

Administrative Strategies for Small Woodwork Business: Puertas y Diseños

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Abstract — *Puertas y Diseños* is a woodwork business that has recently suffered financially from the deficiency of business. This paper presents the study of such woodwork business in order to provide alternatives to improve profitability. The objective was overview all alternatives to increase 10% of the business profits by 2015. The steps to achieve the objective were: analyze the actual functionality of the *Puertas y Diseños*, research many studies made for businesses with similar situations, and provide many alternatives to help increase profitability. The study concluded that the proper alternatives to increase profits for *Puertas y Diseños* are the recycling of materials, saving 2% in costs, and establishing the owner an annual salary \$36,000. Using these alternatives at the end of the period August 2014-15, the business will gain an equivalent of 9.7% of yearly profits that is \$3,724.

Key Terms — *Business Administration; Cost Control; Small Business; Woodwork.*

INTRODUCTION

To build a successful business, it is essential to understand the basics of business administration. Before starting a company as a sole proprietor, it is important to define the structure that better suits the business purposes. Some owners fail to maintain their businesses from many factors, mainly from the lack of business knowledge. This paper focuses in the study of a small woodwork business known as *Puertas y Diseños*. This business currently has many upscale customers and large demands in high season, but in some periods suffers deficits. To understand where small businesses lack, this paper will evaluate *Puertas y Diseños* and provide the necessary strategies to maintain a woodwork business. This

can help guide many other businesses with similar situations in order to better profit and maintain a solid business.

LITERATURE REVIEW

The small woodwork business of *Puertas y Diseños* has been struggling financially due to the limited business comprehension by the administration. As part of the development of this project, a research on the relevant topics was elaborated to help improve revenues in such company. The topics that were considered were cost management and small business management.

Small Woodwork Businesses

A small business is an entity where sometimes the owner controls and manages the administrative, production, and financial departments. For this type of business structure, the owners are financially responsible with their assets and investments. A common small business is the fabrication of woodwork products, like *Puertas y Diseños*.

Currently, woodwork companies are facing competitive pressure from its high demands [1]. Woodwork products are being manufactured by new regions and substituted by products from competitive big industries [1]. This is why small business must work in an effective and efficient manner to maintain customers.

Business Administration

Creating a business is accessible for sole owners, but in the administrative aspect can be complex. It involves establishing an organizational structure, investments, and understanding the basics of business concepts. Some sole proprietors manage their businesses individually and can detriment the

organization. This can occur by the little or no knowledge in business management that the owner has [2].

The authors Chan and Chao [2] developed a survey for sixty-eight (68) small businesses in Hong Kong. It was designed to understand the management knowledge the organizations. It was found that most companies had little knowledge in the area of management. When businesses experience these types of disadvantages, it can create a ripple effect on other parts of the company like cost control.

Cost Management

It is important for a company to determine the precise cost of a product. Cost control is the key factor for competitive business. Small businesses must adapt the concept in order to reduce costs as well as establish cost control systems [3]. The most common problems of cost management are the following:

- Limited business knowledge
- Fail to analyze cost changes
- Considering reducing cost by waste reduction
- The lack of cost control system

As mentioned in the section of Business Administration, small business owners with low-education level are limited in keeping a business afloat. Many companies have difficulty understanding cost control concepts, which can result in poor cost calculations. It can be troublesome because of the danger the business faces in the preparedness of periods of instability.

Strategies for a Successful Business

In the administration aspect, some papers establish strategies in order to improve the small business. The authors Howe and Bratkovich [1] provide a guide to help businesses with a formal operation plan, financial plan, and organizational plan. With this guide, small business owners can self-educate in management knowledge. A research study [2] provides an alternative in the combination of management support, technology, and organizational structure balance. It also provides

some specific recommendations that will guide a small business improve the organizational structure and technology.

