Rural Grocery Store
Start-Up and
Operations Guide

Illinois Institute for Rural Affairs
Western Illinois University
Rural Grocery Store Start-Up and Operations Guide

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Introduction and Purpose

Starting and operating a small business can be both complicated and confusing for even an experienced entrepreneur. The purpose of this primer is to provide resources to facilitate the start-up process for a small grocery and to give support to existing stores. There are numerous resources available — many at no cost — to entrepreneurs. These resources are listed throughout this document and in the appendices that follow. This guide is not intended to take the place of professional advice and all business owners (or potential owners) should work with qualified attorneys and/or accountants when seeking advice on technical matters. A great place for anyone interested in starting a small business in Illinois is one of the Small Business Development Centers. These centers offer a wide range of services and advice, offer their services free, and are located throughout the state. A list of Small Business Development Centers is included in Appendix A.

Description of Grocery Store

In the past, small family-owned grocery stores formed the basis of the supermarket industry. One family member minded the cash register, another stocked the shelves, and another unloaded the delivery truck. However, today many of the small independent grocery stores in rural communities have either experienced financial difficulties or have been forced to close.

Several factors contributed to the closures. First, many owner/operators of local stores have retired without a family member or another individual in place to continue the store's operations. Second, communities experiencing a decline in population lost grocery sales and the business was no longer viable. Third, residents in rural communities often commute to larger communities for employment and shop before returning home. Independents find it impossible to compete in price with large chains that have economies of scale. Fourth, independent grocers have also experienced competition from convenience/gasoline stores.

The information contained in this booklet can be beneficial to those individuals currently in the grocery business, those who are considering starting or investing in a grocery, or a community wishing to attract or retain a grocery store.

Starting a Grocery Store

Feasibility Study

Before starting any new business, it is necessary to know if it is feasible to invest both time and money into the venture. Unfortunately, not all good ideas make great businesses, or even make money. Determining the feasibility of starting a business may be one of the most crucial tasks facing entrepreneurs. A feasibility checklist should be used to determine if an idea represents a real business opportunity to expand or create a new business. The checklist in Appendix B includes both personal and market considerations.

Market Analysis

Once the feasibility checklist is successfully completed, entrepreneurs should conduct a market analysis. A market analysis consists of conducting a market survey and gathering information about potential locations and the community. This will allow the entrepreneur to assess the market potential of the proposed store and select a site. Usually small independent grocery stores are patronized by those who do not travel outside the community regularly or customers who are in a hurry. These customers are often willing to pay a few cents more for an item rather than drive
Jackson Street Market, Macomb Illinois — A Model for Small Town

Terry Sparrow has been the owner/operator of the Jackson Street Market in the college town of Macomb, Illinois, for the past three years. Despite its size of only 7,800 sq. ft., it is a full service grocery store with produce, frozen food and a meat department doing in-house butchering.

The Jackson Street Market, located on the west side of town, faces all of the challenges common to most small grocery stores. Macomb is also served by Super Walmart Center and a Hy-Vee grocery store, both located on the east side of town close to most of the retail development. Near the center of town is a large County Market grocery store that benefits from having residential neighborhoods on three sides. As an independent grocer, Mr. Sparrow does not have the tremendous resources that these corporations have.

So how has he managed to stay in business for the past three years? According to Mr. Sparrow, his strategy goes back to his original business plan:

We have identified five niches' that will help make this store successful. 1) We will offer …the finest cuts (of meat) that will bring repeat customers in just for the meat selection. 2) We intend to stock the freshest produce available; organic selections will also be available. 3) We intend to have a full line alcohol selection that can operate with the store or on its own. 4) We can offer the personal touch and service that the larger stores cannot. 5) Our location will offer a convenient alternative to driving across town for weekly shopping, or for fill-in shopping throughout the week.

To compete with the larger stores, the Jackson Street Market works to bring added value and enhanced service to his customers. His strategies include the following:

1. Jackson Street Market's meat department processes in-house providing a familiarity and trust to the customer. Larger big-box stores process at a central location and ship meat in the same way they do sneakers.

2. Mr. Sparrow spends extra effort making sure that his produce section is freshly stocked. He personally walks the department to look for bad items after his employees have checked and restocked the section. It's a little extra something that the owner of a business will do that may not occur to a salaried big-box store manager.

3. Jackson Street Market carries alcohol. Being located in a college town, Mr. Sparrow realized that he needed to carry some items, like alcohol, to bring people into the store. He adapts his item selection to fit the customer profile. Getting to know the types of customers in your area (wants, needs, and demographics) is important to attracting customers.

4. Mr. Sparrow believes that the “personal touch” can be a big asset for the small business. He strives to get to know his customers and anticipate their needs. Among the services he offers, is grocery carry out for customers who need assistance to their vehicles.

5. Location, location, location: Mr. Sparrow has a considerable amount of real estate knowledge from previous business ventures. He chose his location on the west side, an underserved side of town that has access to residential housing and university students as well as people commuting to work from small towns west of Macomb.

According to Mr. Sparrow, having a well thought out business strategy is a must. Many people think of a business plan as a task that has to be done in order to get a commercial loan. While this is true, a business plan is also the battle plan that you can rely as the business environment changes or when things get difficult.
several miles to a supermarket. Customers also appreciate the personal touch many independent grocers can provide.

**Market Survey**

The first step in a market analysis is to conduct a market survey. A market survey will help to determine a sales forecast. There are five basic steps:

1. Identify the trading area for the store and determine which items the store will carry.
2. Determine the potential spending characteristics for the population within the area.
3. Estimate the target area’s spending power within the trading area.
4. Determine the proportion of the total sales volume (market share) that can reasonably be obtained. Talk to grocers in similar size towns with comparable stores.
5. Estimate the total of sales volume you can reasonably attract. Be aware that stores can either attract additional sales volume or simply redistribute business already there.

Some of the information gathered is “primary data” that the grocer will compile by himself. Other “secondary” information can be obtained from sources that have already compiled the data. Census data show the number of residents in a specific area, the number of households, and income levels. Census data are available online (http://www.census.gov/). Maps of major trading areas may be available through local industrial or economic development groups, city newspaper offices, state business data centers, university centers, and chamber of commerce offices. **Appendix C** lists several resources. Many sources provide free information and help.

**Location and Site Selection**

There are several factors to consider in determining a location. The store should be accessible to potential customers with ample parking. Proximity to other businesses and traffic density are both important. The history of the site and restrictive ordinances may make the site undesirable. The rent-paying capacity of the business, terms of the lease, or the rent-advertising relationship should also be considered.

The final considerations in choosing a location are (1) the community in which to locate and (2) the specific site within the community. Selecting an appropriate site location for a grocery store is critical to its success and a poor location for any retail operation can cause failure. Entrepreneurs must weigh the cost of the store's location with its potential for success. For examples, a location away from high traffic areas may be less costly but it also can reduce sales. Stores should not be positioned so as to depend on revenue from traffic along small highways if there is a possibility that an improved alternate route will be developed in the future. Also, consider the danger of establishing a store near a single large employer that may close or relocate. Zoning is another site consideration. Many communities have zoning restrictions on industrial, commercial, and residential properties. Some communities are further zoned within those classifications such as to the number of commercial units in an area or the size and architecture of the building.

**Community**

The community selected must have a large enough customer base to support the store. The economic base of the community should be stable and the demographic characteristics compatible with the intended market. Entrepreneurs may be able to contact wholesale food distributors for help in determining the probability of success in a community. Many distributors have store or
real estate development specialists who can provide a formula based on “per capita weekly expenditures” used to estimate the probability for success. Distributors may use formulas to determine the expected income of the store based on profit margins expected. Generally, stores range in size from 2.1-2.8 square feet per capita to 4.0-4.5 square feet per capita with inventory averaging $17 per square foot. Weighing these considerations according to the business’s needs and goals will help in the decision process.

The following information helps in formulating a community’s economic base: (1) percentage of people employed full-time and employment trends, (2) average family income, and (3) per capita total annual grocery sales (if no information is available for the community, use information from similar communities).

It is also helpful to learn about the community by looking and listening. What does the local newspaper report about the community? How do residents feel about their community? Do high school and/or college graduates have to leave the area to find gainful employment? Are other new businesses opening in the area? Is there new construction? Is there a progressive chamber of commerce or a local economic development group?

**Market Potential**

One way to approximate the potential markets for grocery stores is to examine the average sales, the average number of employees per store, and the average number of residents per grocery store. Classifying these ratios by size of county permits some insight into the extent to which the markets are already saturated. In other words, if a potential entrepreneur was interested in a county that is well above the average in concentration of grocery stores already, more time should be spent considering the viability of this area as a potential site.

Another approach to determining store viability is to examine the number of stores per population. Regions with a larger number of persons per store are more likely to support an additional store. These comparisons, however, do not compare for size of store and therefore must be used carefully.

While the market comparison information can provide broad insights into the feasibility of an additional business, more detailed data is necessary to make sound business decisions. This information is available from several sources. First, some information regarding sales tax receipts in broad Kind of Business categories is available from the Illinois Department of Revenue. Second, Illinois Small Business Development Centers can offer a range of useful services to help determine market feasibility. Third, more specific information about the number of stores a region can support is often available from professional groups and trade associations.

**Facility**

**Size and Layout**

Independent grocery stores can range widely in size: A store of 1,800 to 2,400 square feet provides enough space to stock a variety of merchandise but small stores with only 400 square feet can also be successful in meeting certain market segments. When laying out the store, in general, about 25 percent of the space is devoted to the checkout-customer service area. The checkout should be within ten feet of the front door and contain impulse items such as candy, magazines, cigarettes, film, batteries, and razor blades.
The balance of the display aisles may be 60 percent of total area. Position the aisles so that customers must walk through in-demand items to reach milk and other beverages in refrigerated coolers. Often inventory is relocated to avoid customers establishing “shopping routes” and therefore, additional items are often seen and purchased when customers seek regularly purchased items. The aisles should be as wide as possible and cleanliness is essential. Walls painted a light color or white make the store look larger and allow brightly colored signs to stand out.

Only 10 percent of the floor space should be devoted to receiving and storage, and 5 percent to office space. Remember customers are not in the back room or the office; and although necessary to operate, those areas do not generate revenue. Receiving should be on the same side of the store as the milk and other refrigerated or frozen foods to avoid delays in refrigerating new stock. The frozen food section is often placed toward the end of the shopping pattern. Compressors for these units should be located as close together as possible for energy efficiency. Generally, carbonated beverages and beer are delivered by the vendor and can be located on the opposite side of the store, creating a cross pattern of impulse buying for customers purchasing only a few items.

