1,000,000 and \$2,499,999; 96 percent had sales slightly below \$5,000,000. Nearly 33 percent of the firms employed fewer than 5 people; 31 percent employed 5 to 9; and 29 percent employed 10 to 19. Only 9 percent had 20 or more employees (Census Bureau 1985, pp.1-10 and 1-77).

Total Industry Sales

Total sales in 1982 for SIC 5083 equaled \$27.5 billion. The breakdown by commodity line is shown in Table 1.

Industry Background--Last 10 years

The farm equipment manufacturing industry is oligopolistic. "Deere and Case's combined share of the North American big 2-wheel tractor and combine market is 79 percent and Ford is the major producer in smaller tractors and mammoth 4-wheel drive vehicles. Lower volume competitors, however, are fading or struggling (Reiff, p.127).

Most farm equipment dealers of today are contracted with one of the major manufacturers. Though many smaller tractors are imported, most are made by U.S. companies' foreign operations (Industry Surveys, p.S-38).

Farm equipment expenditures reached record levels in 1979 and remained high for two years (Table 2), but the depressed farm economy of the early and mid-1980s led to a sharp decline in purchases

through 1986 (Industry Surveys, p.S-35). Correspondingly, the number of dealers fell by an estimated 3,000 from 1981 through 1987 (Implement and Tractor, p.9). "The farm crisis winnowed out about one-third of the farm equipment dealers" (Toner, p. 9).

A rebound of the industry began in 1987, however, and indications are that the upswing will continue in the immediate future.

Current State of the Industry

The North American farm machinery business recently began a comeback after eight straight years of disappointing market developments (Stark, p.T-5). "Farm machinery sales in 1989 could be as much as 10 percent over the \$6 billion recorded in 1988. The demand for tractors is expected to be especially high for the more powerful units. Annual sales to two-wheel drive and four-wheel drive tractors of 139 hp [horsepower] and higher should increase [by] 23 percent and 65 percent, respectively, in 1989" (Nebraska Farmer, p.6).

Good crop years and farm program payments are credited for the recovery in sales; "a lot of equipment needs to be replaced....[T]here's a pent-up demand" (Toner). In 1988, industry sales of used equipment and repair parts equaled sales of new equipment amounting to 44 percent each (Graph 1 in the Graph Appendix).

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TABLE 1
Farm Income and Farm Equipment Expenditures
Year Total Cash Net Realized Expenditures (Million Dollars)

Receipts
Farm Income
Tractors
Other

Billions of	Total in Dollars
1988E	
170	
40	
2218	
3807	
6025	
1987	
160.5	
46.3	
1847	
3918	
5765	
1986	
152	
37.5	
1513	
3094	
4607	
1985	
156.7	
30.5	
1936	
3660	
5596	
1984	
155.2	
32.7	
2538	
4682	
7220	
1983	
150.4	
13	
2606	
4735	
7341	

1982
150.6
22.7
2597
5068
7665

1981
146.0
26.9
3740
6481
10221

1980
143.3
16.1
3683
6956
10639

1979
135.1
27.4
3746
8002
11748

1978
115.9
25.2
3283
7158
10441

Source: Department of Agriculture

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TABLE 2
Commodity Line Salesb

Commodity Code	Description	Amoun
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2400	Farm Machinery, Equipment and Parts	\$21,6
2450	Garden Machinery, Equipment and Parts	\$ 2,
5900	Farm Supplies	\$ 152,5
9700	Service Receipts and Labor Charges	\$ 1,
9940	Other Rental Receipts	\$
	Total Other/Misc. Lines	\$ 1,
	Total for Sic 5083	\$ 27,

Trends

Today's dealers are generally larger and better financed, with more capital and less debt than in the past. Owners are more oriented toward management and customer service (Fogarty, pp. 11 and 14).

Industry trends can be summed up as follows:

- more service competition: farmers doing their own service work and former

dealers opening up service shops
(Manager of Contract Administration
[MCA], Case)

-multiple dealer locations under one
ownership, some of the hub-and-spoke
variety, where financially strong
dealers will have outlets for parts service
and sometimes whole goods at
various locations with administration at
the hub (Market Representation Manager
[MRM], Case)

-fewer but larger farms needing more
service infield or at locations convenient
to their multiple farms (MCA, Case)

-an increasing percentage of parts being
purchased at specialty stores, at the
expense of the dealers' market share
(Implement and Tractor, p.22)

-better control of inventory and accounts
receivable (Fogarty, pp.11, 14)

-more attention to parts and service
income (pp. 11, 14)

Outlook

"The 1990 year could explode into periods of fast
paced recovery. Some managers see vehicle
demand in 1990 approaching the record levels of
1979" (Stark, p.T-5).

"Many who track the farm machinery business
believe farm equipment spending is at the beginning
of an upswing that could last 5 to 7 years. The
average tractor in use is now 12 years old and
farmers have cash to replace them after three years
of record profits fueled by higher commodity prices
and generous federal subsidies. Their land, often
pledged as collateral for tractor loans, is worth 20%
more than it was three years ago. Good used
equipment from foreclosure sales is scarce, and 18
month inventories on equipment dealer lots have
been pared down to a six month supply" (Reiff,
p.126).

As the number of equipment dealers has declined
and sales have increased, the average size of a firm

has become larger.

The "economic health of the farm machinery industry remains subject to influences far beyond the industry's control. Sometime during the next 5-25 years, government policies, good domestic growing weather and poor weather in competing countries could coincide to produce 2-5 years of rapid growth. Reversal could follow just as quickly" (Department of Commerce, pp.22-2).

SMALL BUSINESS FACTORS

Start-up

Pros and Cons of Operating

The following are major advantage and drawbacks of the farm equipment dealership business.

Pros

- the farm equipment industry is currently in an upswing and profits are improving
- franchised dealers enjoy much support from their franchisers, including training, financing, advertising funds and management assistance
- a strong trade association exists, which provides valuable services
- customers are loyal when they receive good service

Cons

- start-up costs are high
- the business is cyclical and tied to the farm economy
- it is difficult to build a reputation and attract new customers if there's a strong competitor in the area
- there is increasing competition in the areas of service and repair
- sharp price competition exists
- net profits are low (2.36 percent of sales)

before taxes for the average dealer in 1988) (Equipment Dealers Cost, p.6)

-high volume is required to produce an adequate return.