In contrast, for the aspect of cost control there are many alternatives to evaluate in order to determine the best solution for Puertas y Diseños. According to the engineer Špičková, when a small business is focused on constructing unique products in accordance of the customers satisfaction and budget limits, it is recommended to use target costing [4]. For a small woodwork business, the product demands depends on the customers needs. This costing method allows businesses to succeed in a competitive environment. Another strategy is in accounting automation and management for small businesses, helping improve budget system for cost reduction [5]. Also, there is a strategy for small business with low level of business knowledge using the break-even model. This model is based on the productivity, direct and indirect labor, and raw materials factors [3].

PUERTAS Y DISEÑOS

This section presents the background of the business Puertas y Diseños.

What is Puertas y Diseños?

A carpenter, Luis Gómez, had 30 years of experience in woodwork construction when he decided to own a woodwork business. He established Puertas y Diseños in the municipality of Bayamon in the year 2010 and is currently working around the island of Puerto Rico.

Puertas y Diseños designs, constructs, and installs any type of woodwork. The business creates handcrafted solid wood furniture, kitchen, bed frames, doors, decks, and many more. They are uniquely designed and created at the expense of the customer's desires and budget.

The small business has worked with a variety of customers like hotels, churches, domiciles, and home decorators. It has also been recognized in the local magazine "Novias".

The business is currently operating with two employees. Both employees work in the manufacturing of the products while the owner both administers and manufactures.

Current Business Structure

Currently, the company has two (2) employees. One employee is in charge of sanding and giving the last finishes of the product. While the second employee is in charge of the construction of the product. The owner's position is to assist the customers' orders, design it, create the invoice, supervise the production process, and construct the product in conjunction with the second employee.

The current production process is the following:

- Receive the order of the customer.
- Design the product and calculate the invoice.
- The timber is sanded.
- Construction by two employees.
- Application of the last finishes of the product.
- Transportation and installation at the customers' residence.

Actual Business Problem

Recently, the small woodwork business of Puertas y Diseños has been struggling financially due to the limited knowledge in business management. In some low productivity periods, the owner has been unable to meet monthly expenses. This problem is not only affecting the business, but also the personal finances of the owner.

In order to improve the business status, it is proposed to increase 10% of profits by the year 2015. This goal can be achieved by:

- Incorporating a better business structure
- Establishing a budget in the small business
- Creating a more sustainable business by adjusting utility costs, materials, products, and construction and installation process.
- And finally taking an organizational overview of the project.

METHODOLOGY

In order to study and determine the alternatives that could help Puertas y Diseños increase profits, a work plan was developed. A first task was to understand how the woodwork business currently operates. Puertas y Diseños was visited to observe a normal day of operations and interview the owner. Afterwards, current and previous economic data was collected. The data collected was gathered from all the invoices and expenses receipts from August 2013 to 2014. Other financial data obtained were employee salaries and utility costs. The third task was to gather additional information from small businesses with similar situations. This important information had the purpose of helping establish the proper alternatives for this business. Using all the recollected financial information from Puertas y Diseños, a financial analysis was elaborated. This analysis provides the necessary information for a manager to understand the business status and consequently make a better decision for the organization [6]. Then the business administration strategies were applied and the current business structure was identified and analyzed. Next, the current financial information calculated and analyzed. Finally, the possible alternatives or recommendations were presented to the owner in order to increase 10% profit as a goal.

PROJECT LIMITATIONS

During the course of this study it was found that the source financial information of Puertas y Diseños was limited. It was imperative to acquire more than two years of information to help determine the projection for 2015. It would have also helped to calculate the break-even analysis to understand if the production demand is gaining business profits.

ANALYSIS

This section presents the financial and business structure analysis. In order to determine the adequate alternatives for Puertas y Diseños, calculations were prepared.

Where are the deficits?

According to the financial information gathered at Puertas y Diseños, it was found that in September 2013, March, April, and May of 2014 were the periods of deficits, as shown in Figure 1. This deficit can be caused by two common factors that are: the continuance of a large order or low production.

