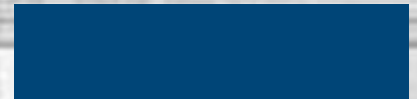




Business Planning Guide *for* **JAIL INDUSTRIES**



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Business Planning Guide for Jail Industries

Tom Quirk and Rod Miller

Preface

This guide is a companion piece to two important resources to which you will need to refer as you answer the questions posed throughout this guide:

George E. Sexton, Rod Miller, and Victor J. Jacobsen. *Operating Jail Industries: A Resource Manual*. Washington, DC: U.S. Department of Justice, Office of Justice Programs, National Institute of Justice, May 1990. This document is referred to as *A Resource Manual* in this guide.

Rod Miller, George E. Sexton, and Vic Jacobsen. *Developing a Jail Industry: A Workbook*. Washington, DC: U.S. Department of Justice, Office of Justice Programs, National Institute of Justice, October 1990. This document is referred to as *A Workbook* in this guide.

In this guide, a jail industry is defined as “any activity that rewards inmates with pay, privileges, or other benefits to create a product or service that has value for a public or private client” (*A Resource Manual*, p. 2).

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Introduction

This guide is intended to help you write a business plan for a jail industry program. The planning process will help you clarify your thinking about important aspects of the program and will allow you to develop a plan for communicating why such a program exists and its potential benefits to inmates, jail programs, and the community.

Worksheets are provided in the appendix, allowing you to literally fill in the blanks, respond to questions, and develop a business plan consistent with the guidance offered. Specific worksheets and activities are called out in italics.

A good business plan for a jail industry program addresses the following aspects:

- WHAT customers want (products and services to be offered).
- WHEN customers want it (delivery schedule).
- WHERE the products will be created or services performed (location).
- HOW MUCH customers are willing and able to pay for the products and services (price).
- HOW customers will find out that your products and services are available and be encouraged to buy them (promotion).

A good business plan:

- States WHERE you are going (specific objectives).
- Explains HOW to get there (marketing strategy).
- Identifies specific TARGET GOALS to aim for (evaluation).
- Outlines how much the plan will COST to implement (budget planning).
- Provides a means of MEASURING progress in response to the question, How well are we doing?
- Allows CORRECTIVE ACTION to be taken to control the plan.
- Enables pursuit of PROFITABILITY GOALS (Will we be able to make a profit if we implement this plan?).

Elements of a Business Plan

Executive Summary

An executive summary is a 2–3 page description of the jail industry program you plan to implement. The summary should describe the specific activities you will engage in, the products and services you will provide, the types of customers you would like to attract, a marketing strategy for attracting customers, the place where work will be performed, a pricing strategy to make your products and services competitive, and key financial data that will help readers understand the financial impact of the plan.

See Worksheet 1–1: Write the executive summary for your business plan.

Mission Statement

A mission statement is a 25-words-or-less summary of the purpose of your jail industry program. It should concisely state reasons why the program exists.

See Worksheet 1–2: What is the mission statement for your jail industry program?

Competitive Analysis

Unless you provide a unique product or service (an unlikely possibility), it is probable that potential customers already buy the products and services from competing businesses. An analysis of these competitors can help you identify any advantage your products and services have over theirs, and you can use this information to persuade potential customers to buy from your program.

Many jail industry programs attempt to *avoid* competition with all local businesses. Their competitive analyses seek to identify products and services that are not provided locally (within the county) or sometimes even within the state. Because jails are operated by local units of government, under the direction of elected officials, most jails find that political expediency demands deference to local businesses.

One way to begin a competitive analysis is to scan the local telephone directory's Yellow Pages for competitors. Then plot competitors' locations on a map to determine which ones are within 25 miles of your program, as you will likely want to concentrate initial customer recruitment efforts on businesses located near you.

Call competitors to request brochures and catalogues that you can use to analyze their products and services, target customers, and determine promotions and pricing structure. In studying competitors, you should attempt to answer the following questions:

- What are each competitor's business objectives?
- What is each competitor's business strategy?
- What market segment is each competitor attempting to serve?
- What is the likely future business strategy of each competitor?
- What pricing structure is each competitor using?
- What type of advertising (Yellow Pages, newspaper, magazine, radio, television, billboard) is each competitor using?
- What promotion tactics is each competitor using?

A study of local newspapers (dailies, weeklies, and monthlies) and magazines will provide you with examples of advertising used by each competitor. This information is extremely valuable in understanding competitors' business strategies.

The following questions will help guide your analysis of the competition:

- What are the strengths of each competitor (number of years in business, customer loyalty, lower prices, convenient location, reliable delivery, and so forth)?
- What are the weaknesses of each competitor (higher prices, unreliable delivery history, dissatisfied customers, inconvenient location, and so forth)?
- What are the competitive advantages that distinguish each competitor from the others (sales promotion tactics, higher quality products, quantity discounts for large purchase orders, and so forth)?

See Worksheet 1–3: Summarize the findings of your competitive analysis.

