

Desert Leathercraft LLC Leather Big Book¹ Cover Tutorials



Business Considerations

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Page

1	Business Considerations
1	How to Price
1	Retail or Wholesale?
2	Maintaining Profit Margin
2	Realistic Small Business Scenario
2	Setting Up the Business
2	WA State Example
2	Banking
2	Leather Inventory
3	Records
4	Insurance
4	Federal Taxes
4	WA State Taxes
4	Website
4	Business Name
4	Advertising
4	Revisions

If you are just making some leather book covers for yourself or a few friends, ignore the this Business Considerations tutorial.

Business Considerations

This is an excerpt from an article from Leatherworks.net by Frans with some additional personal comments:

Pricing: *This is often one of the most perplexing decisions for a new businesses. Warning! Don't compete on price. You will go broke. If you're producing an item similar to an existing product then you should base your pricing around that. Maybe you can add 10% because yours has extra features.*

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Number One Rule: *Don't undervalue your time, unless you have other sources of income. You have to pay yourself. You need to live. If you undervalue your costs—you cheat three people: (1) you cheat other craftsmen but lowering the expected value for custom work; (2) you cheat yourself out of the value of your time; and (3) you cheat the customer because they believe they will always be able to purchase custom items for a low cost.*

Number Two Rule: *There are activities that are essential, but don't generate any income. Bookkeeping, placing orders, keeping track of inventory, janitorial work, those sorts of things. Try to limit those activities or find more efficient time saving ways to do them.*

How to Price

Maybe your product is unique in the market. How do you price it?

Lets say you need to earn \$50k per year.

Assuming your overhead (elect, heating/cooling, vehicle, insurance, licenses, printing/stationary etc) is \$20k per year. If you are starting on a shoestring, then some of the expenses may be hidden in the home. As the TV commercial says: "*Bill Gates started in the garage*".

That's \$70k without selling anything.

Full time worker

No of weeks of work = 48
Hours per week = 40
Total hours per year = 1,920
Your labour & overhead per hour = \$36.46. This is based on earning \$50k per year and having \$20k of overhead

divided by 1,920 hours of yearly labor.

Now you produce XYZ item.

Direct materials cost for XYZ = \$45.00

Labor x 3 hours @\$36.46 = \$109.38

Total cost per XYZ = \$154.38 That is your selling price/Retail price. How does that compare in the market place?

Therefore you need to make and sell 640 XYZ units per year (approximately 2.6 per day) to meet your sales target. This based on the labor cost times the hours worked in the year divided by the cost per unit, then divided by the number of days worked (240)

How are you going to sell that number of units per year? This leads to how you will market your product?

Retail or Wholesale?

Retail or wholesale? Each has it own unique advantages & disadvantages.

Retail: You are solely responsible for the marketing and sales of your product. Do you choose an e-commerce web site, craft markets or open your own shop? Retail gives you more profit per item but requires you to ensure you meet your sales target.

Wholesale: Your customers (Retailers) are the ones responsible for the marketing of your product. All you do is supply them. Wish it was that easy. They will want wholesale pricing on your product. You need to sell to them at say \$80.00 per item. At \$80 per item and selling 640 units means your profit/salary just took a big hit unless you want to work

80 hours per week. This is the reality of selling wholesale.

Consignment: This method has the same problems as wholesale, but has the added disadvantage of loss or mishandling, damage of the goods. Consignment is not recommended without a written contract to provide payment for lost or damaged items.

Maintaining Profit Margin

Question is: "How can you ensure you continue to make your target profit. What can you do?"

- New features added so you can charge more.
- If you analyze your costs you will note that the labour component is your biggest cost. Can you look at ways to reduce costs from say 3-hours to 1.5-hours per item? Maybe machine stitch instead of hand stitching.
- Negotiate better deals with your suppliers, or buy in bulk.

written by:
Frans (a.k.a. VanDutch)

Realistic Small Business Scenario

A more realistic scenario for someone who is not doing the craft for their livelihood is the following:

Lets say you want to earn \$10k per year.

Your overheads (licenses, printing/stationary shipping and working out of the garage is \$2k per year.

That's \$12k without selling anything.

No of weeks of work = 48
Hours per week = 10 (2 hrs/day)
Total hours per year = 480
Your labour & overhead per hour = \$25

Now you produce XYZ item.

Direct materials cost = \$45.00

Labour x 3 hours @\$25 = \$75.00

Total cost per XYZ = \$120.00

Therefore you need to make and sell 400 XYZ units per year (approximately one per day) to meet your sales target.

Setting Up the Business

Caveat—I am not an attorney. These are the things I did to start to set up my business. First, I wanted to compartmentalize my business as a separate legal unit with a LLC (Limited Liability Corporation) and meet the requirements of the WA State. I know that it is not a complete legal and financial protection, but offers a more professional persona and it only cost around \$200 for the State of Washington and quite easily done on-line.

