



HEALTH CHECK LIST

Business analysis of a Christian Bookstore

This document will help you analysis what additional funds you will need to support your ministry.

1. Your Vision and Mission Statement

Your Vision Statement

- (a) Take a moment to write down a statement of your vision in one sentence. Simply re-define what your purpose and aspirations are.

Your Mission Statement

- (b) In simple sentences state WHAT you mean, WHO is to benefit, and HOW you plan to implement it.

2. Where to Begin?

Undertake a **BUSINESS SYNOPSIS**:

Look at your **GEOGRAPHIC** (location) and **DEMOGRAPHIC** (who is your target customer) circumstance. This will help you determine the suitability of your store location, store size, merchandise range, and if your bookstore is meeting your customers' expectations.

3. Have you Clearly Identified your Merchandise Range?

- You cannot be all things to all people. This is not financially possible. 80% of sales come from 20% of the stock. Undertake an urgent review of your merchandise range, identifying what your major classifications are and the stock items within these classifications.
- Calculate **what percentage of the total expected sales** each major classification represents, its **share of the stock purchase dollars, the space to be allocated**, and the type and cost of fixturing needed to present the merchandise.
- Prepare a **best seller** stock list within each major classification.
- **Source of supply.** When completing this task undertake a review of who your principal suppliers are, their terms of trade and their ability to replenish your store's stock as your trade demands.

4. Measuring your Sales Performance

- Look at the annual sales trend, say over a five-year period, and determine the extent of the sales growth/decline of the bookstore.
- From your annual sales figure you can establish the dollar value of the stock needed to stock your store. The **starting stock holding** to sales ratio is usually 30% i.e. if

your total annual sales estimate is \$200,000 then you will probably need \$60,000 in stock (at cost).

- The required **stock turn** (the number of times you should turn your stock over each year) should be no less than 3 and preferably 4, for a bookstore.
- Look at the age of each stock item. If you have a considerable quantity of aged stock then this will impact negatively on your cash flow, your capacity to buy and be in stock of best selling items, present your merchandise properly and increase the possibility of shrinkage (unknown losses).
- Place a **sell by date** on every stock item in the store and ensure that you reduce the risk of aged stock accumulating.

5. How Viable, Financially, is your Bookstore?

The following financial analysis will help:

(a) Calculate your **break-even point** (i.e. trading profitably or at a loss).

- Determine - What are your current annual sales?
 What is your current Gross Profit Percent?
 What are your current annual total expenses?
- Simply divide your total annual estimated expenses (costs) by your expected Gross Profit percent (Gross Margin). e.g. if your expenses total \$100,000 and your Gross Margin % is 35% you will need to do \$285,000 in sales annually to just break even.
- Financial steps and benchmarks to compare with your Profit and Loss budget.
- **Annual Sales:** identified in step 4
Break the total annual sales down to a daily, weekly and monthly budget. Allow for public holidays and major promotional events.
- **Opening Stock:** Usually 30% of total sales. Your opening stock amount is the closing stock figure determined at stocktake of the year before.
- **Purchases:** Annual dollar value estimated at 55% of total sales. (It is essential that you budget by month and accurately establish the monthly figure in relation to the expected delivery and payment of the stock).
- **Closing stock:** This is usually determined by stocktaking each year and becomes the opening stock amount for the new trading year.
- **Cost of Sales:** This is arrived at by applying a percentage, 62% to sales.
- **Gross Profit:** The Gross Profit percentage for a bookstore should range between 38% and 40%. (Most smaller bookstores tend to average 35%).
- **Expenses:** The following are the usual expense categories highlighting what percentage of your total sales they should normally represent. You might find this helpful when comparing these against your own expense categories.
 - Salary/wages - 14% of total sales
 - Rent/Electricity-Gas - 12%

Accounting - 0-2%
Advertising - 2%
Bad Debts - 0.10%
Bank Charges - 0.5%
Fax expenses - 0.06%
Computer/Copier Expenses - 0.2%
Depreciation - 0.8%
General Expenses - 0.5%
Insurance - 0.3%
Interest - 0.2%
Legal Expenses - 0.1%
Postage/Freight - 0.5%
Printing/Stationery - 0.5%
Repairs/Maintenance - 0.5%
Subscriptions - 0.2%
Training - 0.2%
Telephone - 1.5%
Travel - 0.3%

TOTAL EXPENSES % 34.66%

As you can see the total expense % factor 34.66% only covers the Gross Margin % factor 35%. This is break even and for a store to be viable you would need to trade more profitably than 35%. How do you compare?

6. Is your Cash Flow usually in Surplus or Deficit?

The financial factors that impact on cash flow are:

Achieving budgeted sales, controlling expenses, controlling stock purchases to 55% of budgeted sales (and budgeted for the right month when payment for stock is due), ensuring **stock purchases occur when the seasonal factor requires it, stockturn** (3 to 4 times), and the regular **clearance of aged stock**.

7. Check out your Promotional and Marketing Plan

Clearly define by week your promotional and marketing plan locking in your major retailing promotional events and timetable and measuring each event for its success or failure. It is essential that you do a **R.O.I.** (Return on Investment) financial assessment on every major promotional event.

8. Review your Staffing Cost and Timetable

Having a full understanding of your daily/weekly man-hours plus staff numbers required to run your bookstore is essential. A review of the legal and statutory requirements in awards, occupational health, safety and security (these are just as important for volunteer staff as paid staff) might be necessary.

9. Lease Agreements and other Legal and Accounting Matters

- If you are to protect your personal and financial well being it is critical that you understand fully all documents relating to your business venture.

- If you are leasing in a shopping centre or some other site it is even more important that you understand the lease and ongoing costs.

10. Are you getting a Return on your Capital Outlay?

It is helpful to identify in dollar terms the capital required to keep your bookstore functional.

Consider the following capital costs:

- The condition of the shop itself including ceiling, walls, paint work, fixtures and fittings, carpet, lighting, all services, cash register, fax/telephone, photocopier, stationery, bank accounts and services and so on. Cost of outfitting a new shop can range from \$50,000 to \$150,000.
- Depending on the estimated sales you will probably need a minimum of \$60,000 in stock, if you are to achieve annual sales of \$200,000.
- It is important that you have a qualified accountant do a Return on Investment (R.O.I.) financial analysis on your business. A 4% to 7% net contribution factor is the industry standard.
- If you decide to borrow funds then this would need your most careful analysis before proceeding.
- In the event of buying an existing business then there are guidelines that should be followed regarding the current value of assets, the level of goodwill (hardly a value factor anymore), outstanding liabilities or other legal matters of the current owner and so on. It will be an advantage to talk to a business consultant before proceeding.