Potential Opposition

Opposition to your jail industry program may come from within the program itself (inmates, custodial staff, and supervisory staff), from those within the jail not involved with the program (other inmates, correctional officers, and administrators), from the county government structure, and from the local community (local businesses and labor unions). The first step toward defusing potential objections is to identify all possible sources of opposition and to anticipate the concerns of each group. (*A Resource Manual*, pp. 6–8; *A Workbook*, p. 17.)

See Worksheet 1–4: List potential opponents and potential issues and concerns.

Advisory Board

A broadly based advisory board can be an important asset to a jail industry program. Although meeting with this board may be time consuming, the time spent with its members will save you countless hours of correcting mistakes made while trying to manage a jail industry program without first consulting with important constituents about various aspects of the program.

Having such a board follows two important management principles:

- People are more likely to support programs they help create.
- Potential opponents can become supporters if they have meaningful opportunities to shape the program. (*A Resource Manual*, p. 15; *A Workbook*, pp. 28–29.)

See Worksheet 1–5: List the names of the advisory board members.

For the advisory board to be effective, you will need to establish its authority and responsibilities in writing.

See Worksheet 1–5: What are the authority and the responsibilities of advisory board members?

Business Planning Objectives

To determine the objectives of your business plan, you must answer two questions: Where are we going? and What are we trying to accomplish? The objectives should be realistic and achievable—or you risk promising more than you can deliver and jeopardizing the program’s future. Objectives should be measurable and evaluated whenever possible, as they can be the basis for continuing the program. Avoid the phrase “high profits” because you will not know if your program can be profitable until you gain some experience with customers, inmates, supervisory staff, and available budgets.

Specific objectives vary from program to program, but you may find the samples below helpful when setting your objectives:

- Fulfilling customer needs in the following areas
- Serving the following markets
- Exploiting a major competitor’s weakness in the area of
- Increasing dollar sales to existing customers by
- Building the customer base to X customers by date X.
- Filling a market void caused by a change in customer attitudes toward

Note that your objectives can relate to inmates, the jail, customers, and the community. (*A Workbook*, pp. 13–32; *A Resource Manual*, pp. 4, 8–9.)

See Worksheet 1–6: List the specific goals and objectives for your jail industry program.

Benefits to the County

Many counties have realized great benefits from jail industry programs, such as reducing inmate idleness, relieving inmate crowding, and providing positive publicity for the jail industry programs. (*A Workbook*, pp. 3–4.)

See Worksheet 1–7: Determine the benefits and beneficiaries of your jail industry program.

Target Market Selection

Potential customers for your products and services can come from the public, nonprofit, or private sectors. You must decide if you will be selling your products and services to any, or all, of these markets.

The first step in identifying a market is to determine if any legal constraints affect your provision of products and services to these possible customers.

See Worksheet 1–8: List city, state, or federal regulations that prohibit selling to certain customers.

Next, you need to answer the following questions:

- Who is likely to buy each product and service offered?
- In what quantity will they buy?
- How often will they buy?
- What price are they likely to pay?
- What will be the delivery requirements?
- Will competitors react when we enter the marketplace? How will they react?

See Worksheet 1–8: What criteria will you use for selecting and recruiting potential customers? List contacts you plan to recruit as your first customers.

Business Strategy and Marketing Mix

The business strategy attempts to answer the following question: Now that we know where we are going (our objectives), how do we get there? The marketing mix defines the products and services offered, the place where they will be created or provided, the promotion strategy, and the pricing strategy. The marketing mix must appeal to the target market segments you hope will buy your products and services. In other words, you are attempting to answer the following questions:

- Which products and services do our potential customers want to buy?
- Where do we need to manufacture these products or provide these services to satisfy our targeted customers?
- What promotion strategy will attract potential customers to buy our products and services?
- What pricing strategy is likely to succeed in attracting potential customers to buy from us initially and in encouraging them to continue buying from us in the future?

A business strategy summarizes your plan for developing a competitive advantage with the particular products and services you offer, the place they are provided or created, the price at which they are offered, the ontime delivery record, and their overall quality.

See Worksheet 1–9: State your business strategy in 25 words or less.

Products and Services Offered

Selection of specific products and services that you plan to offer should be guided by the following questions:

- Are some potential customers dissatisfied with their current suppliers?
- Are some products and services priced too high by competitors?
- Are shipping costs too high for some customers?
- Should we use advertisements in local newspapers and magazines to ask potential customers to identify themselves and suggest products and services they need?
- What is the minimum number of units of each product that we can realistically expect to sell each month?
- What should be our tentative selling price per unit?
- What basic manufacturing operations are required?
- What are the minimum space requirements for production?
- What are the sources for raw materials and their prices?

- What are the equipment needs and costs?
- What other space requirements are needed, for example, office, restrooms, raw materials storage, storage of finished goods? (*A Workbook*, pp. 10, 51; *A Resource Manual*, pp. 5, 54–56, 75–77.)

See Worksheet 1–10: List the products and services that you would like to provide to potential customers.

The next step is to reduce the list of possible products and services to a number that you can realistically create and deliver, both on time and of sufficient quality to encourage repeat purchases.

Using specific criteria will help you reduce the list of possible products and services to a more manageable size; for example, annual sales potential, ease of production, equipment needs, startup capital required, space needs, security hazards, health and safety risks, and inmate skills required. (*A Workbook*, pp. 63–64; *A Resource Manual*, pp. 56–57.)