Franchising

The term franchise persists in the industry despite the fact that dealers are technically not "franchises," but rather are authorized by contract (Sales Staff Manager [SSM], Ford New Holland; MCA, Case; Manager of Marketing Information [MMI], Deere).

It is difficult to open a new dealership without a contract with one of the major manufacturers due to the extensive assistance and support provided.

Obtaining a contract is a lengthy process, and it involves the following:

1. Geographic Area Needs Test. The first contract criterion concerns a geographic area needs test. The intended location must be in an area that fits the manufacturer's long-range strategic plan for dealer placements. Industry figures for the trade area are used to determine whether the location can support a dealer. The number of competitors in the area is considered, as is the possibility that another dealer for the same manufacturer already operates there. While manufacturers do not restrict where dealers can sell, they do assign territories. If the manufacturer is convinced that adequate sales potential exists, the selection process continues (NKDU,D and Dealer Placement Representative [DPR], Ford; MCA, Case).

2. Creditworthiness. The manufacturer checks the creditworthiness of the prospective dealer. This process is similar to that undertaken for a bank loan application. A complete credit investigation of the prospective dealer is conducted to determine the dealer's financial capacity to operate the business (MCA, Case).

3. Capital. The manufacturer's territory

representative works with the prospect in financial forecasting. Revenues and expenses are forecasted and capital requirements estimated. In general, capital needs are based on estimated gross sales. One manufacturer uses a factor of 7 to 8. A projected sales volume of \$2 million, for example, would require approximately \$250,000 to \$300,000 capital. This would be used for tools, vehicles, equipment, furniture, fixtures, computer, rent or mortgage payment and the first 60-90 days' expenses. Guidance is provided based on an industry-specific formula (MRM, Case).

4. Inventory Financing. All the major manufacturers provide their dealers with a floor-planned new goods inventory. The manufacturer puts the inventory in for a specified period at no cost. If the inventory is sold before the due date, the dealer pays no interest. Usually the inventory is sold before the due date. An account is set up for financing of parts. Special terms on parts return are sometimes granted to new dealers (MMI, Deere; SPR, Ford; MCA and MRM, Case).

5. Customer Sales Financing. Suppliers provide financing options for buyers of both new and used equipment. In addition, most dealers have arrangements with other financing companies or banks (MMI, Deere).

6. Business Plan. A formal written business plan covering financial forecasts, sources and uses of funds, marketing, personnel and set-up must be submitted to the franchiser (DPR and IR, Ford; MMI, Deere; MCA, Case).

7. Personnel, Training and Building Requirements. The National Farm and Equipment Manufacturers Association publishes an industry guide for building and personnel requirements. Facilities manuals, which are available from the franchisers, can also be used to assist dealers in determining space needs and layout for showroom, parts, service, office and outside area based

on potential volume. No uniform construction is required.

Personnel are required for service, sales, clerical, parts and management. In general, employees work full time and year-round. The franchiser provides training on products, parts, service and sales. Management training is also available (DPR and IR, Ford; MMI, Deere; MCA, Case).

8.Automation. Dealers are required to obtain the computer system specified by their major manufacturer. Its uses include inventory control, whole goods location, ordering, accounting listings, receivables, invoicing, bookkeeping and payroll (MMI, Deere; MRM, Case).

9.Permits and Regulation. There are no industry-specific permits or regulations. Dealers need to file under the uniform code for financing and obtain federal identification and sales tax numbers (MMI, Deere; MRM, Case).

10.Machinery and Tools. Manufacturers advise prospective dealers of the machinery and tools necessary to sell and service their line and will assist the dealers in obtaining them (MRM, Case).

11.Short-Line and Other Contracts. A minority of dealers hold contracts with more than one major full-line supplier. Most dealers carry short-line goods. These include lawn and garden equipment and supplies, power feeder boxes, grain elevators, farm hardware, chemical application equipment, feeding and livestock equipment and virtually anything else farm and garden related. Short-line goods can also include additional parts supplies.

Short-line goods are obtained from farm equipment wholesalers who buy in large lots from numerous suppliers and resell to dealers. The wholesaler also provides services such as infield presentations, product education, credit/collection and service facilities (employee, John Day).

Growing/Mature Small Business Overview

The following describes the business of a "typical" farm machinery dealer:

Farm machinery and equipment dealers sell new and used machinery, such as tractors, combines and harvesters, and such equipment as cultivators, plows and planters. Dealers may carry one manufacturer's machinery, service and repair new and used equipment, deliver and pick up machinery, make financing available, and rent or lease equipment. Sometimes, service persons repair farm machines on the farmer's premises rather than in the service shop. Dealers will often loan a tractor or other machine to the farmer while the farmer's is being repaired.

Farm machinery comes to the dealer fully assembled except for incidental attachments, which the dealer installs.

The turnover on farm machinery and equipment is relatively low because of the long life of the products. Therefore, dealers frequently carry auxiliary lines of merchandise, such as construction equipment (produced by the same manufacturers as the farm machinery), trucks, building materials, electrical appliances, fertilizers, pesticides, and home and garden machinery. Farm machinery dealers also may become involved in custom farming for a flat charge per bushel or acre, or as independent contractors. This practice is not widespread, however, because of a lack of capable personnel and time conflicts during seasonal operations, it is used sometimes.

Peak sales periods vary according to geographical location; usually, planting and tillage equipment sales are highest from March to May; whereas, sales of harvesting equipment peak in August through October. During these months dealers often will hire temporary, part-time help to handle the extra business volume.

Most dealerships are independently owned; a few are manufacturers' franchises. An independent dealer generally enters into a non-binding contract with a manufacturer, which specifies, among other things, how the dealer will pay for merchandise ordered from the manufacturer. Some dealers pay cash outright for the inventory; some have a consignment or floor plan arrangement. Most manufacturers offer ongoing training for sales personnel, for mechanics and for dealers who sell and service their products. They monitor the dealer's management practices, sales volume, and machinery, as well as provide support services. Usually the manufacturer is the sole warrantor of new machinery and equipment.

Farm machinery and equipment retailers can be found in small towns located in rural, predominantly agricultural areas. The premises usually include a single-story building of masonry or metal construction surrounded by an open lot where machinery and equipment are displayed. The inside layout includes offices, a parts department, and service facilities (Best, p.2).

