



Managing your business >

Starting your Business

01



INTRODUCTION

THIS BOOKLET HAS BEEN PRODUCED AS AN AID TO THOSE PEOPLE WHO ARE TRYING TO SET UP IN BUSINESS. A BUSINESS, JUST LIKE A HOUSE, HAS A NEED FOR A FIRM FOUNDATION. THE FIRM FOUNDATION FOR YOUR BUSINESS SHOULD BE A SOLID BUSINESS PLAN SUPPORTED BY GOOD BUSINESS ADVICE.

THIS BOOKLET WILL HELP YOU THINK THROUGH ALL THE AREAS YOU NEED TO CONSIDER BEFORE GOING INTO BUSINESS AND IT WILL HELP YOU PRODUCE YOUR OWN BUSINESS PLAN. YOU ARE WELCOME TO WORK THROUGH THE BOOKLET ON YOUR OWN, BUT YOU CAN ALWAYS APPROACH YOUR LOCAL ENTERPRISE COMPANY.

IT IS UP TO YOU TO ASK FOR HELP AND YOU WILL FIND THAT HELP IS READILY AVAILABLE.

GOOD LUCK WITH YOUR BUSINESS.

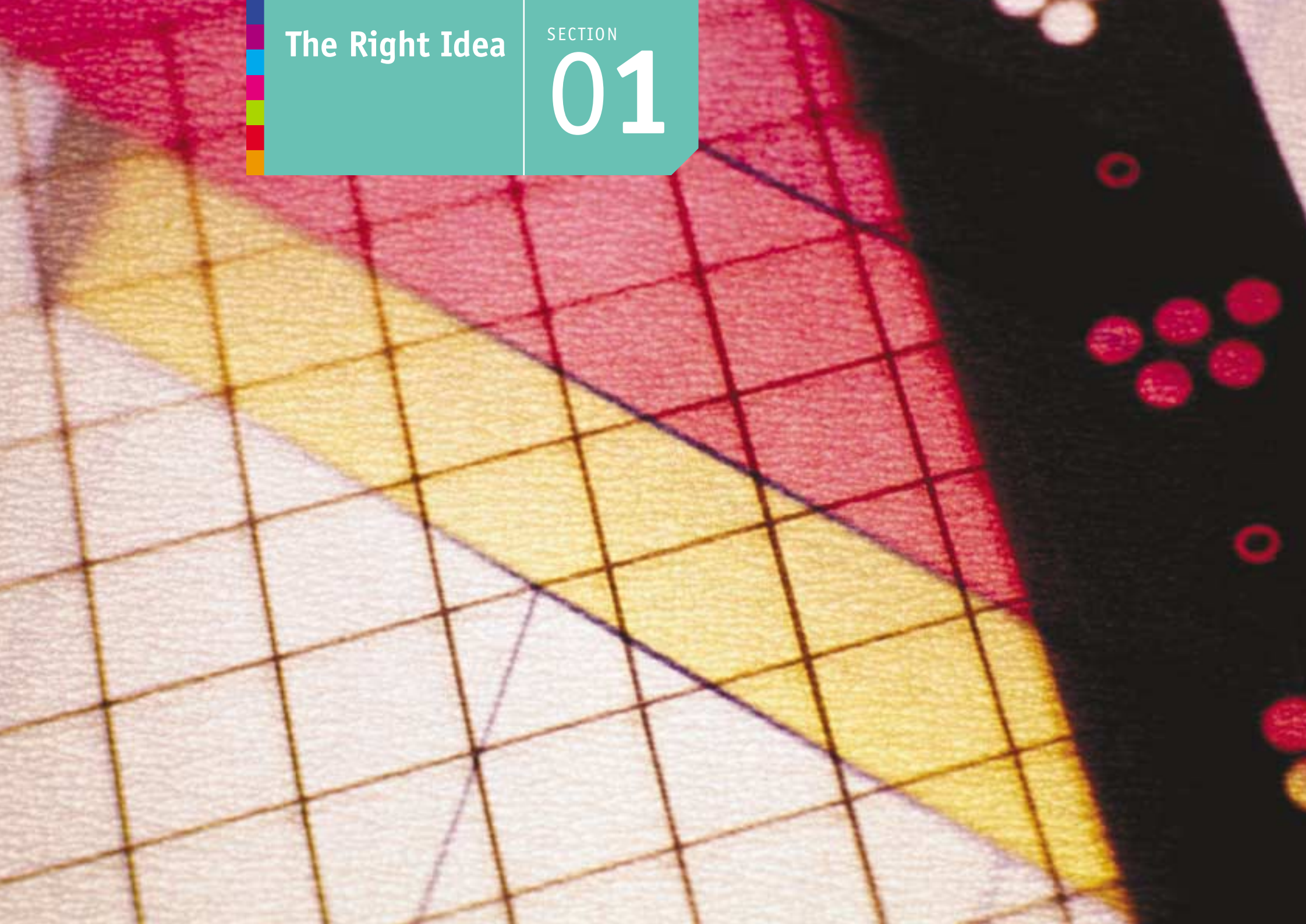
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The Right Idea