See Worksheet 1–10: List the screening criteria you will use to reduce the list of possible products and services to a manageable size.

The final step is to select the specific products and services you plan to offer the target market.

See Worksheet 1–10: Select the specific products and services.

Location Decisions

Location decisions include determining which products will be created or which services will be provided, the physical layout of the production area, the production schedule for the inmate shifts, locations for quality control inspections, storage and shipping of finished goods, and the incorporation of overall health and safety considerations. (*A Workbook*, p. 65.)

See Worksheet 1–11: Determine which products will be created or which services will be provided within the jail perimeter, outside the jail perimeter but close by, or away from the jail site.

Pricing Strategy

The pricing strategy must relate to the pricing objectives identified in the business strategy. Below are some possible pricing objectives:

- Match prices set by competitors.
- Set prices *X* percent below competitors to obtain a price differential advantage for your products and services.
- Set prices to obtain annual revenue of at least \$*X*.

- Set prices that would allow an operating profit margin of at least \$X.
- Set prices that earn a 10-percent return at the end of the first year of operations, based on our initial investment of \$X.
- Set prices at our production cost plus a markup of X percent.
- Set prices that allow for a reaction from our competitors to our entry into the marketplace. (Remember: Competitors are not passive players in the business arena; they have their own strategies and are not likely to ignore your appearance as a competitor.)

See Worksheet 1–12: List your pricing objectives.

When you have established your pricing objectives, you can set the price for each product and service accordingly.

See Worksheet 1–12: Fill in the chart to set the prices you intend to charge customers for each product and service you offer.

In pricing a service, you must find the multiplier before setting the price. For example, if you divide an annual sales projection (e.g., \$100,000) by the total labor cost (e.g., \$20,000), this gives you a multiplier of 5. If the job takes 2 hours to complete, and your labor rate is \$4 per hour, you should multiply the total labor cost for this job (\$8) by the multiplier (5) to get a customer price of \$40. The final step is to add the cost of raw materials needed for production to the \$40 total to find the final selling price for the customer.

There are other ways to determine a multiplier. You will need to select a method that allows you to achieve your operating and profit objectives for 1 year.

Promotion

Promotion is the act of telling potential customers about your products and services and persuading customers to buy from you instead of buying from competitors. Promotion includes advertising, personal selling, sales promotion activities, and publicity.

The first step in developing a strategy is to determine the promotion objectives for your products and services. What ideas do you want to communicate to potential customers about your offerings? Below are some sample objectives to consider:

- Inform our target customers that a new jail industry program is open for business.
- Build a positive image of our jail industry program in the local community.

- Introduce specific products and services to target customers.
- Reduce seasonal sales fluctuations through special promotions during months when sales are expected to be slow.

See Worksheet 1–13: List the promotion objectives for your jail industry program.

Based on your promotion objectives, you will need to develop a promotion budget to accomplish these objectives. You will also need to develop a plan for the promotional mix: the blend of advertising, personal selling, sales promotion activities, and publicity that you plan to use in your business plan.

Developing a media plan, for example, will involve answering the following types of questions:

- Should we use a direct mail campaign? If so, which target customers should we pursue? What should we include in our cover letter and brochures to show how we will meet their needs and expectations?
- Should we advertise in local newspapers? Which ones (daily, weekly, and/or monthly suburban newspapers)? What should we stress in our ads (customer benefits, price, products and services, and so forth)? Should we use introductory ads that invite potential customers to identify themselves as sales leads so we can focus our initial efforts on them? Will there be an advertising theme or slogan in every ad?
- Should we advertise in the Yellow Pages of the local telephone directory? If so, what type of ad should we use? What will be the format of the ad (the layout and words we use to communicate our product and service offerings and customer benefits)? If we have a competitive advantage over our competitors, can we stress it in ads?
- Should we advertise on local radio stations? If so, to which ones are our potential customers most likely to listen? At what times of the day? What benefits will we stress in our ads?
- Should we advertise in local magazines? If so, which ones? How often should we run our ads?
- What time schedule and budget should we set for this aspect of our business plan?

The most effective form of advertising for your program probably will be word of mouth from current and former customers. You need to be constantly alert for opportunities to encourage satisfied customers to recommend your products and services to their friends, family, and business associates. This form of advertising costs nothing, and it is likely to be the best source of new customers. Many jails have found that members of their advisory boards are their best sources of promotion.

See Worksheet 1–13: In the chart, list the places you plan to advertise, the cost per ad insertion, the frequency of the ads planned, and the budget needed to complete this media plan.

Publicity is also important for your jail industry program. You should ask yourself the following:

- What type of publicity should we try to create for the program?
- Since this type of advertising costs nothing, are there any special events that we can use to encourage publicity?
- Should we hold a press conference to announce the opening of our jail industry program?
- Should we send a press release announcing our program to local newspapers and magazines?
- Should we send a press release announcing new promotions or hires for our program to local newspapers or magazines?
- Should we write an article for a local business magazine describing our program?

See Worksheet 1–13: List in your marketing plan the proposed publicity activities.