**Leasing versus Buying**

Often, when picking a facility the choice of leasing or buying a property comes up. Both options have their merits. Leasing allows for a lower initial financing amount. Often this is crucial for an entrepreneur with limited resources. In a lot of cases the biggest startup cost is the purchase of the real estate and this can be the barrier that keeps a project from getting off the ground.

However, the purchase of real estate may be the business owners’ best path to building equity. Obviously, when you’re self-employed, there is no company funded 401K. Building equity in the business is the best way to securing a good return on the years of “sweat-equity” that must be invested into a small grocery store.

Whether leasing or buying a facility, the cost of the building expense needs to be in line with the size of the total revenue. In 2013 the average building expense (rent) was approximately 3.85 percent of total revenue (Bizminer 2014). This does not include repairs or taxes on the property.

**Leasing**

If a business owner determines that leasing is the best option, the lease can be structured in several ways. New stores often do better with a short-term lease of only one or two years with a set renewal option of five years if the business achieves targeted profits. This set renewal option prevents a business owner from losing the lease after a short period of time at a desirable location.

A business owner may be confronted with the term “Triple Net Lease”. This refers to a lease agreement in which the lessee is required to pay the real estate tax, the insurance and the maintenance on the property being leased. This is in addition to the monthly lease fee.

Percentage-based leases require businesses to pay a portion of the gross revenue, in addition to a fixed monthly amount. This lease agreement provides landlords a definite base rent plus an additional amount as the business grows.

Other issues to consider are who pays for remodeling and what alterations are allowed; who pays for snow/ice removal, lawn care, and internal and external signs; and will the business owner be required to get permission to expand or engage in additional lines of business.
Lease-holding improvements are repairs, remodeling, or expansions that the business owner pays for on the building they are leasing. These usually increase the value of the property. It is important to remember that, in this kind of lease, any improvements you make will benefit the owner of the property but do nothing for your business’s balance sheet. The cost of preparing the building and its ultimate return to the building owner should be considered when choosing a location.

A lease is a binding legal document. Money spent on competent legal counsel is well worth the expense. Negotiation is always an option. If the lease does not seem acceptable, look elsewhere and come back if there are no better offers or locations. Entrepreneur Inc. (2005) provides the following guide for leasing:

**Leasing Checklist**

- Is there sufficient electrical power? Are there enough outlets?
- Are there enough parking spaces for customers and employees?
- Is there sufficient lighting? Heating? Air conditioning?
- How large a sign and what type can you erect at the facility? This may also be regulated by the municipality.
- Will the city building and zoning departments allow the business to operate in the facility?
- Does the city or county health department require separate restrooms for male and female employees?
- Will the landlord allow the alterations deemed necessary for the business?
- Must the renter pay for returning the building to its original condition if the business moves?
- If the store has plate-glass windows, who pays for insurance? (This can be expensive.)
- Will the delivery and shipment of materials and goods to and from the building be easily accomplished?
- Is there any indication of roof leaks? (Heavy rain could damage fixtures and products.)
- Is the cost of burglary insurance high in the area? Also, can the store be secured at a low cost against the threat of burglary?
- Will the health department approve the business at this location?
- If hot water is required, is there a water heater?
- Will the fire department approve the operation of the business at this location? (Entrepreneur Inc. 2005)

**Phone and Utilities**

Although single line telephones may serve the purpose, if the store is very busy, a multi-line system may be required. While most businesses install a land line for telephone, the availability of reliable cell phone service can be important for customers and employees.

Internet capacity is also important for marketing, purchasing, and research, and consideration should be given to the communication needs now and in the future. Telephone companies, internet providers and other utilities require security deposits if a payment record of some type has not been established. Be sure the utility companies and service provided to the building can grow with business needs.
Heating and cooling for a small building with many coolers running can be tricky. Open coolers surrounding the perimeter of a small building can significantly lower the temperature and lead to inefficiency in the heating of the building. Newer coolers with either curtains or doors will save thousands of dollars in both the use of the coolers themselves and the cost of operating the HVAC system that must overcome the cold air escaping from outdated equipment.

The electrical needs of a grocery store can be substantial. The increasing popularity of frozen foods has almost doubled the number of refrigerated spaces a retailer needs to be competitive. This requires a larger electrical service than other retailers and with that comes a much larger power bill. Be sure that the facility you're considering has or will have the needed electrical capacity to meet your needs now and in the future.

**Equipment**

Equipment and fixtures are a major portion of the start-up cost for a new store and an major ongoing cost for an established store. It may well be worth the time to shop around. Also, consider a leasing-purchasing agreement for equipment to conserve capital. Suppliers of equipment can be found by searching “Store Fixtures” or “Restaurant Equipment and Supplies” on the internet as well as by contacting your main wholesale supplier.

**Used Equipment**

Buying used equipment, or a combination of new and used, can substantially reduce start-up costs. However, new equipment also carries warranty and service agreements. Again, shopping around is simply smart business. While the advantage of leasing is a significantly smaller initial cash outlay, the disadvantage is that you do not acquire equity and build a balance sheet. A financial statement showing a healthy net worth is good for any business and it may be to your advantage to purchase the real estate for the business, a much better asset, and lease the equipment that will depreciate with time. On the other hand, changes in tax laws regarding depreciation have made purchasing equipment more advantageous. If the equipment is needed short-term, a leased item ceases to be an expense when it is no longer needed. There are many variables to consider.

In contrast, the efficiency of new equipment can sometimes offset the initial cost. As discussed above, the electrical use of a grocery store's freezer and refrigeration units can be one of the largest expenses for the business. Any money spent on efficiency now will pay monthly dividends on your electrical bill for years to come. Spend some time with a refrigeration/electrical expert discussing the most efficient layout of equipment, compressors and lines.

Refrigeration work can be costly and setting it up correctly the first time is crucial. A good rule of thumb is to compare the life time costs of equipment, including electrical use, to the costs of leasing over the same time frame. Consulting an accountant for help in making informed choices is usually a wise decision. The Small Business Administration's website (http://www.sba.gov/content/energy-efficiency-grocery-and-convenience-stores) includes helpful information on energy efficiency in the retail grocery industry. SBA's advice includes the following:

To save energy while using larger equipment, such as HVAC, heat pumps, motors, boilers, furnaces, and turbines, view ENERGY STAR's equipment tech sheet, and consider buying ENERGY STAR labeled products.

To measure and compare your actual energy use with that of similar grocery stores nationwide, you can use the ENERGY STAR benchmarking tool which rates
your store on a scale of 1-100. Whether you are responsible for one store or 100, periodic energy benchmarking is a critical step in energy management (Small Business Administration).

Refrigeration Tips. The Small Business Development Administration recommends the following strategies to save money and energy on refrigeration:

- **Keep doors shut.** Repeated fluctuations in temperature will damage food quality and will cost money.
- **Check temperature settings.** If settings are lower than necessary, chances are you are wasting energy. The most common recommended settings are between -14 degrees and -8 degrees Fahrenheit for freezers and between 35 degrees and 38 degrees Fahrenheit for refrigerators.
- **Clean cooling coils.** Dirt accumulation impairs proper heat transfer and lowers the efficiency and capacity of refrigerators.
- **Check door seals.** Tight seals and properly closing doors prevent warm air from entering the unit, which reduces cooling energy and prevents frost buildup. Use this rule of thumb: If you can easily slide a dollar bill into the seal, have the seal adjusted.
- **Maintain equipment.** Perform any scheduled maintenance on the units and keep evaporator coils clean and free of ice build-up.
- **Do your homework.** See how other grocery stores, convenience stores and restaurants have saved energy on their refrigeration systems (Small Business Administration).

The Small Business Administration's website also provides links to additional articles and resources focused on energy efficiencies including the following:

- Building Shell
- Commercial Food Service Equipment
- Heating, Cooling and Ventilating
- Lighting
- Office Equipment and Appliances
- Refrigeration
- National Grid’s Managing Energy Costs in Grocery Stores Fact Sheet

Point of Sale (POS)

Point of sale (POS) equipment refers to the equipment used to complete the sales transaction. For a grocery store this would include the cash register, a scale for produce and other bulk items, and a means of accepting electronic payments. The good news is that while the price of most things has increased, the POS system industry has diversified and offers more choices than ever before. While it is still possible to spend tens of thousands of dollars on a state of the art system, there are many new technologies and companies that cater to the small business person and offer very good alternatives without the large cash outlay.
Office Equipment

Used desks, chairs, file cabinets, and book shelves can be a source of savings that has no effect on the atmosphere of the sales floor. However, the office computer system is one of the most important parts of your management system. Reliability is important, so purchase accordingly. There are many software systems available for accounting, inventory, scheduling and marketing (e.g., Quick Books from Intuit). These programs can greatly improve your efficiency as a store owner. Due to the changing nature of computer technology, care should be used when purchasing a system to make sure that it allows adjustments to changing technology.

Other general office equipment and supplies will be needed. Sales receipts can be printed or standardized forms can be used. A few hundred dollars should buy letterhead stationery, envelopes, business cards, bags, boxes, cash register tape, writing supplies, and other minor supplies.

Security

Small merchandise, office equipment, and cash attract more than paying customers. A well-lit store can be a deterrent to burglars and shoplifters. Store owners attempt to reduce costly shrinkage by adding mirrors, burglar alarms, and closed-circuit monitors for security. Costs for security systems vary widely; however, some security firms specialize in grocery and retail security.

A good training system for employees might be the most effective way to reduce shrinkage. Keeping employees on the sales floor reduces the opportunities for shop lifters. Approaching customers in the aisle and offering assistance does two things: it offers good customer service and interrupts the chance of pocketing merchandise. Never have employees attempt to physically stop or detain shop lifters. It is both dangerous and illegal.

Inventory

Small stores must carefully stock merchandise to maximize sales and profits per dollar of inventory. It would be unrealistic to suggest that there is one formula for stocking the shelves of a grocery store. Different store sizes, traffic patterns, customer tastes and regional preferences all factor into the calculations of inventory costs. It may be more useful to use industry benchmark numbers to estimate how much and for what department you should be buying. For example, in 2013 the average sales per square foot of selling area were $11.85/week (Food Marketing Institute 2013). So for a 2000 sq. ft. store weekly sales would be in the $23,700 range. This works out to $3,386/per day.

From here, it is relatively simple to determine how many days’ worth of inventory is needed on hand to handle these sales. The industry average for days’ supply at the time of this writing is somewhere between 24 and 25 days (Bizminer 2014). At our sales of $3,386/day this works out to a range of $81,264 to $84,650.