SECTION

01



Whether you are building a house or setting up in business, the first step is to get the design right. There is little point building a house if you leave out the kitchen or bathroom or forget to look for planning permission. Similarly, there is no point setting up a business for which there are no customers.

The success of your business, just like the success of your house, will depend on a number of factors, which will be covered in this guide. The first of these is making sure your idea is right; right for finding customers, right for making profits and right for you as a person.

Finding Customers

The best way to establish customer needs is to ask your potential customers. Different ways to do this are set out on the next page with their advantages and drawbacks. To find customers you need to do market research; you must find out who your customers are, what your customer needs are, the size of your market and details of your competition.

Needs are sometimes not completely obvious. For example, people buy landscaping services to keep the grass down but they might also want to add value to their house, to save time, to impress the neighbours or to reduce hassle at home. When you know your customers needs you can design your product or service to meet those needs.

Interviewing potential customers

Whichever way you choose you should design a short questionnaire for use in your research. A sample is attached at the back of this publication but here are some

practical tips to help you:

- Think very carefully about what you want to find out
- Keep the number of questions short
- Use simple language
- Ask questions which encourage people to give straight and direct answers
- Try to put easy questions at the start
- Leave any sensitive questions, such as money spent or personal details, to the end of the questionnaire
- Especially if you are doing a postal survey, pilot or test your questionnaire design before spending lots of money on printing a questionnaire which does not give you the information you need. Also, get someone else to check any printed material for spelling or grammatical mistakes; you never get a second chance to make a first impression
- Take a look at any questionnaires you may have received or seen elsewhere

If you do not want to use a full questionnaire, it is a good idea to have a list of questions you want to ask before you go out to talk to people. It is also important to record all the information people give you.

Consider how many potential customers you will interview. You need to contact enough to give you confidence in the results of the research. As a rough guide, if you are going to do something like supply builders with steelwork you should aim to talk to at least 20 builders; if you are planning a new hairdressing salon you might talk to at least 100 potential customers. Do not just interview friends and neighbours; they will be anxious to help you and so may say what they think you want to hear rather than give you their true thoughts.



WAYS TO RESEARCH	ADVANTAGES	DRAWBACKS
<p>Talking face-to-face to people; this can be in the street, door-to-door, at exhibitions or trade shows, on business premises or in small groups</p>	<ul style="list-style-type: none"> ■ You are in complete control ■ You can 'see' reactions as well as hear them and you can respond to people during the interview ■ There is less chance of misunderstanding what people are saying 	<ul style="list-style-type: none"> ■ Can take quite some time and therefore can be expensive ■ Not everyone will be prepared to talk to you ■ People can say what they think you want to hear ■ Not all of us are good at asking questions
<p>Talking to people on the telephone</p>	<ul style="list-style-type: none"> ■ Can be quite fast; you can contact a lot of people in a short time ■ Inexpensive ■ You can 'target' people easier by choosing those you want to talk to ■ If you listen well, you can answer people during the interview 	<ul style="list-style-type: none"> ■ You may not like using the telephone ■ Not everyone will agree to speak to you and it is very easy to say no on the telephone ■ It might be difficult to get through to the decision-maker, especially in larger businesses or public bodies ■ You cannot see the person you are talking to and you may not be able to establish a relationship ■ It can be difficult to pick the right time to talk to people
<p>Carrying out a postal questionnaire</p>	<ul style="list-style-type: none"> ■ Can be quite fast; you can contact a lot of people in a short time ■ You can estimate your costs exactly ■ There is at least a chance people will keep or pass on your material and you might get business at some time from it ■ People can see your document and take time to read it 	<ul style="list-style-type: none"> ■ It is very difficult to design questionnaires properly ■ The number of replies from postal surveys is usually very low ■ People are used to high quality mailings so you may have to spend a good bit of money to get your presentation right ■ It can be difficult and expensive to get accurate lists of people to contact

V

EXAMPLE:
People spend £2 a week on shoes. There are 3,700 people in Ammanford Town and so, by multiplying the two figures together, we see the market for shoes in Ammanford Town is £7,400 per week.