An additional aspect of the promotion strategy is planning the special sales promotion activities you will use to promote the program. A sales promotion is any activity used to stimulate sales. Ask yourself the following:

- What types of sales promotion activities should we use?
- When should we schedule these activities?
- How much will these activities cost?
- Should we give introductory price discounts to new customers who sign a contract with us during the first 3 months we are open for business?
- Should we offer tours of our facilities to potential customers so they can see firsthand how our program operates?

See Worksheet 1–13: List the sales promotion activities you plan to use during the first year of your program.

Organizational Chart

An organizational chart identifies the jail industry program's management team and answers the basic question, Who reports to whom and for what? It should list important job titles and the structural relationships among the managers, supervisors, and inmates in the program. (*A Resource Manual*, pp. 257–260; *A Workbook*, p. 56.)

See Worksheet 1–14: Draw an organizational chart for your jail industry program. List the areas of responsibility for the managers and supervisors in your jail industry program.

In planning your management team, carefully consider the potential resources available in your local community—especially those that can be provided by volunteers at no cost. The following are possible outside resources (*A Resource Manual*, pp. 9–16 and appendix 1–1):

- Retired business executives.
- Service Corps of Retired Executives.
- Private industry councils.
- The local Chamber of Commerce.
- Small Business Administration.

See Worksheet 1–14: Fill in the chart by listing outside resources you plan to include in your program.

The entire management team—managers, supervisors, and inmates—will need training to ensure not only productivity but also personal safety. All staff, both paid and volunteer, must be trained in safety practices and fully conversant in program policies and procedures. Staff will need training in both proper correctional supervision techniques within a jail and technical production methods. Local agency trainers are the best source for security and custody training, and business managers and educators are the best source for technical production training.

See Worksheet 1–14: Describe the training schedule and programs you plan to use to orient your staff and inmates to their responsibilities in the program.

Budgets

Budgets, for both expected revenue and expenses, are essential ingredients in a successful jail industry program.

A projected revenue budget can demonstrate the ability of the program to pay for itself or to generate revenue that can be used by other jail programs. If a bank is sought out for startup funds, such a budget can assist bank personnel in recognizing the financial viability of the program and potential loan risks. (*A Workbook*, p. 69; *A Resource Manual*, p. 232.)

See Worksheet 1–15: Fill in the chart to prepare a revenue projection for the number of units to be sold by the program.

Convert the revenue projection chart to dollar revenue by multiplying the number of units sold by the average sale price of one unit.

See Worksheet 1–15: Fill in the chart to prepare a sales revenue projection for the program.

A similar set of projections needs to be made for each major budget expense, such as the cost of raw materials, labor, supervisory salaries, administrative salaries, supplies, telephone, equipment, and maintenance. Program startup costs, especially capital equipment expenditures, also need to be included in the first year’s projections. (*A Workbook*, p. 69; *A Resource Manual*, p. 233.)

See Worksheet 1–15: Fill in the chart to project the operating expenses of the jail industry program.

Once you have prepared revenue and expense projections for the program, you can graph the relationship between income and expenses. (*A Resource Manual*, p. 234.)

See Worksheet 1–15: Show the relationship between revenue and expenses.

Break-Even Point

The point at which revenue matches expenses is the point at which you break even. Obviously, if you price your products and services so that you do better than break even, the program will be more attractive to individuals whose support you need for its launch and continued operation.

Thus, a break-even analysis is an excellent way to test your pricing strategy and determine whether your business (i.e., the jail industry program) is financially viable. The mathematical formula for the break-even point (BEP) is:

$$\begin{array}{l} \text{Break-even point} \\ \text{(number of units} \\ \text{that must be sold)} \end{array} = \frac{\text{Total fixed costs}}{\text{Average contribution} \\ \text{margin per unit sold}}$$

Total fixed cost (TFC) is found by adding the costs that you must pay whether you sell a single product or service unit or not (e.g., rent, insurance, administrative salaries, supervisory salaries, telephone, and postage).

The contribution margin per unit (CMU) sold is found by subtracting the average variable costs associated with producing one unit (VCU) from the average selling price of one unit (SPU). For one unit of a manufactured product, for example, the variable costs would include the raw materials and labor costs needed to produce that unit. The formula for CMU, therefore, is

$$\text{CMU} = \text{SPU} - \text{VCU}$$

For example, suppose that you have only one product to sell to customers. If SPU = \$35 and VCU = \$20, then CMU = \$15.

Continuing this example, if the TFC of operating your jail industry program for 1 year is \$100,000, then the number of units that you need to sell to break even is

$$\text{BEP} = \frac{\text{TFC}}{\text{CMU}}$$
$$6,667 \text{ units} = \frac{\$100,000}{\$15}$$

Be alert to how sensitive BEP is to changes in your sale price. For example, suppose that you change your SPU from \$35 to \$30. If all other costs remain the same, what is the new BEP? (Answer: 10,000 units.)

Suppose that you change your SPU from \$35 to \$40. If all other costs remain the same, what is the new BEP? (Answer: 5,000 units.)

Note how this \$10 change in the customer sale price changes the BEP from 5,000 units of product to 10,000 units. This is an enormous difference in sales effort, and it can have a major impact on profitability.

