How to Write Your Own Business Plan

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About the book

This book was originally developed as a workbook to support my 1-day 'How to write your own business plan' workshop' in 1998. I have updated the book for 2010 and changed some of the format to take account of my learning of delivering start your own business courses over the last 13 years.

About the Author

Ken Germaine is a self-employed entrepreneur, management consultant, business advisor, trainer and mentor. Ken helps entrepreneurs to assess the viability of and start their new ventures. This includes guiding the entrepreneur to clearly identify their market and competitive advantages which will allow the new venture to build their client base in a shorter time span than otherwise. He assists the entrepreneur to ensure that their business idea makes them money and achieve a rate of return on their investment.

Ken also works with nonprofit organisations and has served as chairperson of a number of charitable organisations, social enterprises and EU-funded programmes. He is a past President of the Institute of Management Consultants and Advisers in Ireland and was a long-time member of the Irish Red Cross.

Ken holds a BA (Hons) in economics and politics and a MA in politics, both from University College Dublin and a PhD in economic geography from Trinity College Dublin. Ken is a fellow of the Institute of Management Consultants and Advisers and a Professional Member of the Institute of Social Auditing In Ireland. Ken authors the Start Your Own Business Blog (http://startyourownbusinessblog.wordpress.com). Ken lives in Ireland.

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Contents

Why was this book written?

Over the years I have asked many aspirant entrepreneurs about their business idea and they are able to tell me in detail about the idea, how they came up with the concept and what they think they will do with the idea. However, when I follow up with the 'have you written a business plan yet' question a certain dread falls upon the potential entrepreneur. This dread seems to be caused because new entrepreneurs are uncertain as to what a business plan is and what its contents are. The purpose of this book is to dispel this dread.

The book will cover all the different aspects of writing a business plan based upon 20 years of either being an entrepreneur or advising entrepreneurs and potential entrepreneurs. Hopefully, at the end of the reading this book you should know what the elements of a business plan are and be able to write the first draft of a business plan of your own.

Follow Up

There are many agencies and people able and willing to assist new entrepreneurs in all countries. You should approach respected bodies to get feedback on your plan. However, I do suggest that if you give your business plan to someone else that you get them to sign a non-disclosure agreement so as to protect yourself. However, there is plenty of advice and support available and you should use it. Don't do it alone.

Introduction

What is a business plan?

Let me start with an analogy. If you buy a new television or DVD player for your home you would expect to get a manual or book of instructions on what the item is, what is it used for and how it is used. Without the instruction manual you would not know how to turn it on, change channels, put the power on etc. The business plan is to the venture what the instruction manual is to the television.

A business plan is your plan of action for your business. Without a plan you are taking a very dangerous risk; failing to plan is planning to fail. The foundations of a good business plan are hard facts. You may not know everything about a business but you should be able to find out a great deal about your competitors, product ranges, best selling lines, suppliers and wholesalers, market trends, seasonal trends in sales etc. Then base other figures and projections on the best information available to you at the time.

Why write a business plan?

It is a constant source of amazement to me that people set up businesses without knowing even what they have to sell to breakeven, how much in debt they could get into, what their realistic sales should be. Setting up a venture is a long-term investment in your money, probably other individual/institutions money, your career, your family's time and resources. Therefore setting up a business is a long-term commitment and should only be taken when you are sure of your facts. A business plan gives you the opportunity to assess the viability of your business idea and it gives you a yardstick by which to assess the businesses actual performance later on.

Who is a business plan wrote for?

YOU! This is YOUR plan and it should make sense to you. The figures you put down should be realistic and you should be able to defend them to yourself and others as needs be. If you are writing a business plan which is not accurate the only person you are fooling is YOURSELF.

Why do financial institutions want to see your business plan?

Let us be clear! If you go to a financial institution, enterprise support organisation, local-development body or private investor looking for them to invest either private or public money in your business, then the least they are expecting is an ability to assess the viability of your business. Nobody will just throw money into a business without knowing that it is a safe investment and that loans will be repaid. Ask yourself this; would you invest in something that you are told nothing about. Your business plan should give all the relevant information about your business. BUT, you should not write the business plan to give to another agency. You should write the plan for your information, but be willing to share this information with others who are interested in the success of your business.

What are the elements of a business plan?

A business plan is really 4 separate plans with an executive plan at the start and an implementation plan at the end if you are going ahead with the venture. The 4 plans are: the management plan, the operations plan, the sales and marketing plan and the financial plan. The key is to bring these 4 plans together so that they 'hang together' in a single business plan. When the business starts you will begin business planning and these 4 plans become 4 separate planning processes.

Exercise 1

Self Assessment of the Entrepreneur

Q.1 Why do you want to be self employed?

Q.2 What is your bottom line; how much money do you need to survive and pay bills in Year 1 and following years?

Q.3 How much time, effort and money are you willing to put into this venture?

Q.4 Have you asked for help with this idea and if so from whom and what have they said?

Q.5 Have you got your first client or customer? If not, why not?

The Executive Summary

This is a short summary of the business plan and really should be written last when all the other work is done. The purpose of the executive summary is to allow someone to get a good understanding of the business and its operations in a one-page summary. It also gives you the opportunity to state your belief in the success or not of the venture.

The Executive Summary should include the following:

- The name of the business
- Business Address
- Main purpose or function of the business
- Legal Status of the business
- Ownership
- Mission Statement
- Vision
- Main market segments served
- Main strengths of the business
- Other relevant statements.

The executive summary should be short and precise and should not go beyond two pages. Remember that you will be able to support what you say in the executive summary in the rest of the business plan.

The Mission Statement

A mission statement is a statement of the objectives of your business. It should be stated in the current tense and be set in positive language. An example would be:

'It is the mission of ABC Ltd. to provide the premier service of x,y, and z to the RTY industry. We will provide this by guaranteeing…'

A mission statement gives you a goal or target for your business and when there are short falls can be a motivating factor as it states the high standards that you have set for your business.

SWOT Analysis

SWOT (Strengths, Weaknesses, Opportunities and Threats) is an exercise by which you assess your strong and weak points. In effect you have a listing of two pairs: Strengths and Weaknesses; Opportunities and Threats. You make out an honest list for all four categories. Be honest as the only person you are fooling in this exercise is yourself. This is a valuable self assessment exercise and can show others that you have thought out this business in detail and have 'the big picture'.

The Management Plan

The management plan is a statement of identifying the management , their relevant skills and experiences, their strengths and weaknesses and a plan to address these weaknesses. It has two main functions.

Firstly, internal: by stating the management of the business, who they are, what they will do within the company and their skills it will be possible to list the management skills required to run the business, outline which skills the management team do possess, and more importantly identify any skill deficiencies. By identifying deficiencies it makes it easier to arrange either training or hands on experience to redress the balance.

Secondly, external: for someone reading the plan or assessing your business it will enable them to see that all the skills necessary to run the business are present and that you have addressed any shortcomings. In my experience many enterprise professional and financiers will initially scan a business plan by reading 3 things: the executive summary to find out about the business, the cash flow projection to see if it viable and the projections realistic and then the management plan, to see can this person actually deliver this plan. Thus, the management plan is far more important than most new entrepreneurs appreciate.

For many small businesses and in particular for sole traders, one person fulfils the entire management function. In this case a copy of the owner's curriculum vitae will compose the first part of this section. However, this should not exclude you from identifying deficiencies in your own skill base and then correcting them.

One very good reason for writing a business plan in advance of starting a business is that you can identify training requirements. If you do not have all the skills necessary then you may have three options. Firstly, to employ someone who can address the weakness. However, this has an implication for the running of the business, employer liability insurance and cash flow. Secondly, to subcontract some work to external organisations. A classic example of this is book keeping. Many people dislike book keeping and contract with an external book keeper to fulfil this role. This has no upfront cost but it does incur an ongoing cost every months etc. The third option is to access training for yourself to address your skill deficiencies or other members of the team. Please remember that if you are unemployed prior to start up then you can usually avail of free training from publicly-funded bodies and employment agencies. So make sure that you avail of all the training opportunities you can. Remember that once you become self employed it will become more difficult to find time to train and commercial training is expensive.

A final comment on wording as nobody wants to write down that we are not good at this or that. So remember that you 'have identified opportunities to outsource some functions…(subcontracting)' and 'having conducted a training needs analysis that you have identified the following training opportunities…' Put it into positive language.

Exercise 2

Management

First, outline the main management functions in your business venture (I have given a start but your business will have different functions) then outline who will be responsible for the particular function and then, honestly, assess whether that person will be strong or weak in that area. If you are a sole trader you will probably be responsible for everything that is not outsourced but be honest with yourself as if you have a weakness then the business will have a weakness. If you intend employing someone for certain jobs then it may help you identify the job specification that you need to develop.

Management function	Person responsible	Strong/weak
Management		
Sales		
Marketing		
Buying/procurement		
Administration		
Credit control		
Deliveries		
IT		
Assembly		
[insert]		
[insert]		
[insert]		

Thus, for your business plan you have worked out:

- The different key parts of your business
- Who is responsible for running each
- Their strengths and weaknesses with regard to each area
- A plan to address the weaknesses by employing people, sub contracting or training

Operational Issues

The operations of every business are different. How businesses in the same core business conduct their business can be very different and helps distinguish them from their competitors; the experience of eating in the top 2 fast-food restaurants is very different. Even though they may serve similar products, how they do this and how they present the product and the restaurant is discernibly different. Operations are a process and on the next page I outline an operations process for a business in more detail but the elements of a business process can be summarised as:

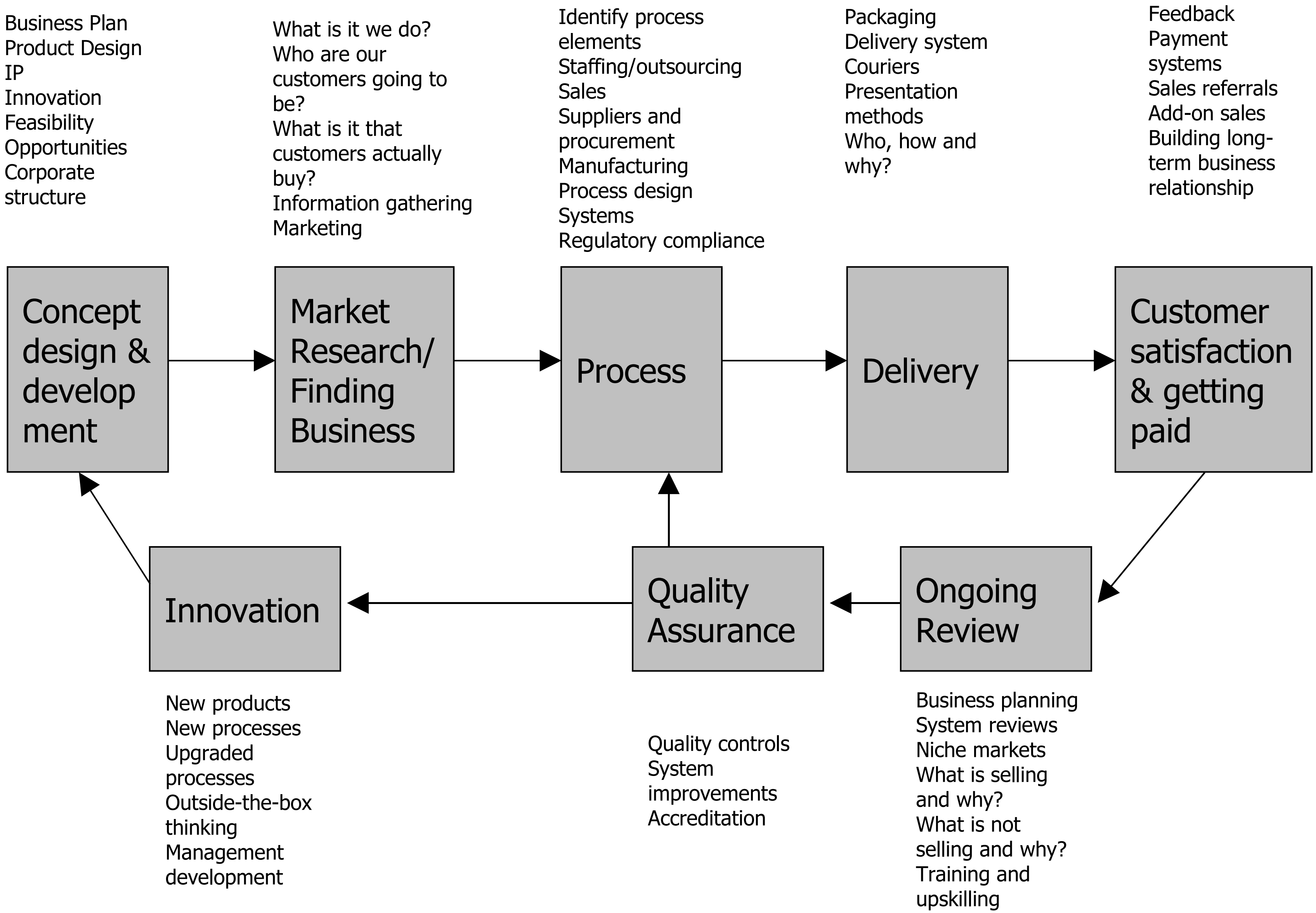
- Concept design and development
- Market research and finding customers
- Process: the actual nuts and bolts of doing whatever your business does
- Delivery
- Customer satisfaction and getting paid

Thus, a start-up venture commences with the entrepreneur identifying a gap in the market and developing an 'offering' requiring the design of a product or service and the development of the product or service to be tested in the real marketplace. Having designed the product or service the entrepreneur then goes into the market to conduct market research and see if there is a potential demand for the product and, hopefully, actually sign up customers. When the customers are secured then the product or service is then actually provided and through the most appropriate delivery system that suits the customer's needs. If the entrepreneur delivers the good or service to the customers satisfaction n then the customer pays for the product or service (the real litmus test) and, hopefully, the customer comes back and becomes a regular customer and recommends other people to buy from the entrepreneur.

However, there are other parts of the process which a sensible entrepreneur will want to develop. These are:

- Ongoing review
- Quality control
- Innovation

Every good business wants to know that they are delivering a good service and are constantly looking for ways to improve their service and will have some ongoing review process in place. Many also want to develop a formal quality control system to ensure that the product or service is delivered to a constantly high standard and that they can get feedback from their customers. Finally, the learning from operations should allow the entrepreneur to innovate new processes or new products. This should be a coherent process as outlined as follows:


Business Plan
Product Design
IP
Innovation
Feasibility
Opportunities
Corporate structure
What is it we do?
Who are our customers going to be?
What is it that customers actually buy?
Information gathering
Marketing
Identify process elements
Staffing/outsourcing
Sales
Suppliers and procurement
Manufacturing
Process design
Systems
Regulatory compliance
Packaging
Delivery system
Couriers
Presentation methods
Who, how and why?
Feedback
Payment systems
Sales referrals
Add-on sales
Building long-term business relationship
Concept design & develop ment
Market Research/ Finding Business
Process
Delivery
Customer satisfaction & getting paid
Innovation
Quality Assurance
Ongoing Review
New products
New processes
Upgraded processes
Outside-the-box thinking
Management development
Quality controls
System improvements
Accreditation
Business planning
System reviews
Niche markets
What is selling and why?
What is not selling and why?
Training and upskilling

So, some of the key operational questions that need to be answered are:

- ❑ What is the process by which the good or service is taken from source to the final customer.
- ❑ Break down the overall process into its component parts, i.e. sourcing raw materials, production, packaging, delivery, sales, invoicing and debt collecting.
- ❑ Taking each one separately see who is responsible.
- ❑ What process or system should operate in each area?
- ❑ Check that the different systems combine to a logical process, i.e. when the sales department say that a product will be delivered in 10 days that it is physically possible to get or produce the good or service to the customer in that period of time.

Other important issues are

- Credit and debt collection policy.
- Stock control
- Administration time

We shall now go through some of the key parts of the process in detail. It is fair to say that not all parts of the chain are relevant to every business and therefore you should focus on the parts that are relevant to your business.

Sourcing Materials

All business ventures have to source materials. The extent to which this can affect the business however is very diverse. Some service industries may only need stationery supplies, professional services etc. Supply companies core business revolves on the product or product lines that they sell. A disruption in the supply of a core product can result in either major reorganisation of the business or even result in the business collapsing. Manufacturing companies need raw materials to produce their products. Changes in supply; be they driven by market, seasonal, environmental or technological changes can result in major business disruption or even sector extinction. Look at the market disruption caused when CFCs where banned. The entire aerosol market was faced with complete change or complete extinction. Therefore one can define materials supply to a business as raw materials, essential product range and other materials used in the business. So the questions you must ask yourself are:

⇒ What raw materials does your business use?
⇒ Who are your suppliers?
⇒ What other suppliers could you use?
⇒ What are the advantages of using your current supplier?

⇒ What goods do you buy and sell?
⇒ Who are your suppliers?

⇒ What are your alternative sources of supply?
⇒ What are the advantages of your current supply source?
⇒ What other products do or will you use?
⇒ What are your suppliers?
⇒ Can you simplify your sourcing of the products?
⇒ Are they all necessary?

Production

In any manufacturing process there is a production process. For each product there is a chain of production with several distinct links. It is important that you identify these individual links and analyse any improvements in each link or in the way the links come together to improve the overall chain. So the questions you must ask yourself are:

⇒ How do you produce each item you make?
⇒ What are the steps in the production?
⇒ Can any step by improved?
⇒ Can the way the links interact be improved?

Packaging and Delivery

These are two very important elements to your business process. Packaging can have a great deal of impact to the final user. The first role of packaging is to ensure that the product gets to the final user in pristine condition. In some cases the packaging also has a very important sales and marketing function. The issues you must address are:

⇒ How do we currently or intend to package our goods?
⇒ Does this ensure that the product arrives at the end user in prime condition?
⇒ Should you packaging have a marketing function?
⇒ Does it currently?
⇒ How can this be improved (refer to marketing section)?
⇒ Is your current packaging cost effective?

Always remember that the first thing a customer sees of a product is its packaging. However, another aspect of getting the product to the end user is the mode of delivery. In today's business environment there are plenty of options open to businesses in this regard. Some companies prefer to deliver goods in person and this could make sense for high value goods or for goods that require instalment or setting up. Most companies will use couriers of some description. There are plenty of private courier companies that will promise same day or next day delivery. Usually they have set rates but they can be expensive for one off deliveries. The postal service still has a wide range of services from parcel post to swift post and registered post. The issue with the postal service is that your package will be delivered in line with the rest of the service and special deliveries are in the same range as the private courier companies. When deciding the best mode of transportation a number of issues should be addressed.

⇒ How quickly do we need to get goods to our customers, i.e., perishable versus non perishable goods?
⇒ What is the most cost effective method of delivery?
⇒ Is there a marketing aspect to your delivery service?

Sales and Marketing

Let us clearly define these two different but interlinked functions. Marketing is the function by which we define what market we are serving, the strengths of our product or service, and the best way we can transmit our message to our target market. This is the macro side of customer service delivery. Selling on the other hand is the micro side. Selling is the process by which we identify product benefits to customers and present customers with solutions to problems they have. We will deal with sales and marketing in a later section but at this stage we must look at one aspect which is the integration of your sales strategy into your overall operational strategy. In large companies one of the biggest tensions is between the sales teams and production/delivery outward function. Sales professionals regularly use delivery time and service call-out times as a product benefit. This usually is done without consultation with the goods out or service department. One of the greatest grounds for customer dissatisfaction is broken promises in relation to being let down with delivery or call-out service. Customer dissatisfaction leads to lost sales. Thus, it is important that you understand that promises given to customers are met and this can only be done if you are in full control of the information regarding your ability to supply and service.

Financial function

Although we will deal with financial functions later we must integrate this function into overall operations. Common sense issues dictate that your end of year could be timed at your slackest business period of the year. This also relates to stock taking. Your accounting system should be able to give readily available information about customer debts and creditors. But if there is one thing you must keep up to date it is your monthly statements, which requires a strong invoicing policy. All of these need to be integrated into your operational structures.

Administration function

Administration is the bane of every self employed person's life. But there is one thing that is certain, the people who religiously make time every week to do their administration have a better picture of their current positions, have their invoicing, statements and cash flow under control, spend less time at years end having nervous breakdowns and are the business ventures that succeed. If there is one secret to success it is that knowledge is power and the more you know about what is going on the better. Whether you like or hate administration make time weekly to do this function and stick to your schedule religiously. Monday mornings or Friday afternoons are often found good times at the start of the week for goal setting or at the end of the week when customers and suppliers are easing off for the weekend.