Using published material to research your market

Estimating the size of the market can sometimes be done by using published material.

This includes Government statistics and published market research reports. For example, the Census will tell you how many people there are in a town or village.

If you were planning to open a shoe shop you could easily get the numbers of people in the area of your shop. You could then use the Household Budget Survey to find out how much people generally spend on shoes and multiply the two figures together to get an estimate of the market.

Published material can also include trade magazines, newsletters and newspapers. It can include reports from different bodies both government and private sector. The best place to look for material like this is your local library and much of it will also be found on the Internet. Don't forget the competition however! You will find their details in the *Yellow Pages*.

Checking out the competition

Checking out the competition can be done in a number of ways:

- Get copies of their printed material; brochures, leaflets, catalogues
- Look at their advertisements
- Ask other people, including customers, their suppliers and people in the trade, what they think of them
- Especially if they are retailers, wholesalers or service businesses visit their premises at least two or three

times, preferably on different days; check out what they sell, how they promote it, what prices they charge, how their staff handle customers, how the place is laid out and kept. Pretend to be a prospective customer or, if you are not comfortable doing this, get someone you trust to do it for you

- Check their website, if they have one
- Go to trade shows and exhibitions they attend
- Think about what you can do to compete. Not all buying decisions are made based on price. People also buy because of the quality of the product, the ease of purchase, the reputation of the seller for after-sales service, the availability of the product or service and the packaging

Estimating your sales

The results of your market research should allow you to estimate the sales you expect to achieve.

You can do this by:

- Taking the estimated full size of your market
- Dividing this amount by the number of competitors you have plus yourself
- Multiplying that amount by the average price per sale
- Multiplying that amount by the total number of times a customer buys in a year

Checklist One opposite contains a worked example and there is then a blank checklist for you to complete for your business.

CHECKLIST ONE: RESEARCHING THE MARKET (EXAMPLE OF A LANDSCAPE GARDENER)

Who exactly do you hope to sell to?

EXAMPLE: My customers will be house owners and other property owners, such as public bodies, hotels and factories.

What are your customers' needs?

EXAMPLE: My customers need to maintain the ground around their property in a neat and tidy condition. Home-owners need to save time and to maintain the value of their property.

Where are you aiming to sell?

EXAMPLE: I plan to sell throughout Ammanford and Amman Valley.

What is the size of your market in the area in which you plan to operate?

EXAMPLE: I estimate there are 8,230 households in my target area, 4 public bodies, 12 hotels and 23 factories. (Source: 1996 Census and local knowledge.)

How much do customers usually pay for your product or service?

EXAMPLE: What my customers will pay depends on the size of their area. For an average house I estimate a customer would pay £25 to have the grass cut; other customers would pay a daily rate which I estimate to be £150. (Source: own market research.)

Where do your customers usually buy?

EXAMPLE: Customers buy in a number of ways; households buy through Yellow Pages or through advertisements in the local press or shop windows or through recommendations from other people. Hotels buy as a result of direct approaches and public bodies buy as a result of a tendering process, which is usually advertised in the press.

When/how often do your customers usually buy?

EXAMPLE: Householders buy usually from March until October; hotels and public bodies buy during the same season but also buy during winter if they need major cleaning-up work or planting done. Householders have their lawns cut around 10 times a year; hotels and public bodies use landscape gardeners about 20 times a year. (Source: own market research.)



Name your competitors and indicate what they do well or do badly:

COMPETITOR NAME	DO WELL	DO BADLY
Jimmy Boyle, Llandeilo	Good range of equipment Good reputation for tidiness	Very unreliable; breaks promises.
Davies Landscape Services, Cross Hands	Very reliable Individual service	Only works around Cross Hands
A & P Garden Services, Ammanford	Excellent at tree surgery and planting	Not interested in grass cutting generally Reputation for being expensive

What will you do to compete?

EXAMPLE: I intend to travel all over the area, to get a reputation for reliability and to specialise in grass-cutting.

What will be your estimated level of sales?