An additional accounting principle worth mentioning is that once you pass BEP in sales, you can afford to negotiate lower prices with some customers, based on special job orders, because you will have already earned a profit for the business. (See *A Resource Manual*, p. 235, for a graph of the relationship between TFC and BEP for business revenue and expenditures. The point at which the revenue line and the expenses line cross is the BEP. Note that it is about 800 units on this graph.)

Profit-and-Loss Statement

A profit-and-loss statement (P&L) shows how well the jail industry program is performing financially. A hypothetical statement is shown below:

		Percentage of Sales
Sales revenue	\$100,000	100%
Variable costs (raw materials, inmate labor)	30,000	30%
Gross margin (subtract the above two lines)	70,000	70%
Fixed costs (rent, insurance, phone, and so forth)	50,000	50%
Operating profit (subtract the above two lines)	20,000	20%

Note that we have converted the dollar amounts to the percentage of sales that each line represents. This information can be useful at the end of the fiscal year for monitoring changes that affected the jail industry's profitability. These data are known as operating ratios and are defined as follows:

$$\text{Gross margin ratio} = \frac{\text{Gross margin}}{\text{Sales revenue}}$$

$$\text{Variable costs ratio} = \frac{\text{Variable costs}}{\text{Sales revenue}}$$

$$\text{Fixed costs ratio} = \frac{\text{Fixed costs}}{\text{Sales revenue}}$$

$$\text{Operating profit ratio} = \frac{\text{Operating profit}}{\text{Sales revenue}}$$

It is desirable to prepare a P&L statement each month for each product or service that you sell so you can determine which products and services are profitable over time. This statement considers each product and service as a profit center by itself. The P&L statement for the entire jail industry program is, therefore, the sum of the individual P&L statements for each product and service in your product line.

See Worksheet 1–16: Fill in the revenue, costs, and operating profit projections for your jail industry program for the next 3 years of operation.

Balance Sheet

A balance sheet is a snapshot of the program on any given day, used to determine its assets and liabilities and equity. (See *A Resource Manual*, appendix 5–2, pp. 5–7, for an example.)

A balance sheet for a jail industry program might look like the following:

Assets

Cash on hand or in the bank.
Outstanding accounts receivable (less an allowance for accounts that you do not expect to be paid).
Inventories (the value of raw materials on hand, work-in-progress, and finished goods available for sale).
Buildings (less accumulated depreciation).
Equipment (less accumulated depreciation).

Total assets

Liabilities and Equity

Accounts payable.
Accrued salaries and benefits.
Accrued other expenses.
Notes payable.
Retained earnings.

Total liabilities and equity

A balance sheet should be prepared each month, and an annual summary should be prepared at the end of your fiscal year.

Cash Flow Chart

Cash flow is important in any business. If you do not have sufficient cash on hand to pay employees and creditors, the chance of remaining in business (not to mention getting promoted) is somewhere between slim and none. Before a single dollar of revenue arrives, the jail industry director must spend money for equipment, raw materials, staff and supervisory wages, utilities, and so forth. Cash flow problems arise because of the time lag between product production and payment from customers who have been billed. The chart below presents a sample cash flow chart.

The management of accounts receivable (i.e., ensuring prompt payment for products shipped or services rendered) can make or break your industry program. Second and third invoice notices, phone calls, letters, and personal visits can help make sure you have sufficient cash on hand to remain in business—an important responsibility. A monthly cash flow projection is needed for at least the first year of the program’s operation so you can track deviations from the plan and anticipate the need to borrow additional funds, as necessary. (*A Resource Manual*, pp. 228–231 and appendix 5–2, pp. 5–7.)

See Worksheet 1–17: Fill in the cash flow chart.

A sample cash flow chart might look like this:

Item	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Beginning cash balance	\$5,000					
Add: Cash receipts expected from customers	6,000					
Less: Cash disbursements for accounts payable, operating expenses, and so forth	4,000					
Net cash from operations	7,000					
Less: Purchase of assets (equipment, computers, buildings, and so forth)	1,000					
Add: Cash contributed by jail to operating budget	2,000					
Less: Cash used to repay short-term loans (due within the next year)	1,500					
Less: Cash used to repay long-term loans (not due to mature within the year)	2,000					
Ending cash balance	\$4,500					

Controlling the Business Plan

You can use a variety of control procedures to determine the effectiveness and efficiency of your jail industry program. Effectiveness refers to goals, without considering the costs necessary to attain them (goals take into account total customers served, total sales revenues, rate of repeat purchases, and the number of documented complaints). Efficiency focuses on the use of program resources associated with each product and service offered, its profitability, and the overall profitability of the business (costs include specific operating expenses, raw materials, wages, and supervisory salaries).

The use of a P&L statement (as discussed earlier) is one control procedure that is essential to sound business management. Prepared monthly, this statement allows you to compare budgeted revenue and expenses against actual revenue and expenses and determine where your actual performance differs from projections. Careful monitoring of P&L statements will provide important feedback about the success or failure of your program.