Stock Control

It is often proved that when you buy a batch of goods you sell the majority and this covers your costs but the stock that is left is your profit. So the least amount of remnants or unsold stock you have the higher is your overall profitability. The 'first in first out' method makes most sense but this can vary for different trades. But one thing is for sure you must keep tight reins on stock levels. One cause of cash flow problems can be over stocking, i.e., keeping too much cash tied up in stock that you do not need. Over time you will get a sense of the minimum level of stock that you need to keep. But if starting out just check how long it takes your suppliers to deliver to you and double check any assumptions you are making about the stock levels that you need to keep. Remember unsold stock is lost money.

Thus, for your business plan you have worked out:

- The different business processes required for your venture
- How they interact
- How to get customer feedback
- Develop policies and procedures for your key business areas

Market Research

At the heart of every business plan are hard facts or estimates based on the best facts available. Without this all of your projections and assumptions are useless. Many people ask how financial projections can be made in any accurate fashion. The answer is to base as many figures on best information and make realistic estimates on the rest. This requires market research.

Market research is the collection and use of information for the purpose of planning your company's business activities.

There are 2 main sources of research:

- Primary Research: which is original research that is identified, designed, conducted, interpreted and reported for a specific reason by you or commissioned by you and

- Secondary Research: which is information in any format done by others for a previous purpose

There are lots of secondary information sources available: web, books, newspapers, magazines, libraries etc… Issues to bear in mind when using secondary research are:

- Distinguishing between fact and opinion. Many people have opinions; I write a blog full of my opinions but just because people are entitled to their opinions you are entitled to accept, reject or ignore them. What you really want to find are the hard facts that underpin some of these opinions. You should seek to find out as much hard facts and evidence that you can and then draw your own informed conclusions
- Verify: don't take information at face value. When someone cites information and gives a reference be sure to check the original reference. WE can all make mistakes when transcribing data and people can honestly misinterpret information so be sure to check the original sources
- Statistics: handle with great care! It is not the statistics *per se* but the interpretation of the statistics that can lead to difficulties. Make sure you understand any statistics or analysis that is being used before you accept them and base decisions upon them
- Plagiarism is where you write something that was originally written by someone else and claim the quote as your own original work. It is bad manners and illegal, it is breach of copyright and can get you into deep trouble
- Citation is the way to address this. If you use a reference, quote or other secondary source be sure to cite the original author and work. Citation usually requires the name of the author, the title of the book, article etc, the source that you found it and the year of publication. If you cite the work and

don't use large amounts of the work then you should be relatively safe from prosecution

Conducting a market research project

There are usually 4 steps when conducting market research

1. Define the question – what is it you want to know
2. Gather and read the relevant secondary sources
3. Scope the information you want/need and hold
4. Conduct primary research to fill the necessary/important gaps

It is very important to define the question properly so you can be very specific as to the information you need to gather to answer your specific question. If you do not define the question properly, clearly and concisely you will spend a lot of time, energy and money on a wild goose chase. You should also think about how you will use the information when you have collected it and refine the question with the end use in mind. There is no point in having a load of data collected and find out that it doesn't exactly answer the question you had in mind (been there, done that, very frustrating).

I strongly recommend that before you conduct any primary research yourself that you fully scope all the available secondary sources first. Primary research is time consuming, costly (depending on how you do it) and requires a great deal of administrative detail. If someone has already conducted the research or has collated the information for another purpose and it has been published then you don't need to recreate the wheel. Do a cost/benefit analysis on primary research and ensure that the cost involved in getting the information is worth the time and money.

There are different ways to conduct a primary survey. You can use:

- Questionnaires – distributed or administered
- Interviews – structured, semi-structured, non structured
- Focus groups or workshops
- Field surveys – clicking, time-in-motion
- Web site clicks and visits

Questions must not be leading, biased or ambiguous. Possibly start with closed question with a Yes/No answer and then follow up with 'if you answered 'yes' please explain'. Allow for open ended responses and provide space for additional comments.

The rest of this section is aimed at giving ideas on were to look for these facts and figures.

⇒ Start with your competitors. Who are they, what market segments do they serve. Are there seasonal factors. Do you know anybody who has worked for one of the competitors and will talk to you? Find out as much as you can about your business competitors

⇒ Learn the business cycle for your business. Each business has a business cycle and it is a key piece of information. This can be gleaned from looking at your competitors and talking to wholesalers and supplier

⇒ On general market size there is the Central Statistics Office. The CSO keep a wide range of statistics on markets, imports, exports. So this will help you assess what market share you need or whether your sales projections are realistic

⇒ Trade magazines are a good source of information. Successful companies are only happy to brag and your central library holds a wide business reference section for you to read.

⇒ Newspapers are a good reference source. Each week the business and jobs supplements give comprehensive coverage to business. Again back editions are kept in your library.

⇒ If there are similar businesses that are not in direct competition to you they may well be willing to give you information. They may be willing to give estimates of running costs and seasonality information. They may also give you leads and ideas that you may not have considered.

⇒ Wholesalers and suppliers will also be able to give you credible information. If they are supplying to you then they have an interest in giving you accurate information and making you succeed.

⇒ Many large companies and bodies issue annual reports and accounts and may even give breakdowns by region or market sector. Again these are ways to verify market size, sales projections but also product mark ups and margins.

Thus, for your business plan you have worked out:

- Who your potential customers are
- Who your competitors are
- Who can help you and how
- Sources of information to help write your business plan
- What primary market research you need to actually do, if any

Sales and Marketing

Your sales and marketing activities have but one objective; to supply your product or service to your customers/potential customers in the most time- and cost-effective fashion. People get confused about sales and marketing and confuse these two separate but interconnected activities, so lets separate them out.

Marketing activities are macro-level activities. Marketing looks at the generic benefits your good or service offers to groups or sub groups of people. The marketing mix, which we will cover later, covers the main attributes of differentiating your offering, establishing the appropriate price point for your offering, selecting the best communication mix and channel of distribution for your offering and your potential customers. Marketing is about ideas and concepts to differentiate and communicate your offering to your 'target groups' or 'niche markets'.

Selling is a micro-level activity. You sell to individuals by asking them intelligent questions to ascertain their individual demands, identifying the best options to meet these demands and present the individual with the best-fit option at the best price point and gain the customers' commitment. The more customer commitments you succeed in gaining the better you will be in business.

There are many good books on sales available and many offer different techniques to 'close the sale'. Over the years I have moved away from these techniques and now take the view that actually you should not 'sell' anything to someone but should rather help the person through their buying process. It is a subtle difference but 'selling' is a process focused upon the sales person convincing the person to buy something whereas helping the person through their 'buying process' puts the focus back onto the persons needs and demands. Another point to remember is that sales is a process to address a customers 'demands', or a need that the customer has that they are willing to put a monetary value upon. The public and nonprofit sectors address needs, the private sector fulfil demands. We shall continue by initially looking at the market, the marketing mix and then the selling/buying process.

Your Market

The first step in the marketing process is to identify what market you are in. Some people think that this is easy to answer but it usually requires more analysis. The motor trade is a good example. Most people think that the motor trade sells cars, but of course the trade is much more complex. There is the small car market, the small family car, the large family cars, the corporate car market, the executive car market, the luxury car market, the sports car market, the 4 X 4 market, the small van market, the large van market etc. Each separate section has its own market

strategy. As the old joke goes when a car company is telling you about the excellent use of space, they are trying to sell you a mini.
Many people starting a new business venture with little sales and marketing experience do not understand that they may be able to serve a range of sub markets and, more importantly, that by selling the same product or service to different groups of people that they can charge completely different prices for the same good or service to each different market. Thus, you can develop several different 'offerings' to different groups of people with different needs and demands from the same business at the same time. The reason for the difference is not that you are doing something immoral but rather the different niche markets have different requirements and different perceived values for the same thing and thus you are meeting the needs of the clients by presenting different options. So, the first thing to remember is not to market or sell your good or service but to develop 'offerings' for specific niche markets.

There are 3 elements to a market and each should be analysed. We call these the 3 C's.

your Company
your Competitors
and your Customers

and the interaction between these will effect the outcome of your business venture. What you are looking for are gaps in the market, i.e., customer demands that are not being met by the competition. These are market opportunities.

The Marketing Mix

Having identified your market, you must now engage in marketing. Marketing is the process by which you communicate your offering to your selected target market. In effect marketing is about communication. It is more than just advertising. It is about analysing your offering and finding the most suitable communicative approach. It is about promoting an image, a brand, a message but it cheap and cheerful or exclusivity. It is about matching the customer requirements to the products promotion. It is also about choosing the most appropriate medium to connect your message about your product to the target market.

To simplify the process the marketing textbooks will tell you that there are four basic aspects to marketing a product, the 4 P's or the Marketing Mix which are:

the Price of the goods
the Product itself
Promotion channels for the good
the Place where you are going to sell.

Price - what is price? I define a 'price' as the perceived monetary value that a customer is willing to pay for your offering. Price is the monetary reflection of the value of a product or service in a market. It is a perception and therefore relative.

Take a garment. If you put a dress in a boutique in downtown you could probably demand and get fifty or sixty pounds/euros/dollars for it depending on circumstances. Put the exact same garment into an uptown department store and nobody would pay less than two hundred pounds/euros/dollars for it. In fact if you were to put it on the racks in the uptown department store for fifty nobody would buy it as they would consider that it must be sub standard. Price reflects value. The higher the perceived value to the market the more the market is willing to pay. If you set your price below the market expectation you will not sell. Many businesses have sold more by putting up their price.

In some markets price is given. We all know the general price for milk or bread and will not pay outside a general price band of about five or six pence. In economics we refer to these markets as perfectly competitive markets, where the are so many people in the market that no one operation can set a price higher than the market price, so all sellers take the equilibrium market price. Not all markets are like this. Specialist markets where customers do not have a great knowledge of the market or the equilibrium price can allow prices to be set higher than this.

Another aspect of pricing is what is referred to as "Price Elasticity of Demand". A flashy economics term that has definite and real effects on your price. If a product is price inelastic then demand does not fall off heavily if there is a price increase. For example petrol is price inelastic in the short term. If petrol goes up in price we still have to buy it to get us from A to B. However, many products are price elastic. In this case a small price increase can result in a sharp fall off in demand. Share prices can give an example of this. If a large company produces lower than expected profits then the share price can fall dramatically. Even though the company is still sound and still in profit a small miss in the expected earnings of 1 or 2 cents can lead to a 10% reduction in the share price in the short term.