Given that between $81,000 and $85,000 worth of inventory is needed on hand, the next question that follows is what do you need to buy? It would be extremely difficult, if not impossible, to know exactly what your customers will buy. But it is possible to take a look at what is being sold on average by other grocery stores. Table 1 shows a breakdown by department of grocery sales for 2010 through 2012.
Table 1. Percent of Sales Per Department

<table>
<thead>
<tr>
<th>Sales distribution by department</th>
<th>All companies 2010 (%)</th>
<th>All companies 2011 (%)</th>
<th>All Companies 2012 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery</td>
<td>42.37</td>
<td>38.61</td>
<td>39.67</td>
</tr>
<tr>
<td>Meat</td>
<td>16.56</td>
<td>18.45</td>
<td>18.26</td>
</tr>
<tr>
<td>Produce</td>
<td>8.96</td>
<td>9.87</td>
<td>9.78</td>
</tr>
<tr>
<td>Dairy</td>
<td>9.70</td>
<td>10.63</td>
<td>9.51</td>
</tr>
<tr>
<td>Deli</td>
<td>6.24</td>
<td>6.53</td>
<td>6.90</td>
</tr>
<tr>
<td>Frozen</td>
<td>5.74</td>
<td>5.57</td>
<td>5.70</td>
</tr>
<tr>
<td>Beer/wine</td>
<td>N/A</td>
<td>N/A</td>
<td>3.10</td>
</tr>
<tr>
<td>Bakery</td>
<td>2.77</td>
<td>2.59</td>
<td>2.79</td>
</tr>
<tr>
<td>Health, Beauty and Cosmetics</td>
<td>2.38</td>
<td>3.18</td>
<td>2.51</td>
</tr>
<tr>
<td>Seafood</td>
<td>2.37</td>
<td>2.05</td>
<td>2.19</td>
</tr>
<tr>
<td>General Merchandize</td>
<td>1.94</td>
<td>2.60</td>
<td>2.16</td>
</tr>
<tr>
<td>Tobacco</td>
<td>2.27</td>
<td>2.45</td>
<td>1.94</td>
</tr>
<tr>
<td>Floral</td>
<td>0.82</td>
<td>0.96</td>
<td>0.82</td>
</tr>
</tbody>
</table>

(Roerink, Anne-Marie, Dennis Lindsay, Bob Graybill, and Shelley Bosler 2014)

For example, you could average three years of grocery sales and then multiply the result (40.22%) times the sales range and get a range of $32,500 to $34,000 in inventory for the grocery department.

Expressed as a formula, it might look like this: Ia x Size x Ds x Dept. % = Inv.

Where:
Ia = Industry average weekly sales per square foot
Size = Size of the stores sales floor
Ds = Industry average days of supply on hand
Dept. % = Industry average sales by department
Inv. = Inventory for that given department

Start-up Expenses

Start-up expenses include any expense the business may face during the first few weeks and months of the businesses life. Some may be one-time costs while others may be the first month of an extended contract. Below are examples of some of the initial costs that may be incurred. Each situation is unique but this list is representative of typical start-up expenses for grocery stores.

- Rent (security deposit plus first and last month)
- Initial Inventory
- Equipment/Fixtures/Security
- Leasehold Improvements
- Licenses/Permits
- Grand Opening/Advertising
• Utilities/Phone Deposits
• Accounting/Legal
• Owner/Operator Salary
• Payroll
• Supplies
• Insurance (first quarter)

Product Mix

The store owner, manager, distributor, and — most importantly — the customer, determines what makes a good product mix. Location, competition, season, and availability of items are all important factors to be considered. Over time, the inventory can be fine-tuned by tracking what sells and what is left over. Non-movers should be marked down to help make space for faster moving items.

Grocers should also consider which categories provide the typical gross profit margins to sustain operations. Lower margin items such as baked goods and dairy products are stocked to provide a balanced product mix. Nonfood inventory such as health and beauty aids, magazines, and ice add convenience. These items are typically available only through route vendors or rack jobbers who supply the racks and maintain them for the stores.

Layout

Large supermarkets are organized differently from smaller stores. Customers who visit the smaller stores shop differently than they do in supermarkets. Small grocery stores have two types of shoppers: destination customers who know what they want and head directly for it, and shopping customers who move throughout the store gathering both pre-specified items and goods that catch their interest.

The layout of the grocery store floor plan has been more or less standardized over the years based on marketing research and sales psychology. Many stores include floral sections which are positioned near the entrance to establish a fresh, pleasant feel for the shopper. This fresh theme usually flows directly into the produce aisle where customers are greeted by an abundance of healthy fruits and vegetables. The back corner is often reserved for bakery items. This section offers the smell of fresh baked goods and desserts, which helps encourage the customer to “shop hungry”.

Canned goods are usually placed in the center aisles because they do not require refrigeration and so do not require electrical or refrigerant lines. The shelving height in this section is also strategically laid out to increase sales and profitability. Unique or gourmet items are often on the top shelf to allow for variety while acknowledging their slower sales. Large bulk items which are large enough for the shopper to see even when placed below normal sight range are placed on the bottom shelves to accommodate their size. Items that appeal to children are often placed on the lower shelves to entice them (and their parents) into a purchase. And, the eye level shelving is reserved for the most popular and most profitable items in each section. Eye level shelving is prime real estate and should be stocked for maximum profit.

Endcaps (the end of the aisles) are usually used for rotating items. These can be sale items, one-time offerings, seasonal items or other promotions. It is important to remember that not all retail space is the same. Areas of high traffic are much more valuable than low traffic areas. Positioning your most profitable items in the areas that see the most shoppers can increase gross profit.
The value of shelf space is important to keep in mind when vendors offer a special one-time deal. Often that deal is contingent on using your best floor space. Make sure you don’t have more profitable items that could use that same space. The same strategy can be applied to items that sell well but do not provide a lot of profit. These can be placed in those areas that see fewer shoppers. In many retail stores the clearance items can be found on the back endcap in the corner. This is not by accident. These items are sold at a discount (or at cost or even at a loss) to turn that inventory into cash and then back into better selling inventory. Shoppers looking for a bargain will search these spaces out on their own and the high traffic areas can be saved for the most profitable items.

Lastly, but also of importance, are the impulse items. These show up throughout the store. Sometimes they are product tie-ins like ice cream cones next to the ice cream section. Sometimes they are placed to encourage the customer to buy something they hadn’t thought of like candy and gum at the checkout. These items can add valuable revenue while taking up little space. Be sure not to overdo it though because too many products in too many places can lead to a confusing shopping experience.

**Suppliers**

The types of items that customers purchase dictate the inventory selection and the number of suppliers needed. As in any business, supplier relationships are important. Solid relationships with some reliable suppliers are key to operations. Usually no one supplier can meet all needs. Most stores buy either through a manufacturer representative or through independents who represent several companies. Stores also buy from wholesalers or jobbers, known as distributors, who represent two or more manufacturers. Distributors are generally more expensive than manufacturers; however, they can supply stores with smaller orders from a variety of manufacturers. Generally, the only items stores can get from manufacturers are milk and bread. Moreover, wholesalers provide many services, such as store design, financing, and other retail support services that can help a retailer be competitive and profitable.

**Margin and Markup**

The *cost of goods* sold includes all of the cost of inventory, or items purchased for resale. *Gross profit margin* (gross profit/gross margin) is total sales less discounts and/or returns to create *net sales*, minus *cost of goods sold*. Gross profit margin can be expressed in either dollars or as a percentage. Expressed as an equation: Total Sales – Cost of Goods = Gross Profit. After all operating expenses are deducted from the gross profit margin the remainder is net profit before taxes. The gross profit margin needs to be sufficient to create positive net profit to allow the store to succeed.

*Margin* is different from *markup*. Margin is a percentage of the selling price, while markup is a percentage of cost. The markup on an item is not the same percentage as margin. When markup on an item is computed, it is a larger percentage than margin. For example, if we purchase an item for $75 and we sell it for $100 we have marked it up 33% (25/75). But our gross profit margin is 25% (25/100). It is important to understand these business concepts.

\[
\text{Mark up} = \frac{\text{retail price} - \text{wholesale price}}{\text{wholesale price}}
\]
\[
\text{Profit Margin} = \frac{\text{retail price} - \text{wholesale price}}{\text{retail price}}
\]

**Sales and Profits**

Since most stores operate on narrow gross profit margins of 24 to 25 percent (Bizminer 2014), operating expenses must be watched closely. Inventory must be accurately priced and be current.
Electrical expenses, which can vary depending on the number of refrigeration and freezer units, must be kept to a minimum. Given these factors, it helps to estimate sales and profits before the store opens. Projections can be adjusted once operating information is available.

Most new stores face difficulties in starting and are able to achieve success only after several hurdles are overcome. Knowing ahead of time what to expect can help. Below are some of the common stumbling blocks to consider beforehand:

- Inefficient control over costs and quality of product
- Bad stock control
- Underpricing of goods sold
- Bad customer relations
- Failure to promote and maintain a favorable public image
- Bad relations with suppliers
- Inability of management to reach decisions and act on them
- Failure to keep pace with management system
- Illness of key personnel
- Reluctance to seek professional assistance
- Failure to minimize taxation through tax planning
- Inadequate insurance
- Loss of sales momentum
- Bad personnel relations
- Loss of key personnel
- Lack of staff training
- Lack of knowledge of merchandise
- Inability to cope adequately with competition
- Competition disregarded due to complacency
- Failure to anticipate market trends
- Inadequate control of liquid assets
- Insufficient working capital or incorrect gearing of capital borrowings
- Growth without adequate capitalization
- Bad budgeting
- Ignoring data on the company’s financial position
- Inadequate financial records
- Extending too much credit
- Bad credit control
- Over borrowing or using too much credit
- Bad control over receivables
- Loss of control through creditor’s demands.

With proper planning, these issues can be overcome or prepared for before your business opens its doors. And, for established stores, continued vigilance on these issues can help to maintain profitability and the long-term survival of a business.
Forms of Business Ownership

There are several legal forms of operation to consider: sole proprietorship, partnership, limited partnership, corporation, or an S Corporation. It is a good idea to consult with an attorney when considering which form of business ownership is right for your small business.

Sole Proprietorship

A sole proprietorship is a business that is owned and operated by an individual. The advantages of this form of business structure include ease of formation, relative freedom in governance and minimum government controls and restrictions. Disadvantages include less access to capital and financial resources. Also, this form of business organization provides less protection with regard to personal liability (if the owner's company should get into a position of owing more to others than the amount of cash and other assets it has, the owner's personal assets — home, car, etc. — may be required to be sold to pay the obligations of the business).