It is essential that you compute the financial ratios (gross margin ratio, operating profit ratio, variable costs ratio, fixed costs ratio) previously described. These ratios will show you where expenses exceed those planned, enabling you to take steps to more effectively control them. These ratios can assist you in answering important questions each month, such as the following:

- Is revenue less than we budgeted? If so, what can we do to attract more customers? To increase sales among current customers? To add new products and services? To increase our advertising and sales promotion activities?
- Are variable costs greater than we budgeted? If so, how can we obtain raw materials at a lower cost? Can inmate workers become more productive, thus reducing our labor costs?
- Are fixed costs ratios greater than we budgeted? If so, how can we reduce our operating expenses?
- Are our competitors doing anything that negatively affects our sales? Should we do what they are doing? How can we become more competitive and attract new customers? How can we increase sales to current customers?

One way to do a more detailed analysis of your performance is to prepare a monthly P&L statement for each product and service you offer. This allows you to track the revenue and expenses associated with every product and service to determine which are profitable and which are not.

In similar fashion, your monthly balance sheets, accounts receivable collection report, and inventory control reports (raw materials, work-in-progress, finished goods) allow you to see how the business is performing financially. A careful study of these reports will give you ideas about how to improve profitability by increasing revenue and reducing expenses.

Evaluating the Business Plan

Evaluation is essential to a business plan for a jail industry program because such programs are considered optional by some managers. In addition, a jail industry program must perform satisfactorily in the eyes of those responsible for jail security, as well as those interested in the program's business performance. Operating a secure facility is very different from running a business, but both activities must be performed at a satisfactory level if the jail industry program is to continue.

Writing down your objectives for the program is essential, not only to communicate what the program intends to accomplish but also to enable program evaluation. Clear, measurable objectives make determining program success easier.

An evaluation plan should include the questions to be asked, identify who is responsible for answering each question, and set deadlines for collecting the information and writing the reports. (*A Workbook*, p. 68; *A Resource Manual*, pp. 85–91, 265–266.)

See Worksheet 3–1: Determine the evaluation plan that you will be using.

Obtaining Startup Funds

If you are preparing to begin a jail industry program for the first time, you will need to obtain funds for expenses incurred before you sell a single unit of your products. Expenses for raw materials, supervisory salaries, utilities, telephone, rent, and so forth must be paid even though you are merely preparing to sell products and services to potential customers. If you need to purchase and use any special equipment or tools in your production process, those costs can require a substantial amount of capital.

The following potential funding sources are available for launching or expanding a jail industry program. (*A Workbook*, pp. 52, 70–71.)

- The jail budget.
- County funds.
- State funds.
- Federal funds for pilot programs (U.S. Department of Justice).
- Private banks (loan or line of credit).
- Private industry council.

See Worksheet 4–1: In the chart, outline your plan to obtain the startup funds.

Pilot Study

If you are planning a jail industry program for the first time, it is helpful to plan a pilot program to obtain experience in managing the details that will make the program successful. A pilot study includes all jail industry program activities, but on a scale small enough to learn how the program needs to be modified before assuming the more difficult task of managing larger groups of inmates under more demanding production schedules.

Working with one or two customers and a small group of inmates and supervisors will provide feedback about the production process, efficient security checks, orientation and training of both inmates and supervisors, and tracking financial performance. It will also give all parties the opportunity to become more comfortable with the overall concept of jail industries. (*A Workbook*, p. 80.)

See Worksheet 5-1: Describe the type of pilot study you will carry out.

Expanding to Full Operations

The final step in implementing your business plan is to expand the pilot project into a full-blown jail industry program, using the number of inmates necessary to meet customer demand for your products and services. Do not be surprised if you need to change the proposed business plan. A plan is merely a guide to help you to accomplish your goals and objectives and, as such, it will be incomplete and in need of modification as you learn what does and does not work. (*A Workbook*, pp. 81–82.)

See Worksheet 6–1: Complete the chart to plan the implementation of your full-scale jail industry program.

Production Scheduling

The next step is to establish a production schedule for the manufacturing or service operation within the jail's security constraints. The production schedule should take into account the following:

- Customer demand for the product.
- Equipment capacity of your available space.
- Availability of inmate labor hours.
- Availability of raw materials.
- Number of units that can be produced each day.
- Storage space required for finished goods before shipping.
- Likely need to rework defective units before storage.
- Quality control requirements throughout the production process.
- Availability of inmates to work overtime hours.
- Production flow constraints. (*A Workbook*, pp. 6–32, 74–84, appendix 6–9A, and appendix 6–9B.)

See Worksheet 7–1: If you will be using a manufacturing production process, draw a diagram of the production layout.

Worksheets

WORKSHEET 1–8 Target Market Selection

1. List city, state, or federal regulations that prohibit selling to certain customers.

2. What criteria will you use for selecting and recruiting potential customers (e.g., location, no bidding process for purchases, nonthreatening to unions)?

3. List contacts you plan to recruit as your first customers.

WORKSHEET 1–10 Products and Services Offered

1. List the products and services that you would like to provide to potential customers (e.g., assembly of electronic parts, painting, bakery goods, parks maintenance).

2. List the screening criteria you will use to reduce the list of possible products and services to a manageable size.

3. Select the specific products and services.

Products and services	Target market

WORKSHEET 1–13 Promotion

1. List the promotion objectives for your jail industry program.

2. In the chart, list the places you plan to advertise, the cost per ad insertion, the frequency of the ads planned, and the budget needed to complete this media plan.