Thus there are many aspects to pricing a product or service. The old advice to charge what the market will bear is a good one. Price cutting is a dangerous strategy and depends on competitor behaviour. If your competitors do not respond to your price cutting then it may work but in most cases the competitors will respond and the competitors with the most market power can undercut your lower price and drive you out of the market. So it is better to charge the market price and sell more by being more in tune with the customer demands. Also remember that the same product can be valued differently in different markets niches.

Product – Think of product differentiation. There are several aspects of the product that are relevant to the marketing mix. The first is what the product actually does. This may seem a simple question but often is not. What does a car do for the owner? It is a mobile form of transport that gets them from A to B. But is that all? Why do people buy bigger and luxury cars if a mini gets you from A to B. The answer is that a product satisfies a demand, or solves a problem. People buy mid range cars for several reasons. A person might have to do a lot of driving and thus requires the reliability of a bigger car. Some people think that they look better in a large car. Why do people buy BMW's, Jaguars and Mercedes? Image, ego? So people buy cars to fulfil a greater function than mobile transport. Issues like reliability, image and status come are important.

So, in order to differentiate your offering you must understand the needs of the customers in your selected market niche. What are their perceived-value price points? What are their needs: value, comfort, reliability, luxury, ego? So what actually differentiates a product is not what you think but how the different consumers perceive and differentiate your product. You need to understand what the customer actually wants and how they behave in similar circumstances. Remember what people actually say and do can be quite different at the point where they make commitments to buy.

Promotion – Think communication mix. This is the section of the marketing mix relating to advertising and promotion. Picking the right channels of communication is vital. The first part of picking your channel is to define as accurately as possible your target market. The broader your message gets dispersed the more diluted it becomes. But if you can closely define your target consumers then the more influential will be your message. This is the trick to cost-effective promotion. Always ask the question of any promotional opportunity of how targeted is this to my target consumers?

Of course there is now a wide range of advertising media. The following is an arbitrary categorisation.

- General advertising. This is aimed at increasing your product or company's general awareness in the public eye. Posters campaigns and door to door leaflet drops are examples of this. Information stands for the general public is also included here. Again as this is a broad spectrum message the return on this communication medium can be very low as the message is very diluted. This type of promotion is 'product awareness' or 'company awareness' raising rather than 'selling'.
- Classified advertising. These are many lists of people engaged in particular sectors. The Yellow Pages, Independent Directory and many smaller local publications exist. There are also industry specific listings available for specific issues. Again measure the cost effectiveness of these mediums. It may be necessary to be in the Yellow Pages but it may not be necessary to have a large ad. Remember people tend to look for local businesses and if you are nearer than someone with a large ad then you may still get the business. So think out what you want from this medium and then measure its cost effectiveness. Also remember that there is a wide range of 'on-line' directories today. Search engine optimisation (SEO) is now also important, especially for the large search engines like Google TM.

- Trade Fairs and Trade Magazines. The beauty of these is that they are aimed exclusively at your target market. Specifically trade only fairs. But remember that there is also a high cost attaching to these events or publications. The more specific they are the higher the cost. So only engage with your eyes wide open. You are going to these events to sell not raise product awareness. But on the other hand you have to speculate to accumulate.
- Direct Advertising. This is where you write to specific individuals and promote your product. Most direct mail is seen as 'junk mail' and is dispatched to the bin. But it depends on how you approach it. This is best used as part of a sales strategy where you are looking not to sell the product but get an appointment.
- Word of Mouth. The most effective promotional method of all. Unfortunately, the one that you cannot control or direct. But also remember if it is bad news it can also commercially kill you. One useful method if personal recommendations. Here you ask a satisfied customer whether they know anybody else who might benefit from your offering. You can then go to the other prospect and say "Mr. X suggested that I give you a call". If you have the selling skills this is the best form of sales entry you can get.

Place – Think channel of distribution. You have to be where your target customers want to buy your particular offering. Retailers have to be in high streets or large shopping centres for best effect. Suppliers, where trade need to see your product, needs a show room usually in a centre of industry, i.e., industrial estates. Smaller suppliers who do not have much public access to their premises can work from home or smaller industrial units. The place of your business must not leave you at a market disadvantage.

You can not forget trends as well. Taking over an old warehouse and putting designer labels at cheap prices might seem mad, but fashion warehouses are trendy. Consider carefully where you do business, but clearly cost factors come to bear. One final comment for those working from home; many enterprise units provide a business address and business messages service for which you pay. But it allows you to use the centres address on all your stationery instead of your home address. If you are worried about using your home address this may be a cost effective way around this.

Thus the marketing mix of your product or service must be analysed by you in detail. You must then measure this off against your budget for marketing and find the most cost-effective and results-driven strategy that you can get. But if there is one point to stress about promotion it is to set clear and measurable targets against all your promotional and advertising opportunities. Be able to say no to the advertising sales people, and trust me you will hear from a lot of them when you get into business.

Your competitive advantage – how can you identify where your competitive advantage exists in your marketplace. The following is a simple matrix which will assist in this process:

	You	Competitor A	Competitor B	Competitor C	Competitor D	Etc
Offering No. 1	Yes	Yes	Yes	Yes	Yes	
Offering No. 2	Yes	Yes	No	Yes	No	
Offering No. 3	Yes	Yes	Yes	No	No	
Offering No. 4	Yes	Yes	No	No	No	
Offering No. 5	Yes	No	No	No	No	
Etc						
Etc						

Like all simplistic analysis tools the matrix can be very useful for helping identifying general trends. However, be very careful not to misinterpret. Competitor A is your main competitor as they deal in nearly all of your offerings. Competitors B and C are medium-level competition as they deal in some of your offerings. Competitor D is only competing in one offering. However, where is your competitive advantage? Offering No. 1 is an open market as all your competitors are making similar offerings. Offerings No. 2 and No. 3 has medium-level competition and Offering No.4 has fewer competitors and thus a wider range of leeway. However, be very careful with an Offering No. 5. Just because there are no competitors making a similar offering does not mean manna from heaven. You must ask yourself a number of questions before getting excited by the offering. Firstly, have other competitors tried this offering and discontinued it because of poor market demand, market failure or other issues. Where they first-to-market but got there just a little too early? Why have none of your competitors seen this opportunity and why have they not taken advantage of the opportunity? You need to make sure that this offering is the real deal in competitive advantage. Remember the old adage that if something looks too good to be true then it probably is. Only when you have addressed all the possible issues with this offering should you invest in its exploitation. However, this is a simple exercise that demonstrates where you are positioned in relation to your competition and is thus useful.

Selling and your Sales Strategy

The selling function is different to the marketing function in that sales relate to one-on-one, face-to-face selling. Selling is not about products or services, it is about what those products and services do for people. Unless your product can solve the buyer's problem you will not sell. Selling is therefore the solving of a buyer's problem. It therefore follows that we should not be talking to the customer about the product features but how the offering meets the customer's requirements.

Over the years I have become increasingly convinced that putting the emphasis on 'selling' is a bad idea as the focus is put on the salesperson to 'close the sale'. I prefer to emphasise 'helping the customer buy' or the 'buying process'. By focusing on the customer and their buying process we remove much of the negative connotations that people relate to sales and, rather, we move the focus to the positive assistance of a customer requirement. It also gets us past the 'closing' mentality which can be dangerous for new sales people as most really good sales people I know are more interested in 'opening' long-term business relationships with their customers. So let us focus on the buying process.

Most sales training courses will tell you that a salesperson must follow the AIDA process to get a sale, this being first to get the person's Attention, then arouse their Interest in the good or service followed by getting the customer to develop a Desire for the product or service and eventually get the client to take Action and make a purchase. Many inexperienced in sales take this information and try to apply it to their sales patter and wind up trying to explain (tell) the customer why their good or service is better for them than the competition and what it can do for them etc and so try and get the customer to be attentive, interested and hopefully become desire ridden and action oriented. The failure here is not the desire of the salesperson to be helpful but the 'telling' bit, which actually misses the point of the exercise.

I want us all to take a fresh look at this AIDA process but from the perspective of the customer/client. Instead of looking at it as a sales process I would ask that we conceptualise it as the customers buying process and examine the process from that point of view. The quickest way to examine this is to take your own personal experience in buying a high-ticket item. Let us say buying a new/newer car for example. What were the questions that you asked yourself when buying your last car (or bike, stereo system, apartment if you prefer) and how did you go through the four AIDA steps along the way?

The Attention phase of the buying process is usually associated with information gathering. It starts with a premise that I like my car but I really should be looking to upgrade before anything starts to go wrong (or from a B2B perspective, I am happy with my current supplier but maybe we should have a look around to see if they are giving us a good deal…). So what am I going to do? I am going to look around for car buying options. I will check the internet for car selling websites, visit car lots in my area and 'kick tyres'. The point at this stage is that the client is not committed to the purchase but they have a 'cognitive dissonance', they are uneasy in the back of their mind even though they are happy with their current car they have a psychological unease which they probably cannot even put their finger on. So what are the types of question that the customer will ask and, need to answer for themselves, before they move to the next stage…

'What are the possible options I have: buy a new car, get an upgrade by a few years or stick with what I have?'

‘What are the cost implications of the different options?’

‘Do I really need to change from the current situation?’

‘Do I really want to change from the current situation?’

If the client cannot satisfactorily answer these questions for themselves the chances are that they will put off the discussion/decision until a later point when the impetus for change has increased. If the customer cannot dissuade themselves from continuing with the process or have decided that they do need/want change then they will move to the next stage.

The Interest stage usually relates to clarifying options for the client. In the first stage the client may have gleaned some information on their different options but were really only making a go/no go decision. Now the customer will want to clarify the different options in more detail and examine the best/most preferred options available to meet their potential needs. Remember, the client has not make a buying decision; they are still driving their current car and still have a cognitive dissonance. So what are the questions that the client will need to answer for themselves if they are to move to the next stage and not stop the process on the grounds that ‘nah, this is too much hassle!’

‘What are my needs if I do make a new purchase?’

‘What are my options if I lay them down on paper?’

‘Can I exclude some of these options and bring my choice down to 2-3 preferred alternatives?’