General Partnership

A general partnership is defined as two or more individuals carrying on an association as co-owners of a business for profit. Types of partnerships include general and limited. Before starting the company, the partners should agree on how much owner equity each partner must contribute, the extent to which each partner will work in the company, and the share of the profits or losses to be assigned to each of them. This agreement should be prepared by an attorney in writing to avoid any future misunderstandings. As with sole proprietorships, a general partnership exposes the owners to personal liability. If the business is not successful and the partnership cannot pay all it owes, the general partners may be required to do so using their personal assets.

Limited Partnership

A limited partnership is an organization made up of a general partner, who manages a project; and limited partners who invest money but have limited liability and are not involved in day-to-day management. Usually limited partners receive income, capital gains and tax benefits; the general partners collects fees and a percentage of capital gains and income. Typically, limited partnerships are in real estate, oil and gas, equipment leasing, family partnerships but can also finance movies, research and development and other projects.

Registering the Name of a Sole Proprietorship or General Partnership

When a business name is different from the owner(s) full legal name(s), the Illinois Assumed Name Act requires sole proprietorships and general partnerships to register with their local county clerk's office. For example, “John Doe” would not need to file, but “Williams and Brown” or “Williams & Brown Speedy Travel Agency” would. In every county where the business is located, a certificate setting forth the name of the business, the full legal name(s) and address(es) of those owning, conducting or transacting the business, and the location(s) of the business must be filed with the county clerk's office. There are three steps: (1) complete an application; (2) submit legal notice; (3) publish the legal notice. For more information, contact your county clerk. A list of county clerks is available at http://www.elections.state.il.us/ElectionAuthorities/ElecAuthorityList.aspx. Also, any changes or additions of names and/or addresses must be reported to the county clerk's office as well.
Limited Liability Regulations

**Limited Liability Partnership (LLP).** LLPs are organized to protect individual partners from personal liability for the negligent acts of other partners or employees not under their direct control. Partners report their share of profits and losses on their personal tax returns.

**Limited Liability Limited Partnership.** An LLP is a limited partnership and as such consists of one or more general partners and one or more limited partners. The general partners manage the LLP, while typically the limited partners only have financial interest.

**Limited Liability Company.** An LLC is an non-corporate form of doing business that provides its owners with limited liability, flow-through tax treatment and operating flexibility through participation in management of the business. An LLC is well suited for every type of business except banking and insurance, which is prohibited by the statute. Examples are farming, agricultural services, mining construction, manufacturing, transportation, wholesale and retail trade, investment companies, insurance agents, real estate brokers and all types of real estate ventures, hotels, personal and business services, automotive sales and services, amusement and recreation, health services, accounting, architecture just to name a few. Many Illinois businesses could obtain personal limited liability protection by restructuring as an LLC.

**Low-profit Limited Liability Company.** Effective January 2010, low-profit limited liability companies, or L3Cs, were introduced in Illinois. The company intends to qualify as a low-profit limited liability company pursuant to Section 1-26 of the Limited Liability Company Act and shall at all times significantly further the accomplishment of one or more charitable or educational purposes as defined by Section 170(c)(2)(B) of the Internal Revenue Code or 1986. For more information, please see Page 8 of “A Guide for Organizing Domestic Limited Liability Companies” ([http://www.cyberdriveillinois.com/publications/pdf_publications/c334.pdf](http://www.cyberdriveillinois.com/publications/pdf_publications/c334.pdf)).

Corporation Regulations

A corporation is a distinct legal entity and is the most complex form of organization. A corporation may sell shares of stock, which are certificate indicating ownership, to as many people as is desirable. The shareholders then elect a board of directors, which elects a president and other officers who run the company on a day-to-day basis. Among the advantages of corporate formation are limited liability of the shareholder and ease of transferring ownership.

**Registration as a Corporation.** If the decision is made to incorporate, Articles of Incorporation must be filed with the Secretary of State indicating the purpose of the enterprise. The corporation will be required to file annual reports with the Secretary of State (SOS).

If the name of the business will include the word “Corporation,” “Inc.,” “Incorporated” or “Corp.,” you must incorporate. Information on corporate filing is available by telephone, letter, Internet or through SOS offices located in Springfield and Chicago. Also available are booklets on organizing domestic corporations (headquartered in Illinois) or foreign corporations (headquartered out-of-state or out-of-country).

**C Corporation.** C Corporation refers to any corporation that, under United States income tax law, is taxed separately from its owners.

**S Corporation.** Electing S Corporation status must be applied for through the Internal Revenue Service (IRS) when starting a business. In general, an S Corporation passes through income and expenses to its shareholders, who then report them on their own income tax returns. It is not
taxed separately from its owners. To qualify for S Corporation status, a corporation must meet several requirements, one of which limits the number of shareholders to 100. All shareholders also must consent to the corporation’s choice of S corporation status. For questions regarding S Corporation election, contact the IRS. To request S Corporation forms, Contact the IRS’s Forms Distribution Center (http://www.irs.gov/Forms-&-Pubs).

**Bankers, Accountants, Attorneys**

Several professionals can be helpful in providing assistance and business advice. Banks provide a necessary function of funds transfer and may also provide assistance to businesses in finding solutions to common financial problems. The closer the relationship of the business with the proper bank personnel, the more likely a business will receive personalized service from the bank.

The U.S. Small Business Administration (SBA) also has several services for small businesses including help in creating and/or updating the business plan (http://www.sba.gov/).

**Business Plan**

The creation of a business plan is essential to obtaining financing and gives the business direction. The business plan is an excellent way to communicate to bankers, partners, suppliers, and other businesspeople. Creating a business plan gives the owner a realistic approach to short-term implementation of the business for the next three to five years. Contact the SBA (http://www.sba.gov/) for help or check Appendix C for the location of the nearest Small Business Development Center.

Business plans vary with the type of business for which the plan is prepared and with the business’s reputation and age. However, business plans generally follow a similar format. The aid of an accountant or a local Small Business Development Center is helpful in preparing a thorough plan. A Small Business Development Center business plan checklist is provided in Appendix D. Generally, a business plan includes the following components:

- Cover or Title Page
- Plan Summary
- Operating or Management Plan
- Market Analysis
- Marketing Plan
- Human Resource Management
- Financial Data
- Owner(s)’ Experience and Expertise

Recordkeeping, payroll, and accounting are all necessary for the success of the business. Recordkeeping and payroll are functions provided for or by the business. Accounting is the analysis of those functions. Accounting gives the owner a clear picture of the strength and status of the business. Accountants may assist in establishing the type and arrangement of books most suitable for the business. Accountants may also provide tax advice and reminders.

Attorneys generally cover a variety of specialties. It is important to hire one with the specific expertise needed. Among those most important are availability and time for clients, and expertise in the grocery or retail field. It is important to choose bankers, accountants, and attorneys wisely in order to utilize the services of these skilled professional consultants.
Operations

Registrations, Licenses, and Taxes

Most businesses in Illinois are required to register with the Illinois Department of Revenue. Business owners can register online using MyTax Illinois (https://mytax.illinois.gov/) or by submitting a Form REG-1, Illinois Business Registration Application. The Form REG-1 is available on the website (http://www.revenue.state.il.us/taxforms/Reg/REG-1.pdf) as a fill-in and savable form, by calling the Department at 800.356.6302, or at one of the local offices.

Chicago
James R. Thompson Center - Concourse Level
100 West Randolph Street
Chicago, Illinois 60601-3274
800.732.8866

Des Plaines
Maine North Regional Building
9511 Harrison Avenue
Des Plaines, Illinois 60016-1563
847.294.4200

Marion
2309 W. Main St. Suite 114
Marion, Illinois 62959-1196
618.993.7650

Springfield
Willard Ice Building
100 West Jefferson Street
Springfield, Illinois 62702
800.732.8866
217.782.3336

Fairview Heights
15 Executive Drive - Suite 2
Fairview Heights, Illinois 62208-1331
618.624.6773

Grocers are required to withhold state and federal income taxes and FICA (Social Security) from employees’ wages. Visit the IRS website (http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Small-Business-and-Self-Employed-Tax-Center-1) for more information and to access resources including the following:


Sole proprietorships use the owner’s personal social security number for tax reporting purposes unless she or he pays wages to one or more employees, uses a D.B.A. (Doing Business As) name or files any excise tax returns that include alcohol and tobacco. Otherwise, sole proprietorships must apply with partnerships, corporations, and S Corporations for a Federal Employer Identification Number (FEIN). More information and application can be downloaded from the IRS website (http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/A-Z-Index-for-Business).

Insurance

Proper insurance only helps manage risk, but no business can completely eliminate it. It is important to know what kind of insurance and how much of it to carry. Factors to consider are probability of loss, resources available to meet the loss, and size of potential loss. Considering the size and frequency of loss to the store will help determine if insurance is required or if the loss should be considered part of normal business. Bad-debt losses and shoplifting are two examples. The store’s financing source may have insurance guidelines or special requirements.
Types of insurance coverage commonly considered by small grocery stores (Entrepreneur, Inc. 1988):

- Fire and general property insurance—covering fire losses, vandalism, hail, and wind damage
- Plate-glass insurance—covering window damage
- Consequential—insurance covering loss of earnings or extra expenses when business is suspended due to fire or other catastrophe
- Burglary insurance—covering forced entry and theft of merchandise and cash
- Fidelity bonding—covering theft by an employee
- Fraud insurance—covering counterfeit money, bad checks, and larceny
- Public-liability insurance—covering injury to the public such as customer or pedestrian falling on the property
- Product-liability insurance—covering injury to customers arising from the use of goods purchased through the business
- Worker’s compensation insurance—covering injury to employees at work
- Life insurance—covering the life of the owner(s) or key employee(s)
- Business-interruption insurance—covering loss of income resulting from business closures resulting from a disaster
- Malpractice insurance—covering owner against claims from customers who suffer damages as a result of services performed
- Errors and omissions insurance—covering the store against claims from customers who suffer injury or loss because of errors made, or things that should have been done but failed to be done.

More information is available on the U.S. Small Business Development Administration’s website (http://www.sba.gov/content/business-insurance).

**Advertising**

The purpose of advertising is to provide a direct line of communication regarding the store’s products or services to customers or potential customers. Advertising will help (1) convince customers that selection and products at the store are the best, (2) announce new products and services, (3) create a desire for the store’s products or services, (4) promote a positive image, and (5) draw customers into the store.