Based on the 1988 Equipment Dealers Cost of Doing Business report, the average dealer had total sales in 1988 of \$2,715,910; of that amount, they had a total operating margin of 16.02 percent, total expenses of 15.98 percent, other income of 2.33 percent and a net operating profit before taxes of 2.36 percent (Equipment Dealers Cost, p.6).

TABLE 3
Sales Breakdown as a Percentage of Total
Sales

New Equipment	44.29%
Used Equipment	21.09%
Repair parts	23.19%
Service labor	8.13%
Other lines	2.67%
Rental income	.63%

(See Graph in the Graph Appendix)

Dealer Start-up/Stability

Most new dealerships start as authorized dealers for major manufacturers. As indicated in the previous section, start-up for dealers depends heavily on the requirements of the contracting manufacturer.

The biggest difference between new and mature businesses may be in the stability and reputation of the dealer (MRM, Case). Many current dealers are second or third generation. Most have been in business more than 10 years. At present, dealerships are more stable as the rapid decline in their number has subsided (MMI, Deere; EER, Ford).

Marketing Plan

Although formal annual marketing plans are recommended, most dealers do not prepare them. In fact, in one survey of field equipment dealers, only 28 percent had written annual marketing plans and only 43 percent set sales goals by line. For the majority (55 percent) of farm equipment dealers, the manufacturer provides the basic data for market potential (Forgarty, pp.21-22).

Advertising

Most dealers participate in cooperative advertising with their major supplier. This advertising takes all forms, with a concentration in print and direct mail. Manufacturers provide dealers with sales brochure, product manuals and information and video programs. Selected trade show support, including people and equipment, is sometimes given. Some dealers do field demonstrations and hold periodic open-house and in-house clinics. Manufacturer also participate with dealers on sales incentives such as rebates, low annual percentage rates or deferred payments (MCA and MRM, Case; M, Ford; MMI, Deere).

The cooperative advertising funds are provided on a shared cost basis between the dealer and manufacturer, with a maximum allowable per year based on dealer sales volume (MCA and MRM, Case; A, Ford; MMI, Deere). Advertising and

promotion expenditures as a percentage of sales had a three-year average of 0.7 percent, with a range of 0.99 percent to 0.65 percent in 1988 (Equipment Dealers Cost 1986, 1987 and 1988, p. 8). "Range" refers to the weighted average for small dealers to the weighted average for large dealers, and the "average" is the 1986 to 1988 average for the overall average dealer.

Administrative Management

Owners are typically responsible for the overall management of their business. Management focus is on better control of inventory and accounts receivable, servicing and selling a variety of farm- and rural-related products, and more attention to parts and service income (Fogarty, pp. 11, 14).

Manufacturers/suppliers provide management assistance, primarily through their territory representatives, who suggest more formalized ongoing planning, better communications, management by objectives, goal setting and increased attention to finance and accounting. Greater emphasis should be placed on owners as managers rather than as salespeople (MCA, Case).

Financing Debt vs. Equity

Interest is a major expense. The smaller the firm, the lower the use of debt (as a percentage of assets) but the higher the interest expense as a percentage of sales. With the low gross margin and high fixed costs, the authors suggest that dealers fund assets by 27-37 percent equity and 73-63 percent liabilities, with accounts payable being 5-10 percent of total liabilities and equity. The larger the dealer, the more attractive the use of leverage (Equipment Dealers Cost, Financial Database).

Between 1984 and 1988, total sales increased (Table 1), and in 1988 the gross margin covered the total operating expenses (Graph 2). Net profit as a percentage of sales also rose over those five years (Graph 3), meaning dealers now make more profit on sales. Also, as sales have increased, the return on assets (Graph 4) has increased. As a result, even though dealers are using more of their own money, or equity, so that their leverage ratio is

going down (Graph 5), the return on equity (the product of leverage ratio and return on assets) (Graph 6) has risen. (See the Graphs in the Graph Appendix.)

Because interest is a fixed payment, the use of debt, or leverage, increases the return on equity investment as sales volume increases. The larger sales volume and higher proportion of debt for larger dealerships resulted in a 4 percent return on equity for a 1 percent return on assets. This compares with smaller dealerships' 3 percent return on equity for a 1 percent return on assets (Financial Database).

Financing Trends. Table 3 shows accounts as a percentage of total liabilities and equity for the average dealer.

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TABLE 4
Total Liabilities and Equityg

Type	1984	1988
Total Liabilities	\$1,408,640	\$1,09
Inventory		77.9%
Floor Planning		50.0%
Notes		
Mortgages		11.4%
Notes Payable -Bank and other		9.3%
Accounts Payable		6.3%
OWNER'S EQUITY	\$ 428,654	\$ 463,953
Owner's Equity		23.3%
Days Payable- Payables	18.9 Days	21.8 Days
Days Payable inc. notes	205.6 Days	150.0
Coverage Ratio (TIE)	1.6 Days	3.4 Days

□

Implications of Trends for Financing. From 1984 to 1988, equity increased 7 percentage points of total assets. During that same period, total liabilities

dropped 7 percentage points, resulting in interest expense (and bank charges excluding real estate) as a percentage of sales dropping from 2 percent to 1 percent. Since dealers are holding less inventory, which decreases inventory days (Graph 7), they need less financing (Financial Database).

The dollar amount of liabilities decreased while the dollar value of equity increased. Thus, dealers reduced debt even as their coverage ratio and days' payable ratios improved. Still, average dealers', total liabilities funded 70 percent of assets while liabilities excluding accounts payable funded 62 percent of total assets (Financial Database).

Short-Term vs. Long-Term Loans

Since many dealers had almost 74 percent of their assets in inventory during this five-year period, short-term loans were common. While floor-planning notes payable decreased in popularity, they were still the most commonly used type of debt, generally accounting to 43-48 percent of assets. Manufacturers' floor planing notes payable are the cheapest source of funds, which explains their popularity. Notes payable-blank and other dropped by more than half to 5-6 percent of total liabilities and equity between 1984 and 1988. Based on this information, a breakdown of 48-52 percent for short-term loans and 9-10 percent for long-term loans is recommended to finance dealer assets (Financial Database).

SOURCES OF FINANCING

Small Business Administration (SBA)

When Small Business Administration (SBA) financing of farm equipment dealers is involved, a conflict may arise. The SBA prefers a general claim against the business, with other creditors' claims being subordinated. However, the manufacturer who is floor-planning inventory wants first claim on that inventory. A subordination agreement, giving first claim on inventory to the manufacturer with

SBA having first lien on the remainder, can resolve the problem (DPR, Ford).