‘Are these 2 or 3 preferred options better than my current situation?’

‘How committed am I to taking the time to have a real look around at my preferred options?

Actually, I reckon if they answer the last question positively and do spend the time to investigate further their options, then the sale becomes more concrete as up to this point there has been no ‘commitment’. So, if the client has now limited their choices down to 2-3 options and decided to explore further, the client has moved a significant way to making a decision to buy but they are not there yet!

The Desire phase is where the client moves from 2-3 options down to one preferred choice. The client has now taken the time to go around the lots and look for their specific options, have asked the salespeople about reliability, warranties, colours, specs etc. If it is a new car buy then they have taken home the brochures, colour cards etc, if it is a second-hand car then they have to take one that is currently in the lot. Now what are the questions that the client must answer for themselves at this stage in order to move to the final stage?

'Do I really like this car compared to the other options and, most importantly, my current car?'

'Do I like the interior?'

'Do I like the colour?'

'Will it be expensive to insure, tax and maintain?'

'Will it be more or less expensive to insure, tax and maintain than my current car?'

Now the key point for the client here is to convert their Interest into Desire and that requires the 'Oh, wow, I really like that…' moment. It happened to me several years ago when my one year old VW Passat got written off (without me in it!) and I had to get a car. I couldn't wait 16 weeks for a new Passat so I had to buy a good second hand. I was looking for a replacement Passat but when I visited the second-hand part of the VW dealership, which also sells Mercedes-Benz, my eye caught a CLK-200. It was a coupe, gloss-black paint and gleaming, full black leather interior, alloys and looked gorgeous. It was the 'oh, wow, I really like that…' moment. Without a 'oh, wow' moment the client may decide that there is nothing that they currently prefer and will put off a decision until the buying impetus increases at a future stage. With the 'oh, wow' moment then you move to the final stage.

The final stage is the stage where the client takes Action. In this case they make a decision and actually buy their preferred option. However, this is not a foregone conclusion and the client has to answer another set of questions before they make the actual 'sign on the dotted line' decision. These questions are:

'Can I afford this?'

'Can I put together a mix of my personal savings and get a car loan for the rest?'

'Can I get credit?' (not such an insignificant question in the current economic environment)

'Do I trust this salesperson and can I believe what they are saying?'

'Am I getting a good deal?'

'What response will I get from my significant others, friends and family' (too flashy or great buy)

‘Will my significant other kill me?’ (never underestimate the effect of the answer to this question in a final buying decision)

But ultimately… ‘Do I really love this?’

If the answer to the question is ‘yes’ then the buy decision is made internally and then it gets down to negotiating. Incidentally, when I said earlier about the ‘oh, wow’ decision over the Merc I certainly didn’t tell that to the salesperson, in fact I tried to say that it was too flash etc. These internal discussions are internal and the person will not be telling the salesperson, in many cases, what they are actually thinking. The client having made the buy decision in their mind will now negotiate the best deal they can but will buy once they get a reasonable deal.

So how does the salesperson respond to the client’s internal buying process? So how can we help our clients buy? Well, here are a few thoughts.

The first obvious point is that the conversation is focused on the client and their needs. Stop trying to make a sales pitch which is by definition focused on you and your wants and needs. Take a more analytical approach and develop a question-based dialogue with the client that uncovers their wants and needs. Take your ego out of the equation.

Second and following on, stop telling clients and start asking them. Too many salespeople and self-employed people go into sales presentations so full of information, pumped up and so full of belief in themselves and their offering that they try to ‘convince’ the client of the virtue of what they have to offer. Actually, when I ask participants on start your own business courses their initial views on the characteristics of a professional salesperson, the word ability to ‘convince’ the client is often proffered. This I find worrying. You are not going to talk to a potential client and pound them into the ground with argument. Ask yourself the question in reverse. If someone came in to you and tried to ‘convince’ you without knowing your real needs or wants, what would you do? If it was me it would be a short meeting with the salesperson returning out the door from which he came quickly. Don’t use tactics that you would find unacceptable if you were the client. Ask yourself which salespeople you like to work with. I suggest that the salespeople you are most likely comfortable with are the ones that are interested in you, ask you questions to find out your needs and present the best solutions for your needs. I accept that there are cultural differences around the world. In Europe and America clients tend to be less impressed with ‘in your face’ salespeople whereas in many African cultures, ‘in your face’ negotiating is the norm. However, in most cases, if you ask the right questions of a client they will happily outline their position and needs. The important point is not that they are telling you their needs but in many cases they are using your questions to work through their needs themselves in their own head. In short, stop telling the client anything and start asking them questions and help them work through their buying process.

Is this new, not at all. Sales trainers have been trying to get salespeople to ask questions and listen more and talk less for years. There have been worked out systems developed, for example, SPIN selling is a techniques of asking different types of questions to move the conversation along to its culmination (see Rackham, N (1995), 'SPIN Selling' (Gower, Aldershot)).

How you apply this to what you do is, of course, up to you. You may want to make small changes to what you do rather than try and apply a completely new approach but consider making some changes if you feel that you are not making the most of the sales presentations you are making. One idea is to video yourself making sales presentations to colleagues and look at how much of the time you are talking and listening, could or should you be asking more questions, are you assisting the client through their buying process and how can I get over the cringe factor; 'did I really say that?' When I have done this myself I scare myself so I can only imagine how the client must feel. Do this in the comfort of your own office and keep the exercise real but you might surprise yourself at how you come across.

Do some reading on the psychology of buying and thinking. Before I do this I should declare that I am not on commission for any of this. I like SPIN selling but it really only works, in my opinion, if you have tried all the other 'techniques' and figured out that they don't work for you. That being said, always a good reference point. Other books I would recommend are 'Why we buy' by Paco Underhill which looks mainly at the retail buyer (see Underhill, P (2000), 'Why we buy: the science of shopping' (Texere, London)), 'Buy-ology' by Martin Lindstrom looks at how the brain actually works in relation to buying (see Lindstrom, M (2008), 'buy-ology: How everything we believe about why we buy is wrong' (Random House Business Books, London)) and a final suggestion is Malcolm Gladwell's 'blink' which looks at first impressions which is important in making presentations (see Gladwell, M (2005), 'Blink: the power of thinking without thinking' (Back Way Books, New York)).

Goal setting

Being in business is no good if you do not have a plan. Without having a clear plan of action you work aimlessly and waste time. Most self-employed people will admit that the one thing they do not have enough of is time. Goal setting is the difference between the professional success and the amateur failure. What we do today will shape our future. It follows that we can determine the shape of our future by planning and setting definite goals. But goals must be the following:

* Your goals must be realistic.
* Your goals must be your own, and you must really want them.
* Having set your goals now analyse exactly what you have to do to achieve them.
* Anticipate the obstacles you will encounter and prepare solutions for them.
* Set specific start and finish dates.

* List the rewards to be gained by you in specific detail.
* You must have a written down, action plan to achieve your targets and goals.

If we have nothing to aim at then we become bored and frustrated. By setting new goals we can overcome being bored. Allow your goals to be flexible; don't carve them in tablets of stone. It does work. If you believe it, want it, and work for it - you will succeed.

Why do customers stop buying?

This is the outcome of a survey some years ago for which I have lost the proper reference; my apologies. However, the statistics are taken down correctly. The researcher asked professional buyers if they had changed a major supplier in the previous 12 months. If the buyer responded that they had changed a major supplier in the previous year, the researcher asked for the reason they made the change. The answers were as follows:

1%	supplier died
3%	salesperson changed jobs or move away
5%	to favour friends
9%	changed or better prices
82%	company were unhappy with suppliers service

I give you this for consideration. The message I take out of it is that the main reason that we lose major customers is by providing poor service. Only a small percentage of customers changed to favour friends and only 9% changed for better prices. Remember that there is an opportunity cost to change a major supplier, getting to know new people, systems, styles etc. Thus, if we keep are existing customers happy we have a very good chance of retaining them and it is far cheaper to keep a current customer happy than to get a new one.

So the magic formula for building a successful business is:

Good customer service = repeat business = referral customers = more business

Not so complicated, is it?

Gaining customer commitment

I do not like the term ‘close’ but would rather focus on gaining customer commitment. You must empathise with the customer. They are being asked to part with hard earned money for a solution to a problem that they may not have realised they had. The more of the customers fears you allay the more likely you are to get the customer’s commitment.

Points to remember when asking for customer commitment:

* If at all possible **never ever sell on price.** Sell on the benefits.
* Identify your USP (**Unique Selling Point**): the main thing that makes you or your product different.
* First time stories are best. Close the sale when the benefits are fresh in the buyers mind.
* Radiate confidence. You will influence the customer. A salesperson who believes in themselves and their offering will be far more confident and convincing.
* Get the person to say 'yes' as often as possible.
* When asking for the order be polite, persistent and pleasant; demonstrate a quiet calmness.
* Don't throw in the towel at the first 'no'.
* Never introduce anything new at the end - it is distracting.
* When you ask for the order SHUT UP. He who speaks first loses.
* Avoid questions that invite a negative response.
* Try to keep something in reserve. A final carrot you might say.

Call backs are never as successful as expected. Customers tend only to remember the price tag and never the benefits. However, always leave the door open for a call back. If you have to make a call back never start with the standard "Have you thought about it?" It is better to say:

"An important point [benefit] from the last time is ...."

It allows you to reopen the discussion and remind the customer of the benefits that they will accrue from giving their commitment.

Remember that selling is a percentage game, the more targeted your approach the better your percentages. Strike rate (the number of successful sales presentations as a percentage of total sales presentations) can be increased by targeted marketing, good preparation and using referrals. It is a process of trial and error. The more you try the better your chances of success. Learn from your mistakes and try to constantly improve your presentations and make sure to focus on the client and their needs, demands and their 'buying process'.

Thus, for your business plan you have worked out:

- Your market and market niches
- The elements of your marketing mix and how they work together
- Your sales strategy
- Your competitive market advantages
- Your Unique Selling Point

Exercise 4

Marketing

Q.1 What market are you in?

Q.2 List 5 types of business that your offering can benefit

- ❑
- ❑
- ❑
- ❑
- ❑

Q.3 List 5 Benefits to a customer that your offering brings.

- ❑
- ❑
- ❑
- ❑
- ❑

Q.4 List 5 main concerns that a customer might be expected to raise in a sales meeting.