Effective retail grocery advertising is usually in the form of (1) newspaper, (2) magazines, (3) direct mail, (4) radio/TV, and (5) personal selling. Specialty advertising is effective for stores that have selected a target market. Specialty advertising includes such items as calendars, matchbooks, pens and pencils, telephone pads, and magnets. Other media include using shopping bags, brochures, and samples. Social media can also be an effective and inexpensive way to market your business. The U.S. Small Business Development Center’s website (http://www.sba.gov/blogs/ultimate-small-business-guide-social-media-marketing-0) is a good source for more information.

It is important for stores to measure the effectiveness of advertising dollars to justify the advertising budget. Even “free” social media can take up time that could be spent in more profitable ways. Cost, frequency, impact, and selectivity should be considered:
- Cost—What is the cost per customer to reach prospective customers?
- Frequency—Should there be one powerful message or a series of messages?
- Impact—What medium can provide appeal to the proper senses?
- Selectivity—How direct can the medium target your market?

It takes a while to build an awareness of grocery item advertisements; therefore, frequency is important. Ads generally change on a weekly basis and require repetition to reach customers. Often, it is better to advertise regularly and frequently in a small space ad than to run a large onetime advertisement. Additional information on marketing your business is available on the U.S. Small Business Development Administration’s website (http://www.sba.gov/category/navigation-structure/starting-managing-business/managing-business/running-business/marketing).

Hours

Setting hours of operation for a store is as important to customers as to the owner/operator. Residents who commute outside the community to work cannot shop if the store closes before they return home. Determine if the store hours need to provide for early morning shoppers on their way to work or customers wanting lunch items. Supper time is important for last minute items, and evening and weekend hours provide a service for those customers involved in work or other business during the day. However, long store hours must be covered by the owner or competent employees. Customers will not shop if they perceive they will not get the same good service during certain hours, if at all.

Service

High-quality service is extremely important in a small store. In order to compete with larger stores, the store should provide quality personal service and be continually looking for ways in which to improve. Small stores also can provide complementary services in addition to grocery-related service to add value to shopping. Ways to attract customer traffic may include gasoline, lottery tickets, dry cleaning and shoe repair drop off, photo copying, film processing, banking services or ATM machines, deli or restaurant items, and bakery goods. Other ways to increase revenue may include catering or home delivery.

Vendors

Route vendors depend on a store to sell items they deliver. Good communication from customers can help the store determine what items and quantities are likely to sell. Every item a vendor wants to sell does not always move in every store. Remember that vendors also make more money depending on the number of stores they stock. Work closely with vendors; many have extra deals they can pass along to stores. Make sure a vendor spends sufficient time in your store and that items are carefully counted.

Sustaining a Rural Grocery Store - Managing Cash Flow

Cash flow is a major stumbling block for most small businesses and many fail because they are under-capitalized. However, even businesses bringing in sufficient revenue can fail if the owners do not manage the cash they have appropriately. A cash flow statement lays out a blue print for future revenue (incoming money) and expenses (outgoing money) for a business. New businesses create a cash flow statement as part of their business plan. Existing businesses, especially those
without a business plan, also should create a cash flow statement and should regularly review
the statement to evaluate if they are meeting their cash flow projections. While existing busi-
nesses can use historic data on their revenues and expenses, new businesses will need to predict
expenses, sales (revenue) and loan payments.

**Accrual vs Cash-based Accounting**

The first step in creating a cash flow statement is determining which accounting method is
best for your business. Accrual accounting transactions are recorded at the time they hap-
pen, even if payment doesn’t come in for 30 days. In cash-based accounting the transac-
tion is recorded when the money changes hands. For a business tight on funds cash-based
accounting offers the most relevant information. And the cash flow statement is the visual
representation of that information. A more in-depth discussion of accrual vs. cash-based ac-
counting is available from the Small Business Administration ([https://www.sba.gov/blogs/
cash-vs-accrual-accounting-taxable-income-and-expenses](https://www.sba.gov/blogs/
cash-vs-accrual-accounting-taxable-income-and-expenses)).

**Estimating Expenses**

New businesses can get estimates from professionals on the monthly insurance, rent if leasing,
utilities, etc. If a business owner is contemplating borrowing money, the monthly loan payment
must be estimated. There are several free online loan calculators that will help estimate a monthly

*Owner’s Withdrawal.* All business owners must ask themselves the question, “What is the mini-
mum I am willing to pay myself to make doing this project worth my effort?” The answer to this
is personal and unique for every entrepreneur. This is called the owners withdrawal and only the
owner will know what this number is. This expense goes below the monthly operating expenses.

**Estimating Income**

As mentioned in the Sales and Profit section (page 12), the average grocery store is currently run-
ing on 24-25 percent gross profit. The remaining 75-76 percent in income goes towards the Cost
of Goods. One way to think about it is this: If a store sells $1 worth of groceries, 75-76 cents of
that dollar will go toward the purchase of the groceries sold. The other 24-25 cents can go toward
the expenses discussed above. So, a store with $100,000 in sales per month would have about
$25,000 to pay its expenses each month.

One method used to estimate the sales potential for a business is to start with the total current
sales for the geographical area the store will be located in and then estimate what percent of that
business the store will be able to capture. Small business owners (both new and experienced) are
often tempted to mold their estimate of potential sales to fit the expenses they have identified.
There is often a great deal of emotion tied up in a project and if the estimated sales don’t work
with the projected expenses, the urge to “recalculate” your project to make it work can be almost
irresistible. It’s better to go back to the drawing board with expense estimates and see if there are
hidden savings to be had.
Adding Fresh to Your Existing Business

When a small town grocery store closes it can leave some of the residents without access to fresh food. Without reliable transportation to next largest town the elderly and low income residents suffer the most. Many communities have tried to address this issue in various ways, including by encouraging other local retailers to begin carrying fresh food.

The problem is, for most existing businesses adding fresh food does not make sense financially. Profit margins on fresh foods are usually smaller than on other items that could occupy the same sales space. And fresh food is perishable, making the loss of product another hurdle to overcome. Finally, fresh food comes with additional regulations to insure that it is healthy and safe. All of this adds up to extra work for less return that usually does not — on the surface — make business sense.

However, if the fresh food is viewed as a marketing tool rather than as a revenue source, it begins to look more viable. The availability of fresh food can be marketed as an added convenience or service to existing customers. The business could pair it with a mailbox/shipping offer, convenience groceries (milk, bread), dry cleaning drop off and pick up, a small assortment of housewares, and/or liquor. The perceived convenience of having these items available in an existing local business could bring in more customers. This strategy has worked well for gas/convenience stores.¹

Because of their business model many gas stations are taking a look at fresh foods with mixed results. Quite often a store will bring in a few bananas; set them on the counter, watch them turn brown and decide that fresh produce is not for them. The problem is that they didn't have the financial resources, the advertising, or maybe the commitment to the project because other needs take precedent.

One way to address the problem has been for local government to assist small businesses. The right program can help with finances, marketing and possibly the commitment issue. Philadelphia, PA, has had some success with their Healthy Corner Store program. With both state and federal funding, the program has provided the marketing money to promote local produce in convenience stores to help improve the accessibility of fresh produce in the city. As more stores join the program there is more pressure to be involved, or let your competition have the edge in both advertising and public opinion. Check with local officials as well health departments and universities to find out about the incentive programs in your area.

Additional Resources

The Illinois Department of Commerce and Economic Opportunity (DCEO) has programs and publications available to help in opening and operating small businesses. The First-Stop Business Information Center of Illinois publishes the handbook, Starting a Business in Illinois. This handbook provides general business start-up information, tax requirements, information for businesses with employees, poster display requirements, and information regarding business registration in Illinois. The handbook is available on DCEO’s web site (http://www.illinois.gov/dceo/SmallBizAssistance/BeginHere/Documents/Starting%20Your%20Business%20In%20IL%202014.pdf) or by calling DCEO at 800.252.2923 (TDD: 800.785.6055).

¹ According to the National Association of Convenience Stores (NACS), produce sales at convenience stores were up by 16.7 percent in 2013.
Illinois Small Business Development Centers (SBDC)

Illinois Small Business Development Centers are located throughout the state and provide information, confidential business guidance, training and other resources to start-up and existing small businesses.

SBDCs services include:

- One-on-one business advice and management assistance.
- Assistance with the development of business plans.
- Help with accessing market information and the development of marketing plans.
- Assistance with accessing business financing programs.
- Assistance with financial analysis and planning.
- Access to business education and training opportunities.
- Specialized services in technology, innovation and entrepreneurial development.

To find out more about SBDC’s, call 1.800.252.2923 or visit [http://www.illinois.gov/dceo/smallbizassistance/beginhere/pages/sbdc.aspx](http://www.illinois.gov/dceo/smallbizassistance/beginhere/pages/sbdc.aspx). A list of local SBDC offices is available in Appendix A.
Appendices

Appendix A: Illinois Small Business Development Centers

Appendix B: Feasibility Checklist

Appendix C: Information References for Grocery Stores

Technical Bulletin: Grocery Stores

Table 1. Balance Sheet Data for Grocery Stores — SIC 5411S

Table 2. Ratios for Grocery Stores — SIC 5411S

Table 3. Income Data for Grocery Stores — SIC 5411S [Add NAICS codes]

Appendix D: Business Plan Checklist
Appendix A: Illinois Small Business Development Centers

Aurora
Illinois Small Business Development Center at Waubonsee Community College
18 S. River Street, Room 268
Aurora, IL 60506
630.906.4143
Fax: 630.892.4668
http://www.waubonsee.edu/learning/business/sbdc/

Carbondale
Illinois Small Business Development Center at
Southern Illinois University Carbondale
Dunn-Richmond Economic Development Center
1740 Innovation Drive
Carbondale, IL 62901
618.536.2424
http://sbdc.siu.edu/

Centralia
Illinois Small Business Development Center at Kaskaskia College
325 S. Poplar
Centralia, IL 62801
618.545.3260
http://www.kaskaskia.edu/ISBDC/Default.aspx

Champaign
Illinois Small Business Development Center at Champaign County EDC
1817 South Neil Street Suite 201
Champaign, IL 61820
217.378.8535
http://www.champaigncountyedc.org/business-services/small-business-services/counseling

Chicago
Illinois Small Business Development Center at Chicagoland Chamber of Commerce
200 E. Randolph Street Suite 2200
Chicago, IL 60601
312.494.6742
http://backend.chicagolandchamber.org/wdk_cc/programs_and_advocacy/small_business_jsp