Floor-planning Notes Payable

Three-year floor-planning notes payable averages 46 percent of total liabilities and equities between 1984 and 1988, with a range of 43-48 percent (Financial Database). Manufacturers offer floor-planning notes for new and used equipment. The dealer gets the equipment on credit, but the note doesn't accrue interest for a certain period of time. In addition to floor-planning notes, which are used by virtually all franchised dealers, dealers also use private finance companies or production credit (DPR, Ford; MCA and MRM, Case; MII, Deere).

Banks

Bank loans were not a major source of funding during this period -- with a three-year average of 6 percent of total assets, a 1988 range of 5-6 percent and a decreasing trend (Financial Database).

Mortgages

During 1986-1988, mortgages funded an average of 10 percent of total assets, with a 1988 range of 9-10 percent. Use of mortgages is decreasing. Banks generally will not lend in excess of the book value of fixed assets, as suggested by the fact that mortgages averaged 10 percent of total assets and fixed assets were 8 percent of total assets. Thus, mortgages probably fund fixed assets and are not used as permanent working capital (Financial Database).

Accounts Payable

Accounts payable are a spontaneous source of financing. Dealers took longer to pay in 1988 than in the recent past (Graph 8). The three-year average for accounts payable was 8 percent of total assets, with a 1988 range of 5-10 percent from the smallest to the largest firms. Therefore, dealers probably rent under operating leases. These leases generally have clauses, provide maintenance by the lessor clauses, and are binding for much shorter periods of time.

Financing Growth

Use of floor-planning notes and accounts payable to finance growth has increased while funds for growth obtained from owner's equity, notes payable

mortgages and long-term debt have decreased.
Table 4 compares types of financing by business size as measured by sales volume.

TABLE 5
Financing by Sales Volumeep

Type of Financing	Sales Volume	
	0-\$1 Million	\$3 Million and over
Accounts Payable	6.1%	9.1%
Floorplanning Notes	40.0%	47.8%
Notes Payable-Bank & Other	7.5%	4.4%
Mortgages & Long term debt	11.2%	9.9%
Owner's Equity	35.1%	29.8%

FINANCIAL CONTROL AND PLANNING

Credit and Collection Policies

Collection Period. Customer receivables average 7-9 percent of total assets during 1988. Dealers extend credit to customers, and generally the terms require payment in 20 to 30 days. The days receivables had a three-year average of 22 days and a range of 19-22 days in 1988 (See Graph 9). The trend for days receivable has decreased even as sales have increased which distorts the days receivable time frame, making it appear as if customers took longer to pay (Financial Database).

Bad Debt. Bad debt expense consistently averaged 0.23 percent of sales across the firms, but this expense did show a decreasing trend (Financial Database). This indicates that either farmers are becoming better credit risks or dealers are increasing credit efforts.

Absence of Long-Term Notes. Because long-term notes receivable does not appear on the balance sheet and because the days receivable term is so short, dealers probably do not offer customers long-term financing (Equipment Dealers Cost 1988). Rather, as previously noted, manufacturers and other financial institutions are used to finance customer equipment purchases.

Profit Pointers

The three most important income statement ratios are cost of goods sold as a percentage of net sales; coverage ratio, or times interest earned; and return on sales.

The balance sheet ratios that point to profitability are days receivable, quick ratio, inventory turnover and days inventory, asset turnover, return on assets and leverage and return on equity (DuPont equation).

Comparative Industry Ratios

Comparative industry ratios are useful in spotting potential problem areas for individual dealers. Different sources provide ratios on a high, low, average or average-only basis. The implication of a high or low ratio are then explained.

Common-size financial statements are sources that present all of the income statement accounts as percentage of total net sales. On common-size balance sheets, asset accounts are shown as percentages of total liabilities and equity. These percentages can indicate, for example, a buildup of inventory or debt or some other trend.

Comparative industry financial statements are useful for comparisons of current with past ratios trends. See Appendix VI for a description of various sources of comparative industry ratios.

Financial Control and Analysis Techniques

To monitor receivables, the authors recommend that dealers compute uncollected receivables as a percentage of that month's credit sales. The average collection period should move in the opposite direction of the sales trend.

Projection of Future Income and Expenses

It is helpful to use ratios and common-size statements to check the "reasonableness" or implications of financial forecasts; for example, inventory turns might be too high, indicating the need for more inventory. A very basic method is to use the common-size income statement percentages: first forecast sales and then multiply the expense category's percentage of sales by the

forecasted sales figure to determine dollar expenses for that category. However, the interest rate and tax rate should not be estimated using this method.

The balance sheet can also be used in forecasting by computing the various accounts as a percentage for forecasted sales. But, individual judgment should be used.

As previously noted, manufacturers' representatives will assist dealers in financial forecasting.

Cash Flow Forecasting

The cash basis method of preparing a statement of changes in financial position (sources and uses of funds) is the preferred cash flow technique. Sources of cash include decrease in assets, increase in liabilities, net income and depreciation. To determine cash flow, add the beginning cash balance to net income, add the back depreciation expense, add the changes in assets (excluding cash), as they affect cash, and add the changes in spontaneous debt (instant credit such as accounts payable) and paid-in capital. Next, subtract ending cash. The remainder is either necessary borrowing or investments. (Interest expense must be paid on borrowing, a use of cash, but this will be a close estimate.)

MARKETING

Customers

All dealers must provide an extremely high level of customer service to remain in the market. Price is the primary criterion on which dealers compete, since products are functionally similar with innovations by one manufacturer quickly copied or improved upon by others (Area Farmer).

Competition varies by location. Table 5 shows a breakdown of dealer-members by region in 1988.

TABLE 6
Number of Dealer/Members by Region

Region	No. of Dealer/Members
Northeast	1143
Southeast	985
Corn Belt	1741
Lake States	970
Northern Plains	502
Middle Plains	660
Southern Plains/Delta	632
Pacific	314
Western Canada	506
Eastern Canada	522

Market Saturation

As mentioned under franchising, extensive studies of the population and potential purchasing patterns are conducted prior to opening a new dealership.