All I needed was some personal details and a company name. I chose Desert Leathercraft LLC after a search, with WA State's help to see if it was a unique name for a WA State business.

WA State Example

Here is the information I used for setting up a business for WA State:

(Excerpts from: <http://www.washingtonregisteredagent.net/washington-business.html>)

Form your business with the Washington Secretary of State. This is where you either form a Washington LLC or incorporate a Washington corporation. You will then get a UBI (Unified Business Identifier) number, and you'll be registered in the database that the other state agencies look at. Always start with the Washington Secretary of State!

Get a Business License from the Washington Department of Revenue. Formerly known as the Master business license that costs \$15. This is basically a general, cover everything form that will notify all the other state agencies of what you're doing. You can register DBA (Doing Business As) names if they are different than your corporation or LLC name. DBA names cost \$5 each. You don't need to register different DBA names if you're working under your main legal name.

You can file the business license application yourself and when filling out the Business License application, you'll notify:

- Washington Department of Revenue

-- So you can pay your income taxes, collect and pay sales tax.

- Washington Department of Labor and Industries -- So you have worker's compensation insurance on your employees.
- Washington Employment Security Department -- So you have unemployment insurance for your employees.

Most people will fall under quarterly or monthly reporting with the 3 different agencies (Dept. of Revenue, Labor and Industries, Employment Security)

On a yearly basis, you'll get a business license renewal and Washington Annual Report notice sent to your Washington registered agent. We only charge \$65 a year for our Washington registered agent service.

The yearly report costs \$71. It's due on the last day of the anniversary month you initially filed with the WA SOS (Secretary of State).

Banking

Opened a new, separate account in the company's name and pass all monies through that account for bookkeeping. Located a bank that offered check deposits via smart phones to help keep travel cost down. I purchased a "PayPal Here Mobile Card Reader" to take money via phone, credit card swipe or photo check deposits on my smart phone

Leather Inventory

Most of the expense in making the leather book covers comes from the leather costs. Leather purchased is sold by the square foot as a whole hide, side, shoulder, double shoulder and is identified by thickness expressed in ounces, where one-ounce is approximately one-sixty fourth of an inch. All leather is irregular in shape and often has brands, insect bites and range markings or holes and cuts made during the tanning process. To make rectangular shaped leather book-covers requires quite a bit of waste in the cutting process and from my experience amounts to around 50% loss with the lower quality leather purchased in the early years. The wasted leather has been either thrown away or donated to the 4H club.

Since trying to calculate the square footage used to make the cover verses the waste

occurred by cutting the leather around imperfections is practically impossible. I chose to weigh and record each purchased hide and weigh again at the end of the tax year to obtain the difference. That difference is the cost used to make the book covers. It includes the scrap or waste used to make the book covers.

Because I did not have complete records for the leather I brought into the business, the 2009 tax year added up all the invoices for the leather purchased, then added up the weight of all the leather and divided the weight into the cost of leather to determine the unit cost by weight. (\$0.33/ounce)

Likewise, for the 2010 tax year I added up all the invoices for the leather purchased, then added up the weight of all the leather, for 2010, and divided the weight into the cost of leather to determine the unit cost by weight (\$0.988/ounce).

For the 2011 tax year-and all following years, I began to use the costs of each leather purchase and record the cost in the inventory with each hide. Now knowing the cost of each hide and its weight, I am able to more accurately determine the cost of material used to make the book covers. Because that information was not recorded completely for 2009 and 2010, I will always have to rely on the average costs for the remaining leather until exhausted.

Records

When I first started, I was already making book covers, had the tools and materials, so it was difficult to start to use Quicken or other business applications for me. So, I created a few spreadsheets that maintain all my records. Each spreadsheet sums each column for use in federal and state taxes and provides documentation to the paper invoice records for proof of payments.

Here are some samples of the spreadsheets. They are not actual, so ignore any entry errors or column sums.

Journal Spreadsheet:

Invoice No. *Invoice, receipt, or some identification number*
 Name *Buyer or Seller*
 ZIP Code *Used for taxation*
 Date *Transaction date*
 Description *Short description of*