Illinois Small Business Development Center at Women's Business Development Center
8 South Michigan, Suite 400
Chicago, IL 60603
312.853.3477
http://www.wbdc.org/AboutUs/SBDC.aspx

Illinois Small Business Development Center at Duman Microenterprise Center
216 West Jackson Blvd. Suite 700
Chicago, IL 60606
312.673.3429
http://www.jvschicago.org/

Illinois Small Business Development Center at the Illinois Hispanic Chamber of Commerce
855 West Adams Suite 100
Chicago, IL 60607
312.492.9960
http://www.ihccbusiness.net/sbdc/

Illinois Small Development Center at University of Illinois- Chicago
815 West Van Buren Suite 400
Chicago, IL 60607
312.996.4057
http://business.uic.edu/home-uic-business/faculty-departments-research/institute-for-entrepreneurial-studies/illinois-sbdc-at-uic

Illinois Small Business Development Center at ICNC
320 N. Damen Avenue, Suite 100
Chicago, IL 60612
312.433.2373

Illinois Small Business Development Center at Bethel New Life
4950 W. Thomas St. Chicago IL 60651
773.473.7870 x113
Illinois Small Business Development Center at Lawndale Business & Local Development Corp.
3333 W. Arthington Street, Suite 232
Chicago, IL 60624
773.265.301

Illinois Small Business Development Center at Governors State University
9501 South King Drive, BHS 601
Chicago, IL 60628
773.995.3938
http://www.govst.edu/sbdc

Danville
Illinois Small Business Development Center at Danville Area Community College
2917 N. Vermilion Street
Danville, IL 61832
217.442.7232
http://www.dacc.edu/sbdc

East St. Louis
Illinois Small Business Development Center at SIU-E/East St Louis
601 James R. Thompson Blvd
Bldg D, Room 2009
East St. Louis, IL 62201
618.482.8330
http://www.siue.edu/eslc/business_development.shtml

Edwardsville
Illinois Small Business Development Center at Southern Illinois University-Edwardsville
Alumni Hall 2126 Campus Box 1107
Edwardsville, IL 62026
618.650.2929
http://www.siue.edu/business/sbdc/

Elgin
Illinois Small Business Development Center at Elgin Community College
1700 Spartan Drive
Elgin, IL 60123
847.214.7488
http://elgin.edu/business.aspx?id=1248

Forest Park
Illinois Small Business Development Center (SBDC) at the Joseph Center
7600 West Roosevelt Road
Forest Park, IL 60130
708.697.6200
http://josephcenter.homestead.com/

Grayslake
Illinois Small Business Development & International Trade Center at the College of Lake County
19351 West Washington Street
Grayslake, IL 60030
847.543.2033
http://www.clcillinois.edu/sbdc-itc

Harrisburg
Illinois Small Business Development Center at Southeastern Illinois College
2 East Locust Street Suite 200
Harrisburg, IL 62946
618.252.5001
http://www.sic.edu/audience/business-industry/small-business-development-center

Joliet
Illinois Small Business Development Center at Joliet Junior College
1215 Houbolt Road
Joliet, IL 60431
815.280.1400
http://sbdcjjc.com/

Kankakee
Illinois Small Business Development Center at Kankakee Community College
100 College Drive
Kankakee, IL 60901
815.802.8222
http://www.kcc.edu/sbdc

Lisle
Illinois Small Business Development Center at the College of DuPage
2525 Cabot Drive Suite 201
Lisle, IL 60532
630.942.2771
Macomb
Illinois Small Business Development Center at Western Illinois University
510 North Pearl Street Room 1400
Macomb, IL 61455
309.836.2640
http://www.wiusbdc.org

McHenry
Illinois Small Business Development Center at McHenry County College
4100 West Shamrock Lane
McHenry, IL 60050
815.455.6098
http://www.shahcenter.mchenry.edu/sbdc/index.asp

Moline
Illinois Small Business Development Center at Black Hawk College
4703 - 16th Street, Suite G
Moline, IL 61265
309.764.2213

Mt. Vernon
Illinois Small Business Development Center at Rend Lake College
327 Potomac Blvd Suite A
Mt. Vernon, IL 62864
618.242.5813
http://www.rlc.edu/sbdc

Normal
Illinois Small Business Development Center at Illinois State University
214 College of Business Mail Code 5580
Normal, IL 61761
309.438.3610
http://www.sjdbc.ilstu.edu/

Oglesby
Illinois Small Business Development Center at Illinois Valley Community College
815 North Orlando Smith Avenue, Building 11
Oglesby, IL 61348
815.224.0212
http://www.ivcc.edu/sbdc

Olney
Illinois Small Business Development Center at Illinois Eastern Community College
218 East Main Street
Olney, IL 62450
618.395.3011
http://www.ieccsbdc.com

Peoria
Illinois Small Business Development Center at Bradley University
141 Jobst Hall 1501 West Bradley Avenue
Peoria, IL 61625
309.677.2992
http://www.bradley.edu/academic/colleges/ecba/centers/turner/developmentcenter/

Rockford
Illinois Small Business Development Center at Rock Valley College
605 Fulton Eiger Lab, Room E109
Rockford, IL 61103
815.921.2082
http://www.rockvalleycollege.edu/Business/SBDC/index.cfm

Schaumburg
Illinois Small Business Development Center at Harper College
650 East Higgins Road Suite 106
Schaumburg, IL 60173
847.925.6520
http://goforward.harpercollege.edu/business/sbdc/index.php

Springfield
Illinois Small Business Development Center at Lincoln Land Community College
8 South State Capitol Plaza C/O Greater Springfield COC
Springfield, IL 62701
217.544.7232
http://www.llcc.edu/sbdc/

Ullin
Illinois Small Business Development Center at Shawnee Community College
8364 Shawnee College Road
Ullin, IL 62992
618.634.3371
http://www.shawneecc.edu/cced/cced.asp

University Park
Illinois Small Business Development Center at Governors State University College of Business
Room 3300
University Park, IL 60466
708.534.4928
http://www.govst.edu/SBDC/
Appendix B: Feasibility Checklist

Perhaps, the most crucial problem you will face after expressing an interest in starting a new business or capitalizing on an apparent opportunity in your existing business is determining the feasibility of your idea. Getting into the right business at the right time is simple advice, but advice that is extremely difficult to implement. The high failure rate of new businesses and products indicates few ideas result in successful business ventures, even when introduced by well-established firms. Many entrepreneurs strike out on a business venture convinced of its merits, but they fail to evaluate its potential. This checklist should help you evaluate a business idea. It is designed to screen out ideas that are likely to fail before you invest extensive time, money, and effort in them.

Preliminary Analysis

You should realize your personal limitations and seek appropriate assistance where necessary (i.e., marketing, legal, financial). Few people have expertise in doing a feasibility study. A feasibility study involves gathering, analyzing and evaluating information by answering: “Should I go into business?” Answering this question involves a preliminary assessment of both personal and project considerations. Financial statistics are available from most businesses, trade and industry associations, private companies, banks, universities, public libraries and government agencies.

General Personal Considerations

The first series of questions ask you to do self-introspection.

- Are your personality characteristics such that you can adapt to and enjoy small business ownership/management?
- Do you like to make your own decisions? Do you enjoy competition?
- Do you have willpower and self-discipline?
- Do you plan ahead and get things done on time? Can you take advice from others?
- Can you adapt to changing conditions? [Do you like working with people?]
- The next series of questions stress the physical, emotional, and financial strains of a new business.
- Do you have the physical stamina and emotional strength to handle a business?
- Do you understand that owning your own business means working 12-16 hour days, maybe six days a week and holidays?
- Are you prepared to lower your standard of living for several months or years? Can you afford to lose your savings?

Specific Personal Considerations

- Do you know why you are considering this business opportunity?
- Do you know which skills and areas of expertise are critical to the success of your business?
- Do you possess these skills and know how to effectively utilize them?
- Can you find personnel who have the skills, abilities, and expertise you lack? Can you perform the feasibility study or have the time or money to do so? Will this business opportunity effectively meet your career aspirations?
General Project Description

1. Describe the business you want to enter.
2. List the products/services you want to sell/offer.
3. Describe who will use your products or services.
4. Why would someone buy your product/services?
5. What kind of location do you need?
7. List your major competitors (who provide similar products or services).
8. List the labor and staff you require to provide your products/services.

Requirements for Success

To determine whether your idea meets the basic requirements for a successful new project, you must answer one of the following questions with a “yes.”

1. Does the product/service/business serve an under-served need?
2. Does the product/service/business serve an existing market in which demand exceeds supply?
3. Can the product/service/business compete with existing competition because of an “advantageous situation” i.e., better price, location, etc.?

Major Flaws

A “yes” response to these questions indicates the idea has little chance for success.

1. Are there any reasons (i.e., restrictions, monopolies or shortages) that the required factors of production are unavailable (i.e., unreasonable cost, scarce skills, energy, equipment, technology, material, process, or personnel)?
2. Are capital requirements for entry or continuing operations excessive?
3. Are there any extraordinary circumstances that would make financing hard to obtain (i.e., bankruptcy or bad credit)?
4. Are there potential detrimental environmental effects?
5. Are there factors that prevent effective marketing?

Desired Income

The following questions should remind you that you must seek both a return on your investment in your own business as well as a reasonable salary for the time you spend in operating that business.

1. How much income do you desire?
2. Are you prepared to earn less in the first 1-3 years?
3. What minimum amount of income do you require?
4. What financial investment is required for your business?
5. How much could you earn by investing this money?
6. How much could you earn by working for someone else?
7. Add the amounts in 5 and 6. If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income to be your own boss with only the prospects of more substantial profit/income in future years?
8. What is the average return on investment for a business of your type?

**Preliminary Income Statement**

1. You need to know the business income and expenses. Show profit/loss and derive operating ratios on income statements.
2. What is the normal markup in this line of business, i.e., the dollar difference between the cost of goods sold and sales, expressed as a percentage of sales?
3. What is the average cost of goods sold as a percentage of sales?
4. What is the average inventory turnover, i.e., the number of times the average inventory is sold each year?
5. What is the average gross profit as a percentage of sales?
6. What are the average expenses as a percentage of sales?
7. What is the average expenses net profit as a percent of sales?
8. Take the preceding figures and work backwards using a standard income statement format and determine the level of sales necessary to support your desired income level.
9. From an objective, practical standpoint, is this level of sales, expenses and profit attainable?

**Market Analysis**

The primary objective of a market analysis is to arrive at a realistic projection of sales.