None of the three major equipment manufacturers indicated a need to increase its number of dealers to accommodate current sales growth. Rather, each felt its existing group of dealers was adequate. In fact, the long-range vision is to have even fewer dealers doing more volume (MMI, Deere; MCA, Case; A, Ford).

Pricing

There is no universal pricing strategy or standard markup on cost. Price competition is sharp, and various financing options, costs and terms are used as competitive pricing tools. The three-year average margin on new equipment was 8 percent over cost. Margins on used equipment averaged 6 percent and margins on parts averaged 28 percent (Financial Database).

Final selling prices are determined in much the same way as they are in car dealerships. Manufacturers' suggested retail prices are given, but actual selling price is negotiated. Discounts and/or rebates are sometimes given, such as at the end of the season or during sales promotions (MMI, Deere).

Markup strategy

Small dealers had an average cost of goods sold of 79 percent, which was nearly 6 percentage points lower than that for larger dealers. Margins vary substantially by product and service with the highest margins on repair parts and the lowest on rentals/leases of equipment (Graph 10). Smaller dealers generally have emphasized higher margin sales. For examples, while larger dealers' sales of new and used equipment (lower margin) accounted for 67 percent of their total sales, these sales categories accounted for only 55 percent of small dealers' sales. On the other hand, small dealers sold more repair parts (higher margin), which accounted for 34 percent of their total sales and was about 13 percentage points higher than that for larger dealers (Financial Database).

Warranties

Manufacturers warrant new equipment and reimburse dealers at predetermined amounts for warranty service work. Terms and claim procedures may differ among specific pieces of equipment. In general, however, warranties run from one to five years with optional extended service agreements available (MMI, Deere; MCA, Case; A, Ford).

Warranty expense for all dealers averages \$14,904 in 1988, with small dealers spending \$1,937 and large dealers spending \$28,185 (Equipment Dealers Cost, pp.6-8).

Due to the difficulty of transporting broken ag equipment, an important customer preference is infield warranty service work (Area Farmer).

Customer/Dealer Relations

Exceptional customer service, including infield repairs and prompt parts replacement, is critical to dealer success. This is because of the competitive nature of the industry, the cohesiveness among customers and because the use of ag equipment is critical in season (Area Farmer).

MANAGEMENT

Personnel

1. Staffing Requirements. The average number of employees per dealership in 1988 was 13. Small dealers averaged 7 employees and large dealers, 19.

Sales per employee ranged from \$188,685 to \$245,203, and averaged \$204,203, down from 1987 (Equipment Dealers Cost, pp.7,9). Table 7 shows what the functional breakdown of employees for an "average" dealership would be.

Table 7. Functional Breakdown of Employees

New Dealership	Mature Dealership
1 owner/general manager manager	1 owner/general
1 salesperson	2 salespeople
1 office worker	1-2 office workers
2 service people	5-6 service people
1 partsperson	2-3 partspeople

2. Training. Manufacturers provide training for sales and service (MCA, Case: MMI, Deere). However, it is sometimes more cost-effective, in terms of the time saved, for established dealers to train their own people (Area Farmer).

Compensation

Salaries and wages, excluding benefits, averaged \$159,182, or 13 percent of sales. Small dealers' average salary expenditure was \$54,836 and large dealers averaged \$259,438 (Equipment Dealers Cost, pp.6-8).

1. Salespeople. There are no standard compensation practices for salespeople. Compensation ranges from straight commission to salary, to salary plus bonus and various combinations (MMI, Deere). In 1988, the average compensation for salespeople was \$21,447. Those in small dealerships were paid an average of \$19,162 while high-volume dealers paid salespeople \$24,124 on average (Equipment Dealers Cost, pp.6-9).

2. Parts people. Salaries for parts people averaged \$19,423 in 1988 and ranged from \$14,231 for those employed by low-volume dealers to \$20,983 for those employed by high-volume dealers (Equipment Dealers Cost, pp.6-9).

3. Mechanics. Mechanics are compensated on an hourly basis, with a range from \$6.50/hour for regular mechanics to \$11.00/hour for more experienced mechanics (Equipment Dealers Cost, p.9).

4. Owners. Compensation for owners and other general managers averaged \$47,598 in 1988. Owners/managers for small dealerships were paid \$18,527 on average while those for large dealerships received \$75,784 (Equipment Dealers Cost, pp.6-8).

5. Others. The average dealers's expense for office workers was \$24,017 in 1988, with small dealers averaging \$9,148 and larger dealers averaging \$37,530 (Equipment Dealers Cost, pp.6-8).

Benefits

Benefits vary as widely as compensation practices. Some dealers provide comprehensive benefits including health insurance and retirement plans (MMI, Deere). Most provide their salesperson with a car or truck (Area Farmer). The average dealer's expense for employee benefits was \$46,457 in 1988. Small dealers averaged \$15,553 on benefit expenditures and large dealers spend \$74,517 (Equipment Dealers Cost, pp.6-8).

Legal Considerations

Most dealerships are incorporated both for tax purposes and to limit personal risks for the owners. There is no trend toward subchapter S corporations (MCA, Case; EER, Ford; MMI, Deere).

Insurance

Dealers should carry business liability insurance, including products and completed operations coverage to protect them from liability arising out of the sale or repair of defective products. Due to the hazardous operation involved with ag equipment,

excess catastrophic liability coverage should be considered.

Property insurance should be carried for the buildings owned and their contents, which includes machinery, equipment, supplies and tools and all outside property. Contractual obligations for damage to floor-planned inventory must be investigated, and coverage obtained if necessary.

Liability coverage for company-owned automobiles and for non-company-owned automobiles operated by employees on company business should be secured, and, in most states, is legally required. In addition, depending on the values and age of owned autos, physical damage coverage should be obtained. Workers compensation coverage must be obtained as required by state law.

Dealer expenditures on insurance ranged from \$9,892 to \$30,154 in 1988, with the average dealer spending \$20,589. These expenditures increased 20 percent from 1986 to 1988 (Equipment Dealers Cost, pp.6-8).

Government Regulation

Besides the required business license that must be obtained as dictated by individual state laws, there are few industry-specific regulations (MMI, Deere; MRM, Case). Dealers must comply, however, with safety regulations (i.e., those of the Occupational Safety and Health Administration and of the Environmental Protection Agency) concerning the operation and storage of large industrial equipment and fuel (Area Farmer).