Journal Spreadsheet

	E	F	G	H	I	J	K	L	M	N	O	P	Q
		\$852	\$922	\$145.65	\$35.74	\$0.00	\$98.06	\$0	\$0.00	\$1,282.90	\$0.00	\$0.00	\$0.00
Description	Expense for leather only	Expense (Leather & Materials to make the Covers)	8-Expense Advertising	23-Expense Taxes and licenses	18-Expense Office expense	18-Expense Office expense (Shipping)	Tools and equipment and Training	Expense PayPal Merchant Fees	Income	Personal Use	WA State Sales Tax Collected	Refund	
B1							\$5.05			\$73.45			
B1 (6ea)							\$23.20			\$614.75			
B1							\$5.05			\$68.95			
B1							\$5.05			\$130.95			
B30							\$5.05			\$47.45			
WA State Excise Tax				\$35.74			\$0.00			\$0.00			
Repaired leather cover							\$5.05			\$0.00			
B1							\$5.05			\$66.95			
B1							\$5.05			\$86.45			
B1/2							\$5.05			\$193.95			
Leather Sides (Orange Mtog Chap 136ORLF, Sienna Motochap 119SILF)	\$261.96	\$261.96								\$0.00			
Bubble Wrap							\$34.46			\$0.00			
Pens with Advertisement on them				\$145.65						\$0.00			
Chocolate chap sides	\$590.03	\$590.03								\$0.00			
Al-Anon Books			\$70.00							\$0.00			

Inventory Spreadsheet

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T
Serial	Color Family	Description	Wt. Ounces	Current Wt. Ounces	Inventory Reduction	Original Sq Ft	Cost per sq.ft.	Cost Per Side of leather acquired w/Shipping in 2013	Cost per ounce	Cost of leather remaining in 2012	Current Inventory cost	Original cost							
			1853.0	1403.0	450.0	646.50		\$2,246.13		\$1,574.30	\$1,574.30	\$2,246.13							
2014	473	Orange	Hide House 136ORLF Orange Motochap	100.0	100.0	0.0	30.00	\$4.64	\$139.33	\$1.39	\$139.33	\$139.33	\$139.33						
2014	474	Brown	Hide House 119SILF Sienna Motochap	91.0	91.0	0.0	26.25	\$4.67	\$122.64	\$1.35	\$122.64	\$122.64	\$122.64						
2014	475	Brown	Weavers Supersoft Chocolate Sides 09-110075-CL	400.0	0.0	400.0	137.75	\$4.28	\$590.03	\$1.48	\$0.00	\$590.03	\$0.00	\$0.00					
2014	476	Cow	Hide House Economy 415 oz 872	50.0	0.0	50.0	23.00	\$3.56	\$81.80	\$1.64	\$0.00	\$81.80	\$0.00	\$0.00					
2014	477	Cow	Hide House Economy 415 oz 872	500.0	500.0	0.0	124.00	\$3.17	\$392.58	\$0.79	\$392.58	\$392.58	\$392.58						
2014	478	Black	Hide House F100BLKLF Nassa Black 2.75-3.25 oz	323.5	323.5	0.0	137.50	\$3.69	\$507.25	\$1.57	\$507.25	\$507.25	\$507.25						
2014	479	Blue Grey	Brettnus, Thundercloud	59.0	59.0	0.0	28.50	\$2.41	\$68.75	\$1.17	\$68.75	\$68.75	\$68.75						
2014	480	Blue, Light	Brettnus, Ocean	69.5	69.5	0.0	30.00	\$2.29	\$68.75	\$0.99	\$68.75	\$68.75	\$68.75						
2014	481	Grey Liner	Brettnus, Carbon	59.0	59.0	0.0	25.50	\$2.70	\$68.75	\$1.17	\$68.75	\$68.75	\$68.75						
2014	482	Blue Grey	Brettnus, Thundercloud	67.0	67.0	0.0	28.50	\$2.41	\$68.75	\$1.03	\$68.75	\$68.75	\$68.75						
2014	483	Blue, Light	Brettnus, Ocean	59.5	59.5	0.0	25.50	\$2.70	\$68.75	\$1.16	\$68.75	\$68.75	\$68.75						
2014	484	Grey Liner	Brettnus, Carbon	74.5	74.5	0.0	30.00	\$2.29	\$68.75	\$0.92	\$68.75	\$68.75	\$68.75						

Expense, Leather	<i>item sold or material bought</i>	Income	<i>chant services for payments</i>
Expense, Materials	<i>Cost and is inventory controlled</i>	Personal Use	<i>Monies Received from customers</i>
Expense, Advertising	<i>Cost of materials to make the Covers and are a direct expenses, (i.e. glue, dye, thread, etc.)</i>	WA State Sales Tax Collected	<i>Items used for personal use</i>
Expense, Taxes and Licenses LLC, excise tax, etc.	<i>Website, business cards, brochures, marketing samples</i>	Refund	<i>Money given back to the customer</i>
Expense, Office	<i>Paper, folders, binders, staples, etc.</i>		
Expense Shipping	<i>Stamps, packaging, etc.</i>		
Tools & Training	<i>Most likely not deductible. Used for WA Personal Property Taxes</i>		
Expense PayPal Merchant Fee	<i>Mer -</i>		

Leather Inventory Spreadsheet:

Year *Year purchased*
 Serial No. *Sequential numbers*
 Color Family *Basic color*
 Description *Detailed description of leather supplier w/ part numbers*
 Wt. Ounces *Original physical weight*
 Current Wt. Ounces *Physical weight at inventory*
 Inventory Reduction *Remaining weight*
 "X" Deleted *Deleted (completely)*

Original sq.ft	<i>used) indicator</i> <i>Original square foot- age</i>
Cost per sq.ft. plus shipping	<i>Invoice cost divided by sq.ft.</i>
Cost per Side	<i>Cost when size was not provided</i>
Cost per ounce	<i>Invoice cost divided by Wt. Ounces</i>
Total Cost of leather remaining	
Total Cost Current Inventory	
Total Original cost	

Insurance

I work from home, so I informed my home owner insurance company of the inventory I would have in the home and they adjusted my insurance to cover it. I also added a two million dollar liability umbrella policy, which is a good idea now a days, to help with any unforeseen liability issues. I realize that the umbrella policy does not cover my business, but if liability "leaks" over into my personal liability it would help. The umbrella policy is relatively inexpensive.

Federal Taxes

Refer to IRS publications regarding a business verses a hobby to understand what items and where they are reported for your leather activities.

Schedule C of the IRS 1040 is where my business activity shows up. TurboTax® is a life savor to help calculate several items. It allows me to take information from my spreadsheets and then calculates the Cost Of Goods Sold (COGS); calculates the depreciation of my newest sewing machine; and finally double checks my math.

TurboTax® also shows previous years schedule C entries and allows me to spot areas where I may have missed something.

WA State Taxes

I am required to charge WA State Sales Tax for residents of WA. The sales tax rate varies by location in this state. To determine the amount of tax to charge requires checking the ZIP Code and address in the respective county.

Since WA State charges a personal property tax, my journal spreadsheet shows the tools where I can pick up the new personal property tools for the personal property tax.

Website

I make leather book covers for Alcoholics Anonymous Big Books. So I struggled to come up with a domain name for my website. But the answer was in the previous sentence. The name is:

www.leatherbigbookcovers.com

I discovered, in my own experience, that people don't remember domain name so they search with keywords. The keywords I think they use are: "leather big book covers". I found that very quickly that without any advertisement, or Search Engine Optimization (SEO) the www.leatherbigbookcovers.com was on the first page of all the search engines I tested (Google, Yahoo, and Bing)

I suggest you try to incorporate your specialty into your domain name. For example, if you make custom Quran leather book covers, the domain name might be:

www.Quranleatherbookcovers.com

Some other thoughts about websites:

- Get other people to link to your website
- Code your web pages with meta data the contains the words that people might search for.
- Don't get a free website. Those often contains ads that make the site look unprofessional.
- Get a domain server that has e-commerce or has php, Perl, or C programming access to build your own e-commerce.

Business Name

A simple generic name works for me. It allows me to change the kind of work I do, in case I tire of making book covers and want to make something else for a business.

Advertising

The best advertisement is **word-of-mouth**. It is hard to have when you first start, but I found that giving a simple guarantee of a 30-day return with money back with no questions asked goes along way to start to build that word-of-mouth advertising.

By making my own **business cards** it allowed me to ultimately create a foldable business card with additional pricing on the inside and back of the business card. I found

that this helps to screen out those people who are not willing to pay the price for custom leather work. A hand full of business cards go with each cover sent. My first leather cover sold over the Internet was to a town in South Carolina. One week later I received two orders from others in the same town. Each had a business card they were given by the original customer. This has be repeated many times since in different towns.

Brochures seem to work for me, but attract companies that want wholesale quantities of covers, but have declined to give a price break because each cover made from scratch and I didn't want this business to be full time.

A quite effective advertising for me has be giving **marketing gifts**. Donations to AA conventions, gifts to local AA events, and the like.

Join **leather group forums, e-mail lists, or newsletter groups** such as:

<http://leatherworker.net/content/>
<http://iilg.org>
<http://pslac.org>

Have your company name, phone number and website link as part of your **mail tag line**, like this:

Bob S.
Desert Leathercraft LLC
www.leatherbigbookcovers.com
Facebook: LeatherBigBookCovers
--
Contact Information...
Cell:
(509) 392-2589 (Robert, message service)
Address:
Desert Leathercraft LLC, 2532 Banyon St.,
Richland, WA 99352-4117
Email:
stelmack@nwlinc.com

Join some of the major social media groups such as: **Facebook, Google+, YouTube, LinkedIn, Instagram, Pinterest, Tumblr and Twitter**. See Wikipedia for a long list of speciality social groups at:

http://en.wikipedia.org/wiki/List_of_social_networking_websites

Revisions

As I run across a new "lessons learned" there will be an update this tutorial. Be sure to check the date on the first page.