Places to advertise our jail industry program	Cost per ad insertion	Frequency of ads planned	Budget needed for each type of ad

3. List in your marketing plan the proposed publicity activities.

4. List the sales promotion activities you plan to use during the first year of your program.

WORKSHEET 1–15 Budgets

1. Fill in the chart to prepare a revenue projection for the number of units to be sold by the program.

Unit Sales Projections					
Products and services	Year (units sold)				
	1	2	3	4	5

2. Fill in the chart to prepare a sales revenue projection for the program.

Revenue Projections					
Products and services	Year (units sold)				
	1	2	3	4	5
Total					

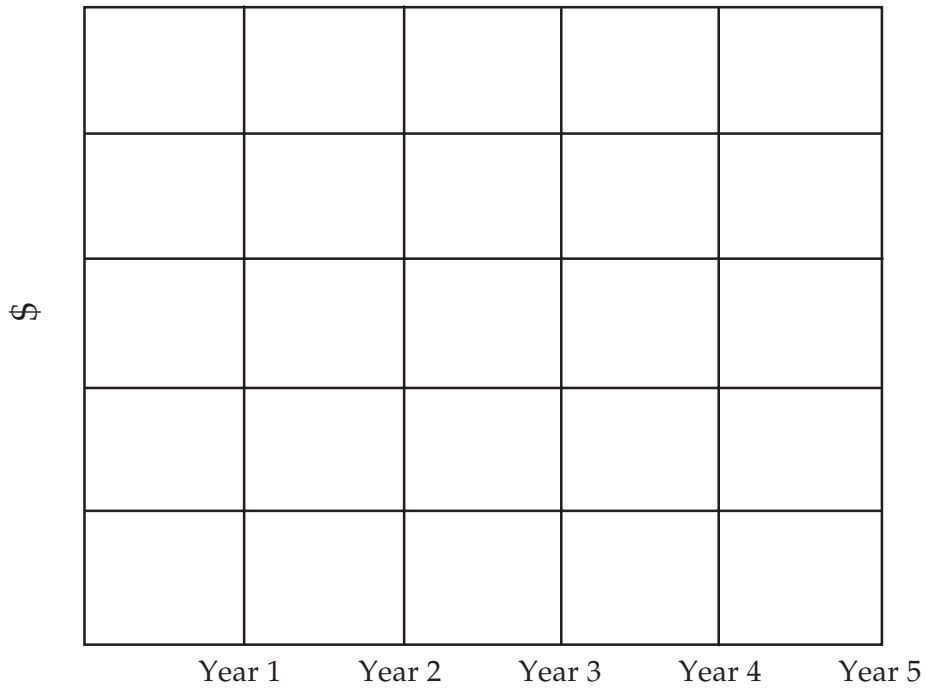
WORKSHEET 1–15 Budgets (continued)

3. Fill in the chart to project the operating expenses of the jail industry program (you will need to adapt these expense items to fit the special requirements of your jail industry program).

Expenses Projections					
Expense item:	Year				
	1	2	3	4	5
Staff salaries					
Inmate wages					
Administrative salaries					
Sales commissions					
Advertising expenses					
Publicity expenses					
Sales promotion expenses					
Insurance costs					
Raw materials					
Equipment					
Shipping costs (in and out)					
Tools					
Repairs and maintenance					
Depreciation of equipment					
Supplies					
Postage					
Utilities					
Rent					
Interest expenses (bank loans)					
Benefits (Social Security taxes, dental plans, and so forth)					
Telephone					
Miscellaneous					
Total expenses					

WORKSHEET 1–15 Budgets (continued)

4. Show the relationship between revenue and expenses on the graph below. (To make a profit, the revenue line must be above the expense line.)



WORKSHEET 1-16 Profit-and-Loss Statement

Fill in the revenue, costs, and operating profit projections for your jail industry program for the next 3 years of operation.

	Year 1		Year 2		Year 3	
	Dollars	Percentage of sales	Dollars	Percentage of sales	Dollars	Percentage of sales
Sales revenue						
Variable costs (raw materials, inmate labor)						
Gross margin (subtract the above two lines)						
Fixed costs (rent, insurance, phone, and so forth)						
Operating profit (subtract the above two lines)						