Purchasing

Franchised dealers purchase primarily on a direct basis from their specific manufacturer (e.g., Deere, Case, Ford). Short-line goods are generally obtained from farm equipment wholesale operations. Parts can be obtained from the manufacturer or from a wholesaler (employee, John Day; MCA and MRM, Case).

There is some seasonality to ordering equipment. For example, with certain types of large equipment,

such as cotton pickers and some harvesting equipment, as well as with home lawn and garden equipment. Orders are placed up to six months in advance to secure a supply for the next season (MCA, Case; A, Ford; MMI, Deere).

Tractor sales are much less seasonal and are ordered virtually year-round. Repair parts are ordered on an ongoing, as-needed basis, with some dealers stocking in anticipation of the high-usage months (MCA, Case; A, Ford; MMI, Deere).

The industry standard purchasing terms for small parts and other supplies is 2/10 net 30 (Area Farmer).

Delivery

The most common method of delivery is flatbed truck via independent operators. The second most common shipping method is train. Small parts may be shipped by United Parcel Service. Freight is charged to the dealer (MMI, Deere).

Inventory

Inventory selection is based on crop type, soil type, farm size, and the weather (Area Farmer). Because of the costs of carrying high-ticket items (a combine can cost \$200,000), inventory turnover is a critical measure of success. Inventory turnover on new equipment ranged from 1 to 2 percent in 1988, with an average of 1.6 percent. Used equipment turnover was much higher and ranged from 2 to 3 percent, with an average of 3 percent for all dealers. Total inventory turnover including parts and other equipment averaged 2 percent (Equipment Dealers Cost, pp., 7 and 9).

SUMMARY AND CONCLUSION

While no dealer will fit a calculated "average" exactly, the typical farm equipment dealer holds a contract with a major supplier. The dealership is a corporation that has been in operation for at least 10 years and employs 13 people. Annual sales run approximately \$2.5 million, with the margin being best on repair parts and service, but sales volume is growing. The major customer group is farmers, who, like the dealerships, are becoming fewer in number but larger in size.

Management focus is on customer service, parts and service income, and inventory and accounts receivable control. A manufacturer-required computer is used to assist management in meeting both long-term and short-term goals. Longer-range forecasts and ongoing planning are being stressed in the industry.

APPENDIXES

Appendix VI. Sources of Comparative Industry Ratios

1. Equipment Dealers Cost of Doing Business by North American Equipmen best source of detailed information for equipment dealers.
2. Dunn & Bradstreet Industry Norms-Three Year Edition. This publicatio does not provide much detail. It may be skewed toward smaller dealers.
3. Robert Morris and Associates Annual Income Statement Studies. This uses a smaller sample size than the above two publications.
4. Dunn & Bradstreet Industry Norms and Key Business Ratios-Library Ed level ratios. It no longer breaks information down by size of business
5. FEWA Median Operating Ratios Report. This publication is put out by Association, whose members are the short-line providers to equipment d

None of the above sources use a scientific method of determining sampl database.

The Census of Wholesalers also provides good information by SIC code, 1982.

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Appendixes
 Graphs

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□APPENDIX A: INCOME PROJECTION STATEMENT

Industry

%

J

F

M

A

M

J

J

A

S

O

N

D

Annual

total

Annual

%

Total net sales
(revenues)

Costs of sales

Gross profit

Gross profit margin

Controllable expenses

Salaries/wages

Payroll expenses

Legal/accounting

Advertising

Automobile

Office supplies

Dues/Subscriptions

Utilities

Miscellaneous

Total controllable
expenses

Fixed expenses

Rent

Depreciation

Utilities

Insurance

License/permits

Loan payments

Miscellaneous

Total fixed
expenses

Total expenses

Net profit (loss)
before taxes

Taxes

Net profit (loss) after
taxes

INSTRUCTIONS FOR INCOME PROJECTIONS STATEMENT

The income projections (profit and loss) statement is valuable as both a planning tool and a key management tool to help control business operations. It enables the owner/manager to develop a preview of the amount of income generated each month and for the business year, based on reasonable predictions of monthly levels of sales, costs and expenses.

As monthly projections are developed and entered into the income projections statement, they can serve as definite goals for controlling the business operation. As actual operating results become known each month, they should be recorded for comparison with the monthly projections. A completed income statement allows the owner/manager to compare actual figures with monthly projections and to take steps to correct any problems.

Industry Percentage

In the industry percentage column, enter the percentages of total sales (revenues) that are standard for your industry, which are derived by dividing

$$\frac{\text{Costs/expenses items} \times 100\%}{\text{total net sales}}$$

These percentages can be obtained from various sources, such as trade associations, accountants or banks. The reference librarian in your nearest public library can refer you to documents that contain the percentage figures, for example, Robert Morris Associates' Annual Statement Studies (One Liberty Place, Philadelphia, PA 19103).

Industry figures serve as a useful bench mark against which to compare cost and expense estimates that you

develop for your firm. Compare the figures in the industry percentage column to those in the annual percentage column.

Total Net Sales (Revenues)

Determine the total number of units of products or services you realistically expect to sell each month in each department at the prices you expect to get. Use this step to create the projections to review your pricing practices.

- What returns, allowances and markdowns can be expected?
- Exclude any revenue that is not strictly related to the business.

Costs of Sales

The key to calculating your cost of sales is that you do not overlook any costs that you have incurred. Calculate cost of sales of all products and services used to determine total net sales. Where inventory is involved, do not overlook transportation costs. Also include any direct labor.

Gross Profit

Subtract the total cost of sales from the total net sales to obtain gross profit.

Gross Profit Margin

The gross profit is expressed as a percentage of total sales (revenues). It is calculated by dividing

$$\frac{\text{gross profits}}{\text{total net sales}}$$

Controllable Expenses

- Salary expenses -- Base pay plus overtime.
- Payroll expenses -- Include paid vacations, sick leave, health insurance, unemployment insurance and social security taxes.
- Outside services -- Include costs of subcontracts, overflow work and special or one-time services.
- Supplies -- Services and items purchased for use

in the business.

- Repair and maintenance -- Regular maintenance and repair, including periodic large expenditures such as painting.
- Advertising -- Include desired sales volume and classified directory advertising expenses.
- Car delivery and travel -- Include charges if personal car is used in business, including parking, tools, buying trips, etc.
- Accounting and legal -- Outside professional services.