Some customers of Puertas y Diseños tend to require many products in one order; this can extend the production for many months. When those order occur the business sometimes suffer during the production of such orders.

Another factor that affects the business is the seasons of low production. According to the owner of Puertas y Diseños, it is common for production to be low during spring season. In that period the economy is low for construction. As shown in Figure 1, the period with the most deficits was between March and May of 2014.

The Business Structure is Affecting Profits

With little business knowledge, the organization can be detrimental [2]. The current business structure of Puertas y Diseños is affecting the generation of profits. In the administration

department there is no standardized record keeping for all the income and expenses of the business. It is important to maintain records for both external and internal purposes. It is referred to external documentation for taxes and internal for managerial decision making purposes [6].

Current Cost and Income Statement

In order to determine the periods of deficits, a cost and income profile was determined, as illustrated in Figure 1. The monthly income represents all sales made in that period of time. The fixed costs are costs that do not change in total as activity changes [6]; those cost are labor and overheads. In contrast, variable costs are costs that change totally in direct proportion to the organization’s activity [6]. For Puertas y Diseños, the variable costing represents all the direct materials. All products are uniquely constructed which means that all materials costs are not necessary the same.

Figure 2 represents the total costs, income, and profit of the year August 2013-14. The total owner’s salary was found to be \$37,320. The owner receives the whole profit as his salary and this results in no emergency funding for the company.