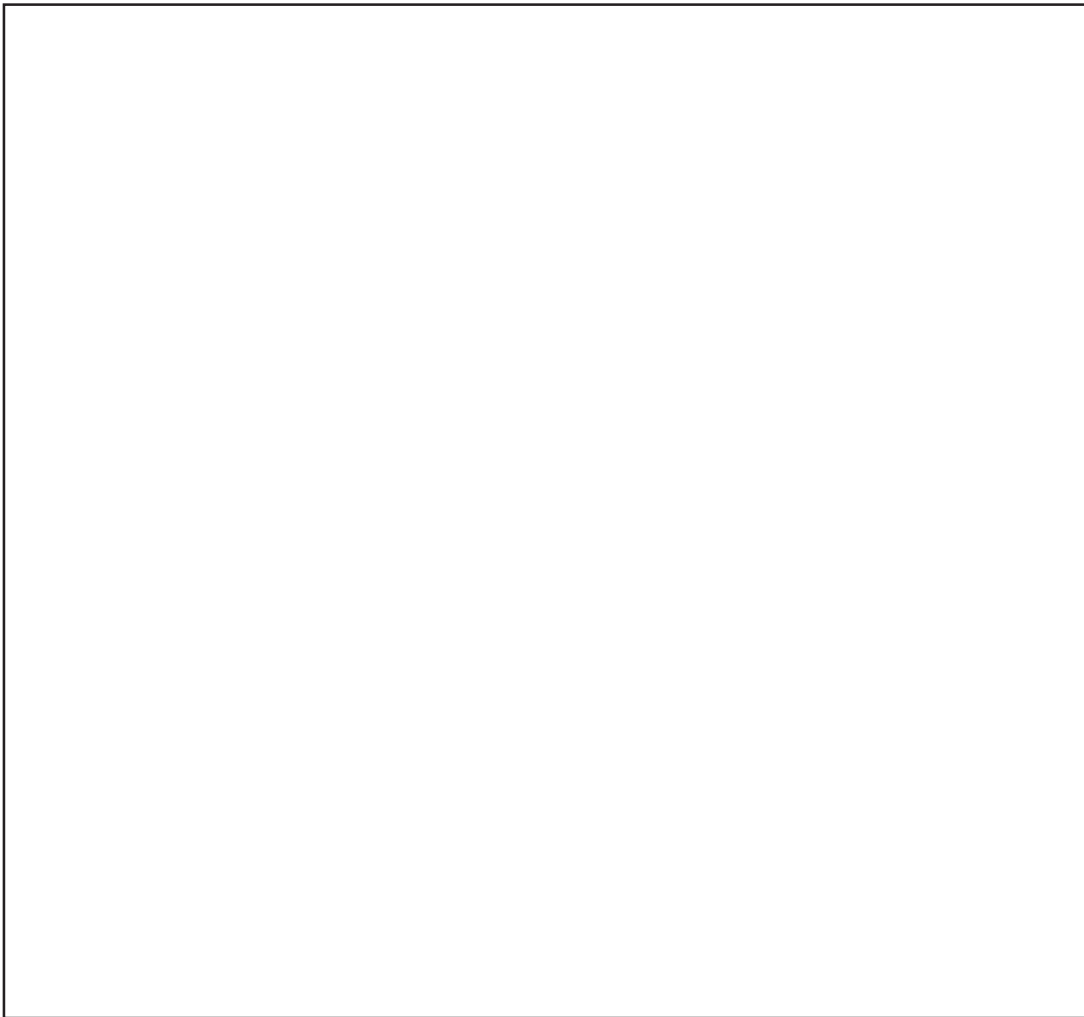
WORKSHEET 1-17 Cash Flow Chart

Fill in the cash flow chart.

Item	Month of Operation												
	1	2	3	4	5	6	7	8	9	10	11	12	
Beginning cash balance													
Add: Cash receipts expected from customers													
Less: Cash disbursements for accounts payable, operating expenses, and so forth													
Net cash from operations													
Less: Purchase of assets (equipment, computers, buildings, and so forth)													
Add: Cash contributed by jail to operating budget													
Less: Cash used to repay short-term loans (due within the next year)													
Less: Cash used to repay long-term loans (not due to mature within the year)													
Ending cash balance													

WORKSHEET 7-1 Production Scheduling

If you will be using a manufacturing production process, draw a diagram of the production layout (include workstations).



Production Layout

Sources for Further Information

For more information on jail industries programs, contact:

National Institute of Corrections

1860 Industrial Circle, Suite A

Longmont, CO 80501

1-800-877-1461

World Wide Web: www.nicic.org

Bureau of Justice Assistance

810 Seventh Street NW.

Washington, DC 20531

202-514-6278

World Wide Web: www.ojp.usdoj.gov/BJA

Bureau of Justice Assistance Clearinghouse

P.O. Box 6000

Rockville, MD 20849-6000

1-800-688-4252

World Wide Web: www.ncjrs.org

Bureau of Justice Assistance Information

For information about BJA, its programs, and its funding opportunities, requesters can call the BJA Clearinghouse. The BJA Clearinghouse, a component of the National Criminal Justice Reference Service (NCJRS), shares BJA program information with state and local agencies and community groups across the country. Information specialists are available to provide reference and referral services, publication distribution, participation and support for conferences, and other networking and outreach activities. The Clearinghouse can be reached by:

- Mail**
P.O. Box 6000
Rockville, MD 20849-6000
- Visit**
2277 Research Boulevard
Rockville, MD 20850
- Telephone**
1-800-688-4252
Monday through Friday
8:30 a.m. to 7 p.m.
eastern time
- Fax**
301-519-5212
- BJA Home Page**
www.ojp.usdoj.gov/BJA
- NCJRS Home Page**
www.ncjrs.org
- E-mail**
askncjrs@ncjrs.org
- JUSTINFO Newsletter**
E-mail to listproc@ncjrs.org
Leave the subject line blank
In the body of the message,
type:
subscribe justinfo
[your name]