Fixed Expenses

- Rent -- List only real estate used in business.
- Depreciation -- Amortization of capital assets.
- Utilities -- Water, heat, light, etc.
- Insurance -- Fire or liability on property or products. Include workers' compensation.
- Loan repayments -- Interest on outstanding loans.
- Miscellaneous -- Unspecified; small expenditures without separate accounts.

Net Profit (loss)

(before taxes) - Subtract total expenses from gross profit

Taxes

- Include inventory and sales tax, excise tax, real estate tax, etc.

Net Profit (loss)

(after taxes) - Subtract taxes from net profit (before taxes)

Annual Total

- For each of the sales and expense items in your income projection statement, add all the monthly figures across the

table and put the result in the
annual total column.

Annual Percentage - Calculate the annual percentage by
dividing

$$\frac{\text{Annual total} \times 100\%}{\text{total net sales}}$$

- Compare this figure to the
industry percentage in the first
column.

□□APPENDIX B: BALANCE SHEET

As of _____, 19____
COMPANY NAME

Assets

Current assets \$ _____

Cash	\$ _____		
Petty cash	\$ _____		
Accounts receivable	\$ _____		
Inventory	\$ _____		
Short-term investment	\$ _____		
Prepaid expenses	\$ _____		
Long-term investments	\$ _____		
Fixed assets	\$ _____		
Land	\$ _____		
Buildings	\$ _____		
Improvements	\$ _____		
Equipment	\$ _____		
Furniture	\$ _____		
Automobile/vehicles	\$ _____		
Other assets			
1.	\$ _____		
2.	\$ _____		
3.	\$ _____		
4.	\$ _____		
		Total assets	\$ _____
Current Liabilities			□ Liabilities
Accounts payable	\$ _____		
Notes payable	\$ _____		
Interest payable	\$ _____		
Taxes payable			

Federal income tax	\$ _____
State income tax	\$ _____
Self-employment tax	\$ _____
Sales tax (SBE)	\$ _____
Property tax	\$ _____
Payroll accrual	\$ _____
Long-term liabilities	
Notes payable	\$ _____
Total liabilities	\$ _____
Net worth (owner equity)	\$ _____
Proprietorship or Partnership	
(name's) equity	\$ _____
(name's) equity	\$ _____
or Corporation	
Capital stock	\$ _____
Surplus paid in	\$ _____
Retained earnings	\$ _____
Total net worth	\$ _____

Total liabilities and _____ total net worth \$ _____

(Total assets will always equal total liabilities and total net worth)

INSTRUCTIONS FOR BALANCE SHEET

Figures used to compile the balance sheet are taken from the previous and current balance sheet as well as the current income statement. The income statement is usually attached to the balance sheet. The following text covers the essential elements of the balance sheet.

At the top of the page fill in the legal name of the business, the type of statement and the day, month and year.

Assets

List anything of value that is owned or legally due the business. Total assets include all net values. These are the amounts derived when you subtract depreciation and amortization from the original costs of acquiring the assets.

Current Assets

- Cash -- List cash and resources that can be converted into cash within 12 months of the date of the balance sheet (or during one established cycle of operation). Include money on hand and demand deposits in the bank, e.g., checking accounts and regular savings accounts.

- Petty cash -- If your business has a fund for small miscellaneous expenditures, include the total here.

- Accounts receivable -- The amounts due from customers in payment for merchandise or services.

- Inventory -- Includes raw materials on hand, work in progress and all finished goods, either manufactured or purchased for resale.

- Short-term investments -- Also called temporary investments or marketable securities, these include interest- or dividend-yielding holdings expected to be converted into cash within a year. List stocks and bonds, certificates of deposit and time-deposit savings accounts at either their costs or market value, whichever is less.

- Prepaid expenses -- Goods, benefits or services a business buys or rents in advance.

- Examples are office supplies, insurance protection and floor space.

Long-term Investments

Also called long-term assets, these are holdings the business intends to keep for at least a year and that typically yield interest or dividends. Included are stocks, bonds and savings accounts earmarked for special purposes.

Fixed Assets

Also called plant and equipment. Includes all resources a business owns or acquires for use in operations and not intended for resale. Fixed assets may be leased. Depending on the leasing arrangements, both the value and the liability of the leased property may need to be listed on the balance sheet.

- Land -- List original purchase price without allowances for market value.
- Buildings
- Improvements
- Equipment
- Furniture
- Automobile/vehicles

Liabilities

Current Liabilities

List all debts, monetary obligations and claims payable within 12 months or within one cycle of operation. Typically they include the following:

- Accounts payable -- Amounts owed to suppliers for goods and services purchased in connection with business operations.
- Notes payable -- The balance of principal due to pay off short-term debt for borrowed funds. Also includes the current amount due of total balance on notes whose terms exceed 12 months.
- Interest payable -- Any accrued fees due for use of both short-and long-term borrowed capital and credit extended to the business.

- Taxes payable -- Amounts estimated by an accountant to have been incurred during the accounting period.

- Payroll accrual -- Salaries and wages currently owed.

Long-term Liabilities

Notes payable -- List notes, contract payments or mortgage payments due over a period exceeding 12 months or one cycle of operation. They are listed by outstanding balance less the current position due.

Net worth

Also called owner's equity, net worth is the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, equity is each owner's original investment plus any earnings after withdrawals.

Total Liabilities and Net Worth

The sum of these two amounts must always match that for total assets.

□□APPENDIX C: MONTHLY CASH FLOW PROJECTION

Name of Business
Owner
Type of Business
Prepared by
Date

Pre-start-up
position

1
2
3
4
5
6
Total
Columns 1-

6

Year Month

Est
Actual
Est.
Actual
Est.
Actual
Est.
Actual
Est.
Actual
Est.
Actual
Est.
Actual
Est.
Actual

1. Cash on hand (beginning
month)

1.

2. Cash receipts

2.

(a) Cash sales

(a)

(b) Collections from credit
accounts

(b)

(c) Loan or other cash
injections (specify)

(c)

3. Total cash receipts
($2a+2b+2c=3$)

3.

4. Total cash available
(before cash out) (1+3)

4.

5. Cash paid out
(a) purchases
merchandise)

5.
(a)

(b) Gross wages (excludes
withdrawals)

(b)

(c) Payroll expenses (taxes,
etc.)