**Customer Base**

1. Define the geographical areas from which you can realistically expect to draw customers.
2. What is the makeup of population in these areas, average family size, age distribution and per capita income?
3. What do you know about the population growth trend in these areas?
4. What is the consumer's attitude, shopping/spending patterns of business?
5. Is the price of your product or service important to your target market?
6. Can you appeal to the entire market?
7. If you appeal to only a portion of the market, is that segment enough to be profitable?

**Competition**

1. Who are your major competitors and their strengths/weaknesses?
2. Are you familiar with factors concerning your competitors’ price structure, product lines (quality, breadth, width), location, source of supply, promotional activities and image from a consumer's viewpoint?
3. Do you know of any new competitors or competitor’s plan for expansion?
4. Have any firms of your type gone out of business lately? If so, why?
5. Do you know the sales and market share and profit levels of each competitor?
6. Do you know whether the sales and market share and profits of each competitor are increasing, decreasing or stable?
7. Can you compete with your competition?

Sales

1. Determine the total sales volume in your market area.
2. How accurate is your forecast of the total sales? Is it based on concrete data?
3. Is the estimated sales figure “normal” for your market area?
4. Is the sales per square foot for your competitors above the normal average?
5. Are there conditions or trends that could change your forecast of total sales?
6. Do you plan to mark down products occasionally to eliminate inventories?
7. If you do not carry over inventory, have you adequately considered the effect of markdown in your pricing? (Profit margin may be too low.)
8. How do you plan to advertise/promote your product/service?
9. Forecast the total market share you can realistically expect—as a dollar amount and as a percentage of your market.
10. Can you create enough competitive advantages to achieve the market share in your forecast of the previous question?
11. Is your sales forecast greater than the sales amount needed to guarantee your minimum income?
12. Are you optimistic/pessimistic in your forecast of sales?
13. Are you willing to hire an expert to refine the sales forecast if needed? [This is what a good supplier can do for you.]

Supply

1. Can you make an itemized inventory list of operating supplies needed?
2. Do you know the quantity, quality, price ranges, technical specifications and name/location of potential sources of supply?
3. Do you know delivery schedule, credit terms and sales of each supplier?
4. Do you know the risk of shortage for any critical materials or merchandise?
5. Do you know if the price allows you to achieve an adequate markup?
6. Do you know which supplies have an advantage relative to transportation costs?

Expenses

1. Do you know your necessary expenses, rent, wages, insurance, utilities, advertising, and interest, etc.?
2. Do you know which expenses are direct, indirect or fixed?
3. Do you know how much overhead will be?
4. Do you know how much selling expenses will be?
**Miscellaneous**

1. Are you aware of the major risks associated with your product/business/service?
2. Can you minimize these major risks or are they beyond your control?
3. Can these risks bankrupt you?

**Venture Feasibility**

1. Are there major questions remaining about your proposed venture?
2. Do the above questions arise because of a lack of data, management skills, or a “fatal flaw” in your idea?
3. Can you obtain the additional data and management skills needed or correct the “fatal flaw” in your idea?
4. Are you aware that there is less than a 50-50 chance that you will be in business two years from now?

Appendix C: Information References for Grocery Stores

Start-Up Information


Trade Associations

*American Institute of Food Distribution (The Food Institute)*, [https://www.foodinstitute.com](https://www.foodinstitute.com). 10 Mountain Road, Suite S125, Upper Saddle River, NJ 07458, 201.791.5570, questions@foodinstitute.com.


Trade Periodicals


Web Sites

Supermarket News. [Supermarket.com](http://www.supermarket.com).

Grocery Headquarters. [www.groceryheadquarters.com](http://www.groceryheadquarters.com).


Statistical Sources


*The Food Channel*, Noble Communications, 500 N. Michigan Avenue, Chicago, IL 60611. [www.foodchannel.com](http://www.foodchannel.com).

Reference Works

*Directory of Supermarket, Grocery, & Convenience Store Chains*, 2013. Chain Store Guide Information Services, 3922 Coconut Palm Drive, Tampa, FL 33619; 800.927.9292 or 813.664.6700 or fax 813.846.8047.

Technical Bulletin: Grocery Stores

Grocery stores which buy through normal wholesale channels are licensed at the local level. Be certain to check with your local health department and city or county clerk for licensing requirements. In addition, certain items being sold are subject to additional regulations.

Alcohol and tobacco sales are controlled by the U.S. Bureau of Alcohol, Tobacco and Firearms as well as the Illinois Liquor Control Commission. See the Technical Bulletin on Liquor Sales for additional information.

Deli-type operations are regulated by the Illinois Department of Public Health. See the Technical Bulletin on Food Services for additional information.

The sale of fresh or frozen fish is licensed by the Illinois Department of Natural Resources (DNR). Before you can obtain a dealer's license, you must contact DNR at 217.785.3423 to receive an official customer number for your business. The Resident Retail Fish Dealers License can then be obtained at any location that deals regular hunting and fishing licenses or online at http://dnr.state.il.us/didyouknow/ through DNR Direct. To receive a fish dealers' license for a given year, you must apply for the license during or after the last week of January. Dealers’ licenses expire on January 31st of every year (If you apply for a dealer’s license on January 1, it will only be valid until January 31st. For additional information contact:

All retail or wholesale operations must register with the Illinois Department of Revenue for a Business Tax Number. Contact the Department of Revenue at the address shown on the following page.

Tax Numbers

Federal

Every partnership, corporation and S Corporation must have a Federal Employer Identification Number (FEIN). A sole proprietorship must have a FEIN if it pays wages to one or more employees or will be filing any excise tax returns. Information on obtaining an FEIN is available on the IRS website: http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Employer-ID-Numbers-EINs.

State

Most businesses must obtain an Illinois Business Taxpayer Certificate of Registration (Business Tax Number) for submitting tax or informational returns. To determine if a Business Tax Number is required for your business, contact:

   Illinois Department of Revenue
   Central Registration Division
   PO Box 19030
   Springfield, IL 62794-9030
   http://www.revenue.state.il.us/Businesses/register.htm
Employees

If the business will be hiring employees you will probably be required to make unemployment insurance contributions to the Department of Employment Security (DES). To determine liability, complete a “Report to Determine Liability” form and submit it to DES. The form and instructions for completion are available by contacting DES.

Department of Employment Security
P.O. Box 19300
Springfield, IL 62794-9300
800.247.4984
312.793.5000
http://www.ides.illinois.gov/Pages/Unemployment_Taxes_and_Reporting.aspx

Local Requirements

Many communities require businesses to be licensed or registered and to comply with local zoning requirements. Contact your city or county clerk for information on licensing, zoning, inspections, sign restrictions, and other local regulations.

Information and Resources

There are a variety of resources available as you start your business. The First-Stop Business Information Center of Illinois has a single, statewide resource to help individuals and businesses obtain comprehensive regulatory and permit information and referral assistance. First-Stop offers a detailed handbook, *Starting Your Business in Illinois*. This handbook provides general business start-up information, tax requirements, information for businesses with employees, poster display requirements, and information regarding business registration in Illinois. The handbook is available on the DCEO website (http://www.illinois.gov/dceo/SmallBizAssistance/BeginHere/Pages/PublicationsAndBizGuide.aspx).

The Illinois Small Business Development Center Network (http://www.illinois.gov/dceo/SmallBizAssistance?Pages/default.aspx) and the Service Corps of Retired Executives (SCORE) offices (http://www.score.org) can provide technical assistance in marketing, management, finance, international trade, government procurement, energy management, and commercialization of technology related products. Additional information is available through the Business Information Center at 800.252.2923, TDD: 800.785.6055.

The Small Business Administration offers many publications online. A listing of these publications is available at http://www.sba.gov.

Local libraries and Chamber of Commerce are excellent sources of information. Check at the local library for listings of associations and publications related to your type of business.
Table 1. Balance Sheet Data for Grocery Stores – SIC 5411S

<table>
<thead>
<tr>
<th>Assets</th>
<th>Average Dollars</th>
<th>As Percent of Total Assets</th>
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<tbody>
<tr>
<td>Cash and Equivalents</td>
<td>$25,607</td>
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<tr>
<td>A/R—Trade (net)</td>
<td>33,126</td>
<td>6.5</td>
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<tr>
<td>A/R Progress Billings</td>
<td>0</td>
<td>0.0</td>
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<tr>
<td>A/R Current Retention</td>
<td>0</td>
<td>0.0</td>
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<tr>
<td>Inventory</td>
<td>200,030</td>
<td>39.3</td>
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<tr>
<td>Cost and Estimated Earnings in Excess of Billings</td>
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<td>0.0</td>
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<tr>
<td>All Other Current</td>
<td>35,685</td>
<td>7.0</td>
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<tr>
<td>Total Current</td>
<td>294,447</td>
<td>57.8</td>
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<tr>
<td>Fixed Assets (net)</td>
<td>151,630</td>
<td>29.8</td>
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<tr>
<td>Joint Ventures and Investment</td>
<td>10,144</td>
<td>2.0</td>
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<tr>
<td>Intangibles (net)</td>
<td>0</td>
<td>0.0</td>
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<tr>
<td>All Other Non-Current</td>
<td>53,319</td>
<td>10.5</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td><strong>509</strong></td>
<td><strong>100.0</strong></td>
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<table>
<thead>
<tr>
<th>Liabilities</th>
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</thead>
<tbody>
<tr>
<td>Notes Payable—Short Term</td>
<td>17,380</td>
<td>3.4</td>
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<tr>
<td>Current Matured Long Term Debt</td>
<td>7,260</td>
<td>1.4</td>
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<tr>
<td>Accounts Payable—Trade</td>
<td>111,614</td>
<td>21.9</td>
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<tr>
<td>Accounts Payable—Retention</td>
<td>0</td>
<td>0.0</td>
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<tr>
<td>Billings in Excess of Costs and Estimated Earnings</td>
<td>20</td>
<td>0.0</td>
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<tr>
<td>Income Taxes Payable</td>
<td>6,191</td>
<td>1.2</td>
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<tr>
<td>All Other Current</td>
<td>41,303</td>
<td>8.1</td>
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<tr>
<td>Total Current</td>
<td>183,748</td>
<td>36.1</td>
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<tr>
<td>Long Term Debt</td>
<td>207,280</td>
<td>40.7</td>
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<tr>
<td>Deferred Taxes</td>
<td>0</td>
<td>0.0</td>
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<tr>
<td>All Other Non-Current</td>
<td>11,435</td>
<td>2.2</td>
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<tr>
<td>Net Worth</td>
<td>107,077</td>
<td>21.0</td>
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<tr>
<td><strong>Total Liabilities and Net Worth</strong></td>
<td><strong>$509,540</strong></td>
<td><strong>100.0</strong></td>
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Table 2. Ratios for Grocery Stores – SIC 5411S

