

# Writing a Business Plan - One Step at a Time

*A step-by-step system for new entrepreneurs.*

## Booklet 2 - Sales & Cost of Goods



**“Sales or Income”** is normally money received from the sale of products or services through the operation of your business. **“Miscellaneous or other income”** may also come from day to day earnings such as interest at the bank, tips from customers or other items that are not significant enough to put in a separate category.

**When predicting the future of your business, be as realistic as possible!!**

### Worksheets

- 2.1 Sales & Cost of Goods
  - Category 1
  - Category 2
  - Category 3
  - Category 4
  - Category 5
  - Category 6

## Estimating the Sales per Month:

Your business survival depends upon whether or not you can achieve your sales projections. This makes the “Based On” section very important. You must be able to convince the readers of your business plan that your sales figures are reasonable. You can estimate and justify your sales in a variety of ways.

### Examples:

- Number of customers or items sold per day to attain your projected sales.
- Past sales figures for the business from copies of past financial statements.
- Letters of Intent, signed letters from prospective customers assuring a reasonably high level of sales.

To estimate his sales, John found it easier to do this:

- 1) Identify the number of items he expected to sell in a day.
- 2) Multiply this by the average price per sale to find projected “sales per day”.
- 3) Multiply his sales per day by the number of days open in a month to arrive at his estimated “sales per month”.

Anyone purchasing an existing business can use previous sales as a guide to estimate their future sales. Adjust for factors that may make your sales different from those of the previous owner.

Example: Peter was buying a business that had parts sales of  
\$20 000 last year,  
\*\$28 000  
\$22 000 the two previous years.

\*The \$28 000 last year was higher because he sold a rebuilt car for \$4000 and put the sale into parts. Peter will average the three years without including the car sale.

$$\begin{array}{r} \$20,000 \\ *\$28,000 - \$4000 \quad +24,000 \\ \hline +22,000 \\ \hline \$66,000 \div 3 = \$22,000 \text{ average parts sales per year.} \\ \hline \div 12 \\ \$1833 \text{ average parts sales per month} \end{array}$$

## Calculating Your Cost of Goods Sold (or Cost of Sales)

“**Cost of Goods Sold**” is the direct cost of buying or producing the items you are selling.

Example:	Parts Cost of Goods/Sales	John buys a part for \$100
	Parts Retail Price	He will usually sell it for \$145
	Parts Cost of Sales Percentage	$\$100 \div \$145 = .69 = 69\%$

By using 74% cost of goods in his financial projections, he has allowed for some changes in the cost of his parts.

There are various sources of this type of information but you should never depend upon any one source. Suppliers can be very helpful at giving you costs but markups may vary from item to item. Consulting other people who operate businesses under similar conditions may be a better way to find out more about your type of business. Check with your business consultant to find out if there is information concerning the average cost of goods for your business.

The **costs of services** are usually very small. The owner or employee’s labor is not in this category but will be included in a later section.

**John's Auto Repair**

**Don't forget to include the Cost of Goods!!!!**

**2.1 Sales Category 1**      *Labor*                      **Cost of Goods %**      0%

**Description:**                      *Billable hours for auto repair. Mostly done by owner/operator.*

**Sales Based On:**                      *An average of 4 billable hours per day*

*4 hours X 6 days per week x shop rate of \$30 per hour X 4.3 weeks per month*  
 $4 \times 6 \times \$30 \times 4.3 = \$3096$

*Reduced in December to allow 2 days holidays.*

*Reduced by 20% in July and August to allow for slower season.*

*Expecting to be busy immediately because there are several customers waiting. Customer list and letters of support attached.*

**Cost of Goods Based On:**                      *Not applicable - labor supplied by owner/operator*

Mo#1	Mo#2	Mo#3	Mo#4	Mo#5	Mo#6	Mo#7	Mo#8	Mo#9	Mo#10	Mo#11	Mo#12
<i>May</i>	<i>June</i>	<i>July</i>	<i>Aug</i>	<i>Sept</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>
3096	3096	2476	2476	3096	3096	3096	2856	3096	3096	3096	3096



**Sales Category 2**                      *Parts*                      **Cost of Sales %**      74%

**Description:**                      *Materials and parts sold while doing auto repair*

**Sales Based On:**                      *On average, labor usually equals parts sales.*

*Verified by :*

1) *Industry average stated in Automotive Repairs "Small Business Stats"*  
*Copy attached.*

2) *Averaging out \$5000 in labor and the parts it would require.*  
*Calculations attached.*

**Cost of Goods Based On:**                      *Suppliers stated we will make 40% (cost will be 60%).*

*Industry Average as stated in "Small Business Stats" is 69%.*

*Used 74% to allow for smaller buying power and new suppliers.*

Mo#1	Mo#2	Mo#3	Mo#4	Mo#5	Mo#6	Mo#7	Mo#8	Mo#9	Mo#10	Mo#11	Mo#12
<i>May</i>	<i>June</i>	<i>July</i>	<i>Aug</i>	<i>Sept</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>
3096	3096	2476	2476	3096	3096	3096	2856	3096	3096	3096	3096



**Sales Category 3**

Towing

**Cost of Goods %** 20%**Description:**

Use of tow truck to haul vehicles.

**Sales Based On:**

Average of 2 tow calls per week of basic \$15 plus 10 miles.

 $\$15 + (10 \text{ miles} \times \$1 \text{ per mile}) = \$25 \text{ per call}$  $\$25 \times 2 \text{ per week} \times 4.3 \text{ weeks per month} = \$215$ 

Doubled in the very cold winter months due to weather conditions.

Most shops double or triple this amount in towing. My estimates are probably low.

**Cost of Goods Based On:** Allowance for fuel. Allowing 5-7 litres of fuel per trip for an estimate of \$5 fuel for every \$25 job. This cost of goods estimate is very high but it allows for running a vehicle in very cold weather.

Mo#1	Mo#2	Mo#3	Mo#4	Mo#5	Mo#6	Mo#7	Mo#8	Mo#9	Mo#10	Mo#11	Mo#12
May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
215	215	215	215	215	215	215	430	430	215	215	215

**Sales Category 4**

Miscellaneous Income

**Cost of Goods %** 0%**Description:**

Occasional income from other sources such as vehicle storage for truckers, shop rental or interest earned.

**Sales Based On:**

Letter of Intent from Randy R. Weslaff, Trucking.

He will be renting a bay to store his semi in the shop approximately 2-3 nights per month during the winter months. There will probably be other miscellaneous income, but projections will be based on lower income than expected.  $2 \text{ nights} \times \$20 \times 4.3 = 172$

**Cost of Goods Based On:**

Not applicable. Cost for heating building will be included later under utilities.

Mo#1	Mo#2	Mo#3	Mo#4	Mo#5	Mo#6	Mo#7	Mo#8	Mo#9	Mo#10	Mo#11	Mo#12
May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
						172	172	172	172	86	



## **Glossary**

**allowance** - to plan for a suitable amount of money

**attain** - to reach or complete

**categories** - groups or classes

**estimate** - to determine a cost as closely as possible

**miscellaneous** - a collection of various items or objects, odds and ends

**not applicable - N/A** - does not apply to this situation

**occasional** - happening sometimes

**projections** - to tell about what you expect will happen in the future, based on what you know now

**prospective** - expected, likely

**quote** - to tell the cost

**significant** - large, important

**stats - statistics** - facts collected and organized

**verified** - to check the truth of information