(c)

(d) Outside services

(d)

(e) Supplies (office and
operating)

(e)

(f) Repairs and
maintenance

(f)

(g) Advertising

(g)

(h) Car, delivery and travel

(h)

(i) Accounting and legal

(i)

(j) Rent

(j)

(k) Telephone

(k)

(l) Utilities

(l)

(m) Insurance

(m)

(n) Taxes (real estate, etc.)

(n)

(o) Interest

(o)

(p) Other expenses (specify
each)

(p)

(q) Miscellaneous
(unspecified)

(q)

(r) Subtotal

(r)

(s) Loan principal payment

(s)

(t) Capital purchases
(specify)

(t)

(u) Other start-up costs

(u)

(v) Reserve and/or escrow
(specify)

(v)

(w) Owner's withdrawal

(w)

6. Total cash paid out (5a
through 5w)

6.

7. Cash position (end of
month) (4 minus 6)

7.

Essential operating data
(non-cash flow information)
A. Sales volume (dollars)

A.

B. Accounts receivable
(end on month)

B.

C. Bad debt (end of
month)

C.

D. Inventory on hand (end
of month)

D.

E. Accounts payable (end
of month)

E.

INSTRUCTIONS FOR MONTHLY CASH FLOW PROJECTION

1. Cash on hand (beginning of month)

Cash on hand same as (7), Cash position, pervious month

2. Cash receipts - (a) Cash sales

All cash sales. Omit credit sales unless cash is actually received

(b) Gross wages (including withdrawals)

Amount to be expected from all accounts.

(c) Loan or other cash injection

Indicate here all cash injections not shown in 2(a) or 2(b) above.

3. Total cash receipts ($2a+2b+2c=3$)

4. Total cash available (before cash out) ($1+3$)

5. Cash paid out - (a) Purchases (merchandise)

Merchandise for resale or for use in product (paid for in current mont

(b) Gross wages (including withdrawals)

Base pay plus overtime (if any)

(c) Payroll expenses (taxes, etc.)

Include paid vacations, paid sick leave, health insurance, unemploymen

(d) Outside services

This could include outside labor and/or material for specialized or ov

(e) Supplies (office and operating)

Items purchased for use in the business (not for resale)

(f) Repairs and maintenance

Include periodic large expenditures such as painting or decorating

(g) Advertising

This amount should be adequate to maintain sales volume

(h) Car, delivery and travel

If personal car is used, charge in this column, include parking

(i) Accounting and legal

Outside services, including, for example, bookkeeping

(j) Rent

Real estate only (See 5(p) for other rentals)

(k) Telephone

(l) Utilities

Water, heat, light and/or power

(m) Insurance

Coverage on business property and products (fire, liability); also wor
(include in 5(w))

(n) Taxes (real estate, etc.)

Plus inventory tax, sales tax, excise tax, if applicable

(o) Interest

Remember to add interest on loan as it is injected (See 2(c) above)

(p) Other expenses (specify each)

Unexpected expenditures may be included here as a safety factor

 expenses during the month should be included here (non-capital equipme

_____When equipment is rented or leased, record payments here

(q) Miscellaneous (unspecified)

Small expenditures for which separate accounts would be practical

(r) Subtotal

This subtotal indicates cash out for operating costs

(s) Loan principal payment

Include payment on all loans, including vehicle and equipment purchase

(t) Capital purchases (specify)

Nonexpensed (depreciable) expenditures such as equipment, building pur

(u) Other start-up costs

Expenses incurred prior to first month projection and paid for after s

(v) Reserve and/or escrow (specify)

Example: insurance, tax or equipment escrow to reduce impact of large

(w) Owner's withdrawals

Should include payment for such things as owner's income tax, social s
 premiums, etc.

6. Total cash paid out (5a through 5w)

7. Cash position (end on month) (4 minus 6)

Enter this amount in (1) Cash on hand following month--

Essential operating data (non-cash flow information)
This is basic information necessary for proper planning and for proper
can be evolved and shown in the above form.

A. Sales volume (dollars)

This is a very important figure and should be estimated carefully, tak
as well as realistic anticipated sales (actual sales, not orders recei

B. Accounts receivable (end of month)

Pervious unpaid credit sales plus current month's credit sales, less a

C. Bad debt (end on month)

Bad debts should be subtracted from (B) in the month anticipated

D. Inventory on hand (end on month)

Last month's inventory plus merchandise received and/or manufactured c

E. Accounts payable (end of month)

Pervious month's payable plus current month's payable minus amount pai

F. Depreciation

Established by your accountant, or value of all your equipment divided
Revenue Service

APPENDIX: INFORMATION RESOURCES

U.S. Small Business Administration
(SBA)

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

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

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

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

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

Other U.S. Government Resources

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

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

Consumer Information Center (CIC)
P.O. Box 100
Pueblo, CO 81002
The CIC offers a consumer information catalog of federal publications.

Consumer Product Safety Commission (CPSC)
Publications Request
Washington, DC 20207
The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)
12th Street and Independence Avenue, SW
Washington, DC 20250

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

U.S. Department of Commerce (DOC)
Office of Business Liaison
14th Street and Constitution Avenue, NW
Room 5898C
Washington, DC 20230
DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

U.S. Department of Health and Human Services
(HHS) - Public Health Service
Alcohol, Drug Abuse and Mental Health
Administration
5600 Fishers Lane
Rockville, MD 20857
Drug Free Workplace Help Line: 1-800-843-4971.
Provides information on Employee Assistance Programs.
National Institute for Drug Abuse Hotline:
1-800-662-4357. Provides information on preventing substance abuse in the workplace.

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

U.S. Department of Labor (DOL)
Employment Standards Administration
200 Constitution Avenue, NW
Washington, DC 20210
The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury
Internal Revenue Service (IRS)
P.O. Box 25866
Richmond, VA 23260
1-800-424-3676
The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)
Small Business Ombudsman
Crystal Mall - No.2
Room 1102
1921 Jefferson Davis Highway
Arlington, VA 22202
1-800-368-5888 except in DC and VA
703-557-1938 in DC and VA
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)
FDA Center for Food Safety and Applied Nutrition
200 C Street, SW
Washington, DC 20204
The FDA offers information on packaging and labeling requirements for food and food-related products.

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

- Trade association information
Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through

publications and services such as newsletters, conferences and seminars.

□ Books

Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check Books In Prints, a directory of books currently available from publishers.

□ Magazine and newspaper articles

Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.

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