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<tr>
<th>Liquidity Ratios</th>
<th>Median</th>
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<tbody>
<tr>
<td>Current Ratio</td>
<td>1.6</td>
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<tr>
<td>Quick Ratio</td>
<td>0.3</td>
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<tr>
<td>Sales/Receivables</td>
<td>131.0</td>
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<tr>
<td>Days’ Receivables</td>
<td>2.8</td>
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<tr>
<td>Cost of Sales/Inventory</td>
<td>17.3</td>
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<tr>
<td>Days’ Inventory</td>
<td>21.1</td>
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<tr>
<td>Cost of Sales/Payables</td>
<td>30.9</td>
</tr>
<tr>
<td>Days’ Payables</td>
<td>11.8</td>
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<tr>
<td>Sales/Working Capital</td>
<td>39.2</td>
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<tr>
<td>Days’ Working Capital</td>
<td>9.3</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Coverage Ratios</th>
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<tbody>
<tr>
<td>Earnings Before Interest and Taxes/Interest</td>
<td>1.5</td>
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<tr>
<td>Cash Flow/Current Maturity Long Term Debt</td>
<td>6.5</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Leverage Ratios</th>
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<tbody>
<tr>
<td>Fixed Assets/Tangible Net Worth</td>
<td>1.4</td>
</tr>
<tr>
<td>Total Liabilities/Tangible Net Worth</td>
<td>3.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Ratios</th>
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</thead>
<tbody>
<tr>
<td>Percent Profit Before Taxes/Tangible Net Worth</td>
<td>10.5</td>
</tr>
<tr>
<td>Percent Profit Before Taxes/Total Assets</td>
<td>2.2</td>
</tr>
<tr>
<td>Sales/Net Fixed Assets</td>
<td>28.6</td>
</tr>
<tr>
<td>Sales/Total Assets</td>
<td>8.5</td>
</tr>
</tbody>
</table>

Table 3. Income Data for Grocery Stores — SIC 5411S

<table>
<thead>
<tr>
<th></th>
<th>Average Dollars</th>
<th>As Percent of Total Assets</th>
</tr>
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<tbody>
<tr>
<td><strong>Sales/Revenue</strong></td>
<td>4,338,506</td>
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<tr>
<td><strong>Variable Disbursements</strong></td>
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<td>Cost of Goods/Cost of Contracts</td>
<td>3,452,566</td>
<td>79.60</td>
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<tr>
<td>Advertising</td>
<td>62,020</td>
<td>1.40</td>
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<td>Bad Debts</td>
<td>2,883</td>
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<td>Car/Delivery</td>
<td>2,351</td>
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<td>Commissions</td>
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<td>Freight</td>
<td>18,820</td>
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<td>Taxes/Licenses</td>
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<td>0.50</td>
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<td>Travel and Entertainment</td>
<td>997</td>
<td>0.00</td>
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<tr>
<td><strong>Total Variable Disbursements</strong></td>
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<td><strong>Contribution</strong></td>
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<td><strong>Fixed Disbursements</strong></td>
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<td>Bank Services Charges</td>
<td>3,074</td>
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<td>Amortization of Intangibles</td>
<td>2,324</td>
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<td>Depreciation/Depletion</td>
<td>33,851</td>
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<tr>
<td>Dues and Publications</td>
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<td>Employee Benefit Program</td>
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<td>Insurance</td>
<td>21,707</td>
<td>0.50</td>
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<tr>
<td>Laundry and Cleaning</td>
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<tr>
<td>Leased Equipment</td>
<td>391</td>
<td>0.00</td>
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<tr>
<td>Legal/Professional</td>
<td>12,957</td>
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<td>Office Expense</td>
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<td>Outside Labor</td>
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<tr>
<td>Pension/P.S./Payroll Taxes</td>
<td>33,432</td>
<td>0.80</td>
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<tr>
<td>Rent</td>
<td>65,741</td>
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<tr>
<td>Repairs and Maintenance</td>
<td>19,338</td>
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<td>Supplies, Operating</td>
<td>34,689</td>
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<tr>
<td>Utilities</td>
<td>53,363</td>
<td>1.20</td>
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<tr>
<td>Salaries—Officers</td>
<td>28,085</td>
<td>0.60</td>
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<td>Payroll</td>
<td>371,881</td>
<td>8.60</td>
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<tr>
<td>Interest</td>
<td>21,053</td>
<td>0.50</td>
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<tr>
<td>Miscellaneous Expenses/(Income)</td>
<td>5,434</td>
<td>0.10</td>
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<tr>
<td><strong>Total Fixed Disbursements</strong></td>
<td>764,054</td>
<td>17.70</td>
</tr>
<tr>
<td>Pretax Profit</td>
<td>11,200</td>
<td>0.30</td>
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<tr>
<td><strong>Dollar Sales Break-even</strong></td>
<td>767,822</td>
<td></td>
</tr>
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</table>

Appendix D: Business Plan Checklist

Title Page
- List Name of business and name of owner(s), business address, telephone, e-mail, and fax numbers.
- Show date business plan was originally prepared and any revision dates to identify most current version.

Plan Summary (develop last; place first)
- Identify the business as a new venture or expansion of current. If existing business, summarize history.
- Identify your products and/or services.
- Summarize financial needs: state amount of loan requested, expected interest rate and length of loan, for what purpose(s) you will use the requested funds (e.g., real estate, equipment, inventory, working capital, etc.), and how loan will be repaid (usually from cash flow and retained earnings of business).

Management
- Indicate legal structure of business organization.
- Identify owners, officers, and other key personnel. List addresses, phone numbers, and percent of business ownership.
- Describe responsibilities for all key personnel and emphasize management expertise.
- Identify management consultant team: attorney, accountant or tax preparer, insurance advisor, other.

Marketing Plan
- Describe industry history and trends. How might current trends affect your business?
- Identify number and kinds of firms in your industry.
- Show a basic understanding of the importance of appropriate target marketing. Describe your target market(s) and what criteria you used to select them.
- Describe you geographic market area and projected market share.

Competitive Analysis
- Identify your competitors and explain how you investigated them.
- Estimate competitors' market share and financial resources.
- Consider your competitors' strengths and weaknesses compared to those of your company as you discuss the following four categories:
  
  Product/Service
  - Describe your product and/or service line(s).
  - What makes your product or service beneficial to the potential customer? Compare to competitors
  - Analyze your product/service life cycle and identify current stage.
  - Discuss intellectual property rights (patents, copyrights, trademarks) or other legal or technical protection for your products/services.
  - Discuss plans for expansion of product lines or for new product development.

Place (Location/Distribution)
- Analyze pros/cons of business location and physical features of the building relative to your competitors.
- Indicate that you have investigated local zoning laws.
- Describe facility location and general demographics of the neighborhood, city or target market area. Is site owned or leased (state terms of lease)?
- Comment on location costs (rent, property taxes, utilities, maintenance)
- Explain any planned capital or leaseholder improvements or expansion.
- Explain how your will get your products and/or services to the customer. Show consideration of any alternative distribution systems.

Pricing
- Describe pricing for each product/service. Explain your sales terms and discounts.
- Discuss your pricing policies and constraints – compare with competitors' pricing strategies.
Promotion

- Identify your public relations and advertising strategies. Discuss which types of media (print, radio, television, direct mail, trade shows, etc.) you will use to promote your business and why.
- Establish an advertising budget.

Operations

- State hours of operation. Note any seasonal variations in sales or hours of operations.
- Identify special equipment or materials needed to produce your products or deliver your services.
- Explain plans for equipment acquisition, lease, and/or schedule of replacement. List approximate costs and methods of financing.
- Describe production planning, methods, and specific procedures you will apply to maintain efficiency and technical competitive edge.
- Identify how physical store or plant layout supports this system.
- Identify key suppliers, usual terms and conditions of delivery and payment, and projected dollar value of purchases per year.
- Discuss importance of establishing and maintaining a positive purchasing/vendor relationships.
- Describe your recordkeeping system. Identify who will prepare financial statements and tax returns (owners, employee, or accountant/bookkeeper).
- Explain your inventory management and control practices.
- Explain your credit and accounts receivable policies.

Human Resource Management

- Identify the key functions or departments in your business.
- Describe staffing plan, number of employees, and key personnel. Prepare organization chart if structure warrants.
- Identify which functions will be subcontracted and which will be handled by employees.
- Indicate who will prepare payroll and complete required reports (owner, employee, or accountant/bookkeeper).
- Discuss recruitment strategies and hiring time frame.
- Specify proposed salary schedule.
- Discuss commission structure (if applicable).
- Outline employee benefits program.
- Discuss employee training (initial and continuing).
- Discuss employee evaluation and termination policies.
- Demonstrate understanding of and compliance with government agencies which regulate human resource management practices.
- Identify unions which may be affiliated with your business and how they may affect your operation.

Quality Control/Customer Service

- Discuss your specific quality control standards and monitoring procedures for each product/service.
- Identify how you plan to overcome potential quality problems with raw materials or purchases.
- What policies and procedures will you employ to avoid lawsuits?
- Describe warranty/servicing and return policies for your products or services.
- Indicate your intent to inform all employees about your quality control and customer service policies.

Regulatory/Environmental Issues

- Identify any federal, state, or local agencies or industry programs that could regulate or impact your business.
- Consider potential environmental impact.
- If your business creates a waste stream, describe how you will handle it.

Financial Data (minimum requirements)

- If currently in business, submit historical data for last three years or since inception—include income tax returns, income statement, balance sheet, monthly cash flows. Be prepared to furnish aging of accounts receivable/payable.
- Determine initial startup or expansion costs.
- Prepare minimum of three years’ cash flow projections (first two years by month, third year annualized). Show sales seasonality (variations in income and expenses) if applicable to your business.
- Document sources and uses of new funds.
- Prepare personal financial statements for all owners/guarantors.
Appendices/Exhibits

__ This section should document any items that are not or cannot be addressed in the narrative, such as:
__ résumés of owners, officers, and other key personnel
__ pictures of unique products
__ pictures of location exterior/interior
__ copy of lease agreement
__ copy of distribution or franchise agreement
__ copies of patents and other intellectual property protection
__ copies of contracts for the purchase of your product/service
__ copies of operating licenses or permits

References