- ❑
- ❑
- ❑
- ❑
- ❑

Q.5 Give an answer to each of the concerns raised

- ❑
- ❑
- ❑
- ❑
- ❑

Finance and Financial Projections

Introduction

Don’t Panic!

Financial projections and cash flows tend to send most new business people running. But relax, they are far less complicated than they look at first sight and once you master them the first time they become second nature. Financial projections are simply stating what is known about the business in numbers to the best of our knowledge. It tends to be the formats and formulae that send people running. We shall start at the beginning and work our way through.

The process is simple. We will start by collating all the different pieces of information that we need so we can make the most accurate estimates available to us at the time. In principle, costing on expenditures tend to be easier, i.e., we can judge the telephone and electricity bills from our own experience. Most people have problems trying to judge the sales figures. However, this can be overcome.

Doing Financial Projections – some simple rules

To make financial projections, which are future estimates of what we think will happen in the particular timeframe; we must make educated assumptions and from these determine realistic estimates. The most important thing to remember is to bring the information down to the lowest common denominator. Nobody can project a sales figure for a year off the top of their heads, but most people could project the sales for a specific week. Here are a few suggestions to start you off:

- Try and project figures over a short period of time and then extrapolate these figures up. For example, work out figures by the week and then multiply up to month and years. In this way it is easier to estimate as most people have a good idea of figures on a weekly basis.
- Try to think in quarters. Remember that there are thirteen weeks in a quarter. Thus in every three month cycle there are two months with four weeks and one month with five weeks. This extra week can make a difference particularly when working from a weekly basis. If you forget to cover this thirteenth week you can get into difficulties as you have thirteen weeks of overheads.
- We don’t work fifty-two weeks a year. You lose time from Christmas or other religious holidays, summer holidays and sick leave. Factor in a number of weeks of non-earning, but remember bills tend to run over the whole year. Therefore leave at least four weeks per year with no income to cover sickness and other eventualities if you have nobody else in your business.
- Learn the business cycle in your sector. Every business has a business cycle. In any year there are good, bad and average weeks. It usually takes time to find these cycles out, but they are very important, especially when projecting income and cash flow.

- Cash flow is about exactly that, cash! Remember that it is time when bills or receipts are paid from the bank that counts, not when invoiced. Thus if you have to wait sixty days for payment, January invoices do not actually appear in the cash flow until March. If you get credit from suppliers you enter the cash flow payment when the cheques are paid not when the invoice is received.
- On the subject of invoices and statements, remember that few businesses actually pay out on invoices anymore. The norm is to pay out on monthly statements. Thus there are two things to remember. One if you do not send out monthly statements you won't get paid. Secondly, most businesses will take their thirty days credit from receipt of the monthly statement. Thus to be safe, if you invoice at the beginning of the month and send the statement at the beginning of the next month, the customer will take another month to pay, and it will take several days to draw up invoices and send payments. Therefore an invoice in early January will be sent in the January statement in early February. The customer will look to pay this in early March and will take up to two weeks to get the payment to you. This is now mid to late March. Remember this is quick payment in the modern business environment.
- As a rule be realistic, it is better to be conservative with the sales estimates (slightly underestimate) and liberal with the payment estimates (slightly overestimate).
- Try to compare figures with similar ventures. A shop of a certain size, on average, uses the same amount of electricity no matter what it is used for. Thus compare your figures with a similar venture that is not in competition with you.
- Dealing with Sales Tax (Value Added Tax etc). As a rule, sales taxes belong to the State so your figures should be developed as exclusive (without) the sales tax. If you are not required to register for VAT include the total (VAT inclusive) price on all incomes and expenditures.

Estimating turnover/sales

This is usually the part of the process with which people have the most difficulty, so let's get it done and dusted at the start. Every business has a business cycle. You need to understand this early. Even retail have high and low months, believe it or not event the Revenue Commissioners have busy and slow months. If you do not know your business cycle, then you are at a serious disadvantage in planning your business.

To start let us assume that there are good, bad, average and closed weeks in any year. This is the first thing we need to estimate. So in year one, there are going to be four types of week, try and estimate what the total sales/turnover (this is nothing to do with overheads) will be in each type of week:

Type of week	€/£/$
Good (a G week)	
Bad (a B week)	
Average (an A week)	
Closed (a C week) (up to 4 weeks)	0

Having done the first part of the exercise we now work out the business cycle. The following is a weekly planner for your first year. Each box represents a week and remember that four months have 5 weeks in them as there are 13 weeks in a quarter. Follow the exercise below:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Week 1												
Week 2												
Week 3												
Week 4												
Week 5												

Step 1 - Now insert a letter (G, B, A, C) into each box, so that the corresponding week in the calendar is represent by the letter most appropriate, a G if you believe that this will be a good week, an A for an average week, a B for a bad week and a C for a closed week. A tip: write the letter small; don't use up the whole box.

Step 2 – Now place the figure you estimated for a good, bad, average and closed week into the corresponding boxes.

Step 3 – add up the monthly figures and put them into the following table

Month	€
January	
February	
March	
April	
May	
June	
July	
August	
September	
October	
November	
December	
Total	

Congratulations, you now have your first year projected sales figure, and your monthly sales figures for your cash flow projections.

Now there are usually only a few reactions to the outcomes of this exercise.

1. The sales figure is less than you had expected. If this is you, then be comforted that this is the majority reaction. Most people overestimate their turnover in the early years. This is why many people get into cash flow difficulty. You now need to look at your sales figures. Are you charging too little for your good or service? How much volume of sales do you actually need to break even? We will cover these questions later.
2. The sales figure is about what you expected. Usually people who have done the most market research, or have worked in the trade, have a good picture of sales. Do not get too smug, projecting and delivering are two different things. Check your figures regularly.
3. Only a seldom few find that they have underestimated their sales. Usually they have overestimated their sales figures, so go back and check your figures again.

Many businesses might have several lines of income, for example, as a consultant I would have management consulting, business advice and training as my main lines. Each one has a different profile so I would do the exercise above for each income stream and then have each itemised as a line in my cash flow. The total income being an aggregate of the different income streams. So, do the exercise for each sub income you have and then build up the total income by adding up your different income streams.

Projecting costs

There are a number of different types of costs, such as:

1. Material costs
2. Set up costs
3. Fixed costs
4. Variable costs

Each has their own profile and need to be defined separately.

1. Material costs

These are the cost of raw materials and the input costs of making a good or service. Usually the raw material costs to make a good or service are relatively fixed. Importantly, you can usually work out the cost of raw materials as a percentage of your sales. Thus if a good costs €100 to make and materials costs are €45, then you know that you have €55 towards paying overheads. In this case the cost of materials is 45% so the more of the good or service you sell, 55% of the overall turnover is available to cover other costs. When the level of sales reaches a figure when the 55% is sufficient to cover all the overhead costs, then you have reached breakeven. Every sale above the breakeven sales results in profit being generated.

2. Set up costs

The first thing you need to list is all the items that you will require to set up your business operation. These tend to be the one off costs, i.e., a computer, printer, desks, chairs, key money if required, painting and decorating, fixtures and fittings etc. Once you have made a list of these try to put realistic prices on things. Use Stationery Company directories, i.e., Viking or Axis. This will give you an accurate cost for setting up the operation.

3. Fixed Costs

Fixed costs are those incurred in carrying out the business that are set and do not vary. Examples are rent and rates, permanent staff costs, insurance, all bills paid in instalments, etc. The key characteristic is that these bills do not change no matter whether you have a good week or a bad week. Once listed put the annual costs down beside them, and the frequency of payment.

4. Variable Costs

Variable costs are those incurred in carrying out your business that change as business volume change. Examples are electricity, occasional labour costs, wrapping, delivery costs, etc. The main characteristic of these are they increase and decrease as business volumes increase and decrease. Again make a list of these and work out weekly assessments for a good, bad and average week.

Now that you have an idea of the types of costs you are likely to incur, we can have an attempt at working our some of these figures/

The following are exercises to help you work out your costs. I have put in some of the more common headings, but left room for your own business-specific costs. You have the opportunity to work out costs either on a weekly, monthly, quarterly and annual basis. Some bills are paid weekly and some bills are paid once-a-year, so put down the lowest common denominator and then work out a total yearly cost (weekly by number of weeks etc).

Materials costs

Description	Weekly	Monthly	Quarterly	Annual	Total

Set up costs

Description	Total
Furniture	
Carpet	
Paint	
Fixtures	
Computer	
Printer	
Fax	
Telephone system	
Signage	
Branding	
Company set up and registration	
Register business name	
Stamp duty on premises	
Legal costs on premises	
Tea/coffee making, crockery, cutlery etc	

Fixed costs

Description	Weekly	Monthly	Quarterly	Annual	Total
Rent					
Rates					
Service charges					
Salaries					
Broadband/line rental					
Insurance (public liability/commercial)					
Insurance (motor)					
Motor tax					
Legal fees					
Auditing fees					
ICT security costs					
Insurance (Professional indemnity)					
Fire/security alarm costs					
Leased office equipment					

Variable costs

Description	Weekly	Monthly	Quarterly	Annual	Total
Electricity					
Gas					
Phone, fax calls					
Casual labour					
Delivery costs					
Postage/couriers					
Income/corporation tax					
Cleaning products					
Sundries (loo rolls, tea and coffee)					
Stationery					
Light & heat					
Bank charges					
Repairs/maintenance					
Advertising & promotion					
Training/continuous education					
Travel expenses					
Room/hotel hire					
Train tickets					
Plane tickets					

Now that we have a picture of your income and expenditure, it is time to look at preparing a cash flow forecast.

Cash Flow Forecast

Let us start simply and build the model up.

The starting point for a cash flow forecast is a monthly balance of incomes versus expenditures. An example is given below. There is an initial monthly loss of €5,042.70. It is common to make losses in the first few months.

Month	month 1
Income	
Sales	13500
Debtors	0
Total Sales	13500
Expenditure	
Materials	15500
Wages	0
Rent and Rates	500
Post, phone & Stat.	100
Adverts & Promotion	500
Electricity	125
Transport	160
VAT / Tax, auditing	0
Insurance	150
Interest & repayment	307.7
Sundries	200
Drawings	1000
Total expenses	18542.7
Opening Balance	0
Monthly Balance.	-5042.7
Closing Balance	-5042.7

This is quite a simple operation that most businesses and households would carry out regularly.