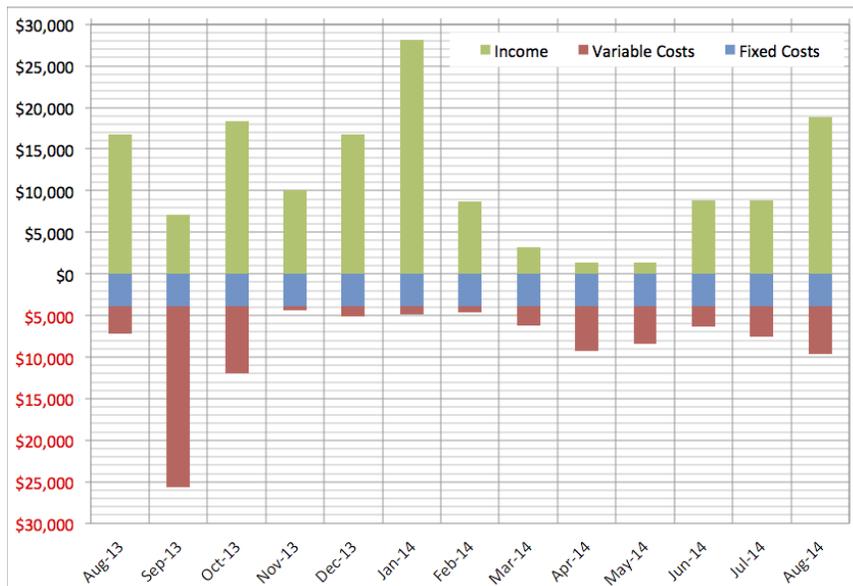


Figure 1
Costs and Income Profile

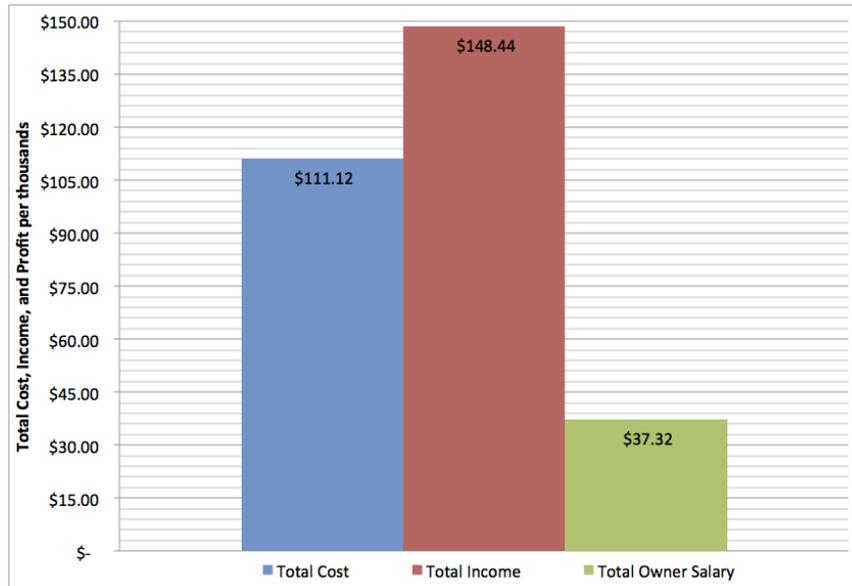


Figure 2
August 2013-14 Total Cost, Income, and Profit

Table 1 shows the total costs, income, owner’s salary, and the business profits. The total costs is distributed between the variable costs and fixed costs.

Table 1
August 2013-14 Cost and Income Statement

Description	Yearly Amount
<i>Total Income</i>	<i>\$148,444</i>
Total Direct Labor	\$36,400
Total Overhead	\$14,300
<i>Total Fixed Costs</i>	<i>\$50,700</i>
Total Direct Materials	\$60,420
<i>Total Variable Costs</i>	<i>\$60,420</i>
<i>Owner’s Salary</i>	<i>\$37,324</i>
<i>Total Profit</i>	<i>-</i>

Possible Alternatives

Some of the possible alternatives that will help improve Puertas y Diseños profits are the following: the restructure of the business, temporarily reduce the employee’s salary, establish a fixed salary for the owner, and integrate the consumption of recycle materials.

The first alternative recommended is to restructure the business into a more effective structure. It is recommended for the owner to be in charge of the administration and supervise operations. This can reduce work for the owner and give more responsibilities to the employees.

Currently Puertas y Diseños give to each employee a fixed salary of \$1,400 monthly. According Minimum Wage Laws in Puerto Rico, an owner has the obligation of paying a basic minimum rate of \$7.25 per hour to each employee [7]. The labor expenses would reduce \$1,160 per month for each employee, if the salary were reduced to \$7.25 per hour. These can increase annual profit for up to \$8,560. The main disadvantage of this decision is that it can affect employee’s performance and consequently the finished products.

The owner of Puertas y Diseños currently receives all the business profits as his salary. With the business with zero capital, it can suffer significantly in the periods of deficits. According to the owner, he needs to receive a minimum of \$3,000 monthly for his personal expenses. If the owner establishes his own fixed salary of \$3,000 per month, the profit would increase for \$1,324.

In the workshop there is a minimum estimate of \$200 of raw material that is disposed off the month of September 2014. According to the owner it is very common to loose such materials because of the customers; alterations to the order. It is proposed to recycle such raw materials for many purposes including use as formwork and utilize for other products. If Puertas y Diseños implements this

alternative, it can decrease for an estimate of 2% of raw material costs.

[7] United States Department of Labor. (2014). *Wage and Hour Division Laws*. Link: www.dol.gov.

CONCLUSION

Like many small businesses in Puerto Rico, Puertas y Diseños has financial situations when low production season occurs. This can be due to lack of the business administration knowledge. This paper was focused on providing the proper strategies to help this business and business with similar situations.

To increase the company's profits it is recommend determining a fixed salary system for the owner and employees. It is also recommended the establishment of emergency fund system for low business seasons. Incorporating a sustainable business by establishing efficient construction and installation processes will also help the business grow. Finally, it will also help improve profits from the use of recycled materials as raw materials and formwork. Using these alternatives profitability will gain 9.7% a year with an emergency fund of \$3,724.

In the course of this study, the the analysis was limited due to the low availability of financial information. To attain more realistic results, more information should be inquired.

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