Next let us have a look at a quarter, or three-month period

Month	month 1	month 2	month 3
Income			
Sales	13500	13950	13950
Debtors	0	0	0
Total Sales	13500	13950	13950
Expenditure			
Materials	15500	12080	10080
Wages	0	0	0
Rent and Rates	500	500	500
Post, phone & Stat.	100	100	100
Adverts & Promotion	500	100	100
Electricity	125	125	125
Transport	160	160	160
VAT / Tax, auditing	0	-17.93	0
Insurance	150	150	150
Interest & repayment	307.7	246.15	246.15
Sundries	200	200	200
Drawings	1000	800	800
Total expenses	18542.7	14443.22	12461.15
Opening Balance	0	-5042.7	-5535.92
Monthly Balance.	-5042.7	-493.22	1488.85
Closing Balance	-5042.7	-5535.92	-4047.07

This is just three months income less expenditure brought together.

As you can see there is a running total on the bottom.

The opening balance at the beginning of the month (which is the same as the closing balance of the previous month) less the monthly balance which is the income less the expenditure for that month gives you the closing balance for that month (which is carried forward to become the opening balance for the next month).

Again if you look at this quarterly cash flow you will see that it is the trading figures for each of the three months correlated separately, and the running total is kept at the bottom.

Now if you were to prepare the trading figures for the twelve months separately, and then keep the working totals at the end, you have the cash flow forecast for the next twelve months, such as:

Month	Month1	month 2	month 3	month 4	month 5	month 6	month 7	month 8	month 9	month 10	month 11	month 12	Totals
Income													
Sales	13500	13950	13950	13500	23250	22500	23250	26350	23800	26350	25500	26350	252250
Debtors	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Sales	13500	13950	13950	13500	23250	22500	23250	26350	23800	26350	25500	26350	252250
Expenditure													
Materials	15500	12080	10080	12600	12650	15650	20200	14700	17250	19750	19900	20000	190360
Wages	0	0	0	350	280	280	350	280	280	350	280	280	2730
Rent and Rates	500	500	500	600	600	600	600	1450	600	600	600	600	7750
Post, phone & Stat.	100	100	100	100	100	100	100	100	100	100	100	100	1200
Adverts & Promotion	500	100	100	100	100	100	100	100	100	100	100	100	1600
Electricity	125	125	125	125	125	125	125	125	125	125	125	125	1500
Transport	160	160	160	160	160	160	160	160	160	160	160	160	1920
VAT / Tax, auditing	0	-17.93	0	657.93	0	2406.9	0	2027.58	0	1813.8	0	1648.28	8536.56
Insurance	150	150	150	150	150	150	150	150	150	150	0	0	1500
Interest & repayment	307.7	246.15	246.15	307.7	246.15	246.15	307.7	246.15	246.15	307.7	246.15	246.15	3200
Sundries	200	200	200	200	200	200	200	200	200	200	200	200	2400
Drawings	1000	800	800	1000	800	800	1000	800	800	1000	800	800	10400
Total expenses	18542.7	14443.2	12461.1	16350.6	15411.1	20818.0	23292.7	20338.7	20011.1	24656.5	22511.1	24259.4	233097
Opening Balance	0	-5042.7	-5535.92	-4047.07	-6897.7	941.15	941.15	898.45	6909.72	10698.6	12392.0	15380.9	
Monthly Balance.	-5042.7	-493.22	1488.85	-2850.63	7838.85	1681.95	-42.7	6011.27	3788.85	1693.5	2988.85	2090.57	
Closing Balance	-5042.7	-5535.92	-4047.07	-6897.7	941.15	2623.1	898.45	6909.72	10698.6	12392.0	15380.9	17471.5	

General Comments regarding cash flows

- The first reaction of most people to seeing a 12-month cash flow for the first time is usually horror. Anybody who dislikes math will usually be running for the headache tablets. However, I hope that by showing you how it is built up from scratch that you will not be so horrified and have less need for the headache tablets.
- Once you have the first draft of the cash flow completed it is time to double check your assumptions. Let us start with cash receipts. How realistic is it to have cash receipts in the first month. Remember if you give thirty days credit, you will not see any payments in month one and with late payment you may not see the money until month three. So check how long it will actually take to get paid.
- On payments record when you are actually going to have your cheques cashed. You may have a credit term agreed and thus you may not have to pay for thirty or sixty days.

- Always make allowance for your full wages from the business. Some people say that they will survive and wait for the business to grow. Don't do this. The purpose of the exercise is to make money for you. If you do not make allowance for the money that you want you will not get it and as you have underestimating your overhead expenses then you are underestimating your true breakeven point (see later). Put in a real wage for you. If your sales are lower than estimated then you will be the last to be paid but at least you have a realistic sales figure to aim at.

Okay, now you have a cash flow completed, congratulations. From this you can now work out 3 other important things: your profit or loss based upon the cash flow by drafting an income statement for the year, very importantly you can work out your breakeven sales figure and, finally, you can develop a balance sheet for your venture.

Let us continue:

Income statement

This is the account that summarises your profit or loss for the year. There is a formula to work this out:

Turnover	**€**	**A**
Purchases	**B1**	
Plus Opening Stock	**B2**	
Less Closing Stock	**B3**	
Equals Cost of Sales	**B4**	**B**
Gross Profit (turnover – cost of sales: A-B4)		**C**
Less Overhead Expenses		
Rent and Rates		
Telephone		
Salaries		
Motor Expenses		
Etc		
Total expenses	**D**	**D**
Net profit (Gross profit – overheads: C – D)		**E**

But there is a simpler version. The totals column from the cash flow will give you the same information except for making allowance for opening and closing stock. If stock levels are not significant, you could use the total column of the cash flow as a simplified income statement. However, your accountant or bookkeeper may disagree. Another point to remember is that overheads are your costs excluding material or input costs. You need to distinguish material/input costs and other overhead costs.

Breakeven Sales

Welcome to the most important figure you need to know before starting a business venture. Here is the step-by-step guide:

There are a number of figures you need to work out before you can estimate your breakeven sales.

1. Contribution to overheads. This is what is left over when you subtract the cost of materials from the total sales, both in percentages. If you remember the earlier example of a good with a cost of €100 and materials of €45. The balance is the contribution to overheads. In this case 100%-45% = 55%. 55% is the contribution to overheads.
2. The total figure for overheads in euros. Overheads do **not** include the cost of materials, but includes nearly all other costs.

From these two figures you can work out your breakeven sales figure through the following formula:

$$\frac{\text{Total overhead (in €)}}{\text{\% Contribution from Sales}} \times 100 \qquad \frac{10{,}000}{40} \times 100 = €25{,}000.$$

Thus, and for example, if overheads ran at €10,000 and the contribution to sales was 40% (thus, materials/inputs make up 60% of sales revenue) then the breakeven figure is €25,000 per annum i.e., the total amount of sales/turnover you need to generate just to make no profit and make no loss.

You can work these figures out over your total sales and total overhead figures. But in real life the sooner you reach breakeven, the more viable the business will be. You cannot keep making losses and survive.

A final point, your breakeven sales figure is **not** your target sales figure; it is your minimum sales target. Your actual sales target should be determined by the size of the market, customer demands etc and should well exceed your breakeven figure.

Balance Sheet

A balance sheet is a statement of the assets of a business at a particular point in time, and lists the monetary value of current assets against current liabilities. The formula is as follows and 1 and 2 should balance:

Current assets		**€**
Debtors (People who owe us money)	**1a**	
Stock (Value of stock in hand)	**1b**	
Cash in hand (not lodged/petty cash)	**1c**	
Cash in bank	**1d**	
Total assets		**1**
Liabilities / Owners Funds		
Opening Balance (bank account)	**2a**	
Profit & Loss (from income statement)	**2b**	
Creditors (people we owe money to)	**2c**	
Total liabilities		**2**

In the initial stages of setting up a business, particularly one that has not traded then balance sheets may not be that important. It is in later years when assets, profits and losses are involved that the balance sheet becomes more important.

Oh yes! Total assets always match total liabilities. If they don't you have something wrong, hopefully a totting error. If not, then…

Exercises

There now follows a few exercises just to check you got it right. Good luck, answers follow on.

Exercise 5

Income Statement

The Managing Director of "The Whatever Company" is trying to prepare his income statement for last year. He feels very good because turnover has increased by 10% and is now €100,000. His stock levels ended the year having increased by 10% over the opening stock of €15,000. Purchases of raw materials make up 60% of the turnover. Overheads have been about normal. Wages are €30,000, rent €4,000, light and heat €1,000, administration is €1,500, advertising is €2,000, motor expenses stand at €5,000 and his phone bill is €1,000. From the information given, work out the Whatever Company's income statement. Did they make a profit or loss?

		€
Turnover		*
Purchases	*	
Plus opening stock	*	
Less closing stock	*	
Equals cost of sales	*	*
Gross profit		*
Less overhead expenses		
Wages	*	
Rent	*	
Light & heat	*	
Administration	*	
Advertising	*	
Motor expenses	*	
Phone bill	*	
Total overheads		*
Net Profit		*

Exercise 6

Breakeven Sales

Given the information in exercise 5 on the Whatever Company, work out the company's breakeven sales figure for last year.

$$\frac{\text{Total Overheads}}{\text{Contribution to Overheads}} \times 100$$

Answers

Exercise – Income statement

Turnover		**€100,000**
Purchases	**€60,000**	
Opening stock	**€15,000**	
Closing stock	**€16,500**	
Cost of sales	**€58,500**	**€58,500**
Gross profit		**€41,500**
Overheads	**€44,500**	
Net Loss		**€3,000**

Exercise – Breakeven Sales

Overheads = €44,500
Contribution to Overheads = 40% (purchases = 60% of turnover)

44,500/40 * 100 = €111,250

A few Financial Considerations

Grants: Depending on where you are and your personal circumstances you may qualify for grant aid but as a rule grants have strict criteria both in relation to who qualifies for grant aid and what the grant can be used for. Grants may be specifically for buying capital equipment or for a feasibility study or to employ someone but they are rarely open ended. There may well be social welfare programmes to encourage you to become self employed and these may constitute a grant. You need to make yourself aware of what financial assistance is available to your situation. Look up websites for your economic or enterprise agency or government department, social welfare service or department of finance to gain more information.

Loans: Mostly, retail banks are the main sources of loans although local development organisations and credit unions are also a possibility. Remember that a loan must be repaid usually with interest. The amount of interest can be quite significant and a rough guide to the amount of interest is the simple interest formula:

$$\textbf{Interest} = \frac{\textbf{Premium (amount borrowed) x Time x Rate of interest}}{\textbf{100}}$$

So if you borrow €5,000 over 10 years at 8% say, the amount of interest to be paid in addition to repaying the premium would be €4,000. So the premium repayments would be €5,000 and the interest would be €4,000 and thus the total amount to be repaid is €9,000 over 10 years or €900 per year or €17.30 per week. So, the rate of return must be higher than this to justify taking out the loan.

Other financial instruments that banks have available are:

- Overdraft facilities: these allow the account to go into the debit up to an agreed amount for an agreed amount of time but for a higher interest payment than on normal loans. Overdraft facilities need to be agreed in advance.
- Financing & leasing: these are facilities to buy capital equipment mainly but can be arranged for other overheads. There is a fixed rate of interest and you buy the item over 3 years with a fixed quarterly payment. Again, acceptance for these facilities must be approved in advance.

Taxation: you will need to register for taxation in most countries and this is a technical area that you will need to take advice on locally. However, remember that profits and sales may well be taxed and the effects of taxation will have an impact on your bottom line. So remember to work out the post-tax implication of your profit/loss before making a decision to 'go/no go'.

Insurance: Insurance is the peace of mind that businesses require. In principle there are several types of insurance that you may require:

- Public Liability Insurance. This is general insurance against public accidents and mishaps. It is usually compulsory when going into another premises or if you are having people in your premises.
- Contents Insurance. Again if you have premises and you have stock, equipment, tools etc. then you will need to insure them against fire, theft etc.
- Employer Liability. Compulsory if you have employees and covers you against accidents to employees and damage done by your employees on others.
- Professional Indemnity – If you are giving advice or professional services then you need this. It covers you against claims against advice that you have given. Any professionals, consultants and advisors must have this.
- Commercial Motor Insurance. Your private car insurance will not cover you if the car is being used for commercial purposes if an accident happens. Any tools, equipment, stock or samples stolen from a private car cannot be claimed on a private insurance policy.

Some people starting up take risks by not having enough insurance. When preparing your business plan you should make full allowance for the costs of all the insurance cover that you will need.

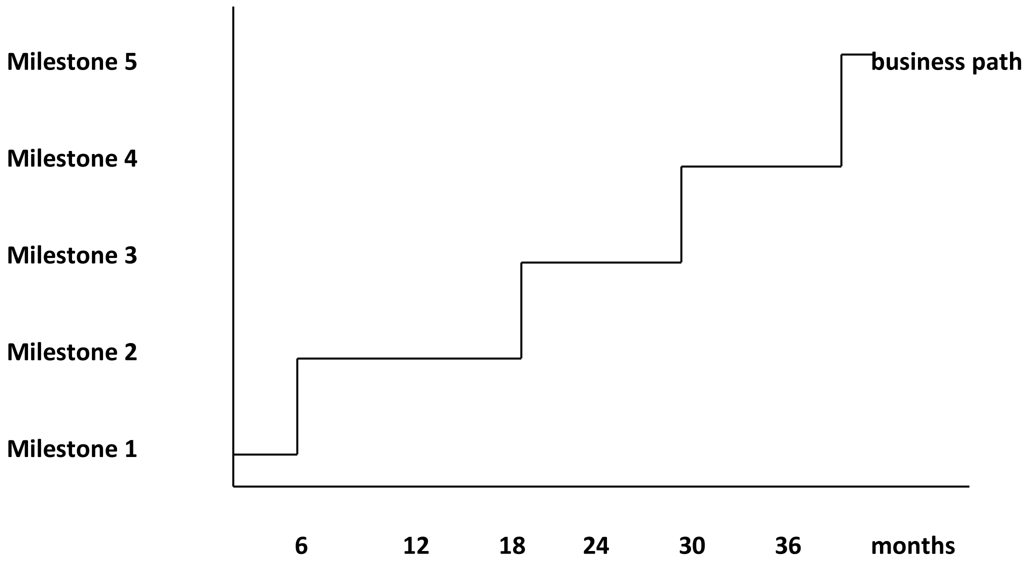
How much money do you actually need and when?

Let me introduce you to the concept of 'stepped funding'. This is a critical concept for start-up ventures to understand and applies just as much for small loans from retail banks to venture capital investments.

Capital (money invested in the business in order to both return the capital in full plus make a profit/interest/rate of return) is expensive. You are going to have to repay the capital plus interest. Thus, you only want to put in the right amount of capital at the right time. There is no point in having investment money tied up in a deposit account earning little interest if you are paying a higher level of interest for the right to have access to the capital. So capital is invested at specific times, at specific amounts for a specific reason.

Working capital for day-to-day operating expenses yields little, if no, return on investment and thus you will not want to put high-interest capital to use for this purpose. Working capital should be funded by the owner's investment or loans or through short-term instruments such as fixed-term loans, financing and overdrafts. Investment money should be used on expenditure that yields high rates of return; capital equipment, key people, market development and exploitation, product development. So when making a case for investment you should demonstrate how the capital will be used to maximum effects and when it will be required.

The following will help explain the point:



Say you want to develop a new venture and in total you are going to need say €20,000 in total over a 3-year period. How do you make your business case to a bank or investor?

Many people make the mistake of going in with a cash flow forecast showing they need €20,000 in total investments and ask for €20,000. This is a mistake. How would the following business case sound as an alternative.

We need to start this business venture with an initial investment of €3,000. After 6 months we have set a key milestone to [achieve key market goal or product development goal] and this will require a ramp up of operations and an input of additional investment of €5,000 to make that happen. Our next key milestone is a market ramp-up at the 18-month stage. This will require an additional investment of €7,000 at that stage but will result in a significant increase in turnover and revenue. At 30 months we hope to introduce the higher-end product in our range to market and this will require an additional investment to bring to market of €2,000 at that time. Our final milestone is to increase that product's sales into a key customer at the 36 month stage and that will require an additional ramp up of €3,000 to make that happen. Thus, our total funding requirement would be €20,000 over a 3-year period but our initial requirement is only €3,000 at the moment and any additional investment would be dependent on our reaching our milestones. Thus, you can limit your liability by an initial €3,000 investment and increase your investment based upon our proven track record into the future. If we don't make our milestones then you have a limited liability which we can secure by…

If you were the investor which would you put your money into? This is the basis of all venture-capital funding investments. The VC fund will give an initial small investment (although to many ordinary people quite a significant investment) to achieve initial milestones and you will only get an additional round of funding if you meet your targets on this round and will only be funded to the next key milestone. The idea is that every time you reach the next key milestone that the value of the venture will have increased and the company can be revalued higher for the next round of funding, thus justifying the increased investment. If you do not meet your targets you get no further funding and, usually, the business venture dies.

However, even if you are talking to your local-bank branch manager the importance of stepped funding cannot be underestimated. If you can break down the development path of the business into its stages it gives you immense credibility and it allows the investor to limit their exposure; a very important factor in the post-recession funding environment.

Thus, for your business plan you have worked out:

- Your estimated turnover/sales targets
- Your start-up, materials, fixed and variable costs
- Your cash flow forecast
- Your income statement
- Your breakeven sales figure for year 1
- Your balance sheet (if you have assets)
- Sources of funding
- Tax implications and
- Your stepped-funding requirements

The Implementation Plan

When you have written the main points of your business plan you will have the executive summary, management, operations, market research, sales and marketing and finance covered. If you are going ahead with the business idea then the next thing is to draw together all the key action points in the different sections and develop a timetable of what, when and how to turn the idea into a reality.

A business plan without an implementation plan is like having a grocery list but not going to the shops. So make sure that you have a targeted timetable and a running order of actions.

Example.

Week 1	Write business plan
Week 2	Get plan independently assessed.
Week 3	Register with Revenue Commissioners
	Register with Registrar of Business Names
	Talk to Social Welfare and Partnership.
	Talk to Bank Manager
Week 4	Talk to printers about stationery
	Start Marketing Plan
	Talk to graphic artist
Week 5	Make list of potential target clients
	Identify small test market
	Prepare and send letters
Week 6	Make appointments and start trading
	Etc.

Make sure your targets are realistic. Take your time and don't rush your start, do the obvious when obvious. Allow time to learn by your mistakes. But have a timetable and review it as necessary.

Conclusion: what next?

Having gone through the different sections you should now have enough information to draft your business plan, or at least a first stab at it. It is important that you actually write down the plan and bring the key points together. If you do not you cannot assess how to proceed with the business idea. So write it down.

Next, having written your business plan you should make an assessment of the business idea. I normally outline 4 possible outcomes to this process:

1. This is a good business idea, it is viable and I have the skills and resources necessary to implement it and I am going to go ahead and set up
2. This is a good business idea, it is viable but I am not ready yet. I may need to work and get more capital behind me before I start or I may need more experience, training or qualifications before I go ahead. I will reassess this business idea in 12, 18 or 14 months and then make a decision of whether to go ahead at that stage
3. This is a good business idea but it is not for me. There may be many reasons for this as you may not like the sector or the way the business operates. For example, franchising is an increasingly important mechanism for starting businesses and can be very successful for many people. Yet, many creative-type people would hate a franchise as the franchise manual would set out every aspect of the business in great detail and there would be very little scope for change or creativity
4. This is not a viable business and would not make money

All 4 are equally worthy as it is better to understand the business idea and your commitment to it before you invest money, time and energy into it. It is certainly better to write a business plan and figure out that the idea would not make money and not do it rather than starting the business and learning later on that it is loss making and actually lose money on the venture.

If your business idea appears no to be viable, don't take it personally. People ask me in courses whether their business idea is a good one, seeking approval. I know that people have considerable personal ego wrapped up in their business idea but the answer I give is that businesses are not good or bad but viable or not. The acid-test to whether a business idea is viable or not is in the bottom right-hand corner of the cash flow forecast. If the figures are positive then it is viable, if they are negative it is not.

The purpose of doing a business plan is to take a cold, hard look at a business idea and only go ahead with it if you are dispassionately convinced that it is viable and worth your time, energy and financial investment in it. If this one doesn't add up, another business idea will appear soon.

Notes

Please use here to make notes as you go through the book

Germaine & Associates

www.germaine.eu.com

http://startyourownbusinessblog.wordpress.com