EXAMPLE: I estimate there are 8,230 households in my area. 6,000 of these have gardens and 1,200 of these use landscape contractors. There are 3 other competitors plus myself so I estimate I could get 200 households. I estimate each household will buy 10 cuts a year so at an average of £25 per cut that gives a total of £250 per household and multiplied by 200 households gives a total income of £50,000. So far as public bodies, hotels and factories are concerned I estimate there are 500 days' work a year between them all. Dividing that between four firms gives an average of 125 days each but as I am just starting I estimate I will only get 75 days in my first year and at a charge of £150 per day this gives a total sales income of £11,250.

My total sales, therefore, will be £61,250 in my first year.



CHECKLIST ONE: RESEARCHING THE MARKET

Who exactly do you hope to sell to?

What are your customers needs?

Where are you aiming to sell?

What is the size of your market in the area in which you plan to operate?

How much do customers usually pay for your product or service?

Where do your customers usually buy?

When/how often do your customers usually buy?

Name your competitors and indicate what they do well or do badly:

COMPETITOR NAME	DO WELL	DO BADLY

What will you do to compete?

What will be your level of sales?

MAKING PROFIT

You should ideally enjoy business but the key aim of business is to make profits; no profit, no business.

The way to make money is to charge prices which not only cover your costs but also make a profit.

However, you can only charge a price that customers are prepared to pay. There is more about setting your price in the section below on marketing.

To ensure you make a profit, identify all your costs as accurately as possible. Use **Checklist Two** to estimate your costs for a year.

CHECKLIST TWO: ESTIMATING YOUR COSTS (EXAMPLE LANDSCAPE GARDNER)

Cost item	Cost in £
Staff costs:	
Wages (one part-time worker)	10,000
NI	850
Materials/goods for re-sale (seed, etc)	1,000
Heat and light	500
Electricity	500
Postage	100
Telephone/email/mobile	800
Stationery	100
Employer's liability	
Website development & hosting costs	2,500
Transport costs:	
Fuel	4,500
Servicing	1,000
Insurance/Vehicle Tax	2,000
Hire Purchase/loan repayments	3,600
Insurance:	
Public liability	1,000
Employer's liability	1,000
Advertising	2,000
Audit/Accountant	1,000
Sundries	1,200
TOTAL COSTS	34,650

YOUR BUSINESS

Cost item	Cost in £
Staff costs:	
Wages (one part-time worker)	
NI	
Materials/goods for re-sale (seed, etc)	
Heat and light	
Electricity	
Postage	
Telephone/email/mobile	
Stationery	
Employer's liability	
Website development & hosting costs	
Transport costs:	
Fuel	
Servicing	
Insurance/Vehicle Tax	
Hire Purchase/loan repayments	
Insurance:	
Public liability	
Employer's liability	
Advertising	
Audit/Accountant	
Sundries	
TOTAL COSTS	

On this basis, the business will have to sell around £666 every week just to cover costs. Anything missing from the checklist? Yes, your own costs. You set your own wages and so you decide what you should take from the business as a wage each week or month. Remember, in a business you may be the last person to be paid and some people starting in business do not take any wages for a period to allow the business to build up some capital, but you may not be able to afford to do this. The best way is to use Checklist Three to estimate what amount you need to live.

CHECKLIST THREE: YOUR PERSONAL BUDGET FOR A MONTH

Cost item	Cost in £
Mortgage or rent	
Electricity	
Heating	
Insurance:	
Buildings	
Contents	
Life	
Clothing:	
Self	
Partner	
Children	
Car costs:	
Fuel	
Servicing	
Insurance/Vehicle Tax	
Personal pension costs	
Groceries	
Holidays, Christmas, etc.	
Entertainment	
School fees	
Donations	
Personal loans, credit cards, etc.	
Sundries	
TOTALS	

You will need to decide whether the amount you calculated left can be earned in your business. If it cannot, you will have to look at what savings you can make in your personal expenses.

Whatever you actually take from the business in cash, you must include a reasonable amount in your costings. Otherwise, you are just subsidising your customer.

You must consider if the total amount of your wages can be recovered through the business in the year; that can only be done by looking at your estimated sales.

Practically everyone setting up in business under-estimates their costs and over-estimates their sales so, as a general rule, be cautious in setting sales targets and be very realistic when setting your costs.

You need to know that your business will make you not only enough money to live on but also enough money to put back into the business so it can survive. Remember, the van or machinery in the business will not last forever and you will have to replace them sometime.

This is taken care of usually by building into your costings what is called 'depreciation'. This can be explained in more detail by your accountant or business adviser.

It is not unusual for a business in its first year to make a loss as it can take some time to get established but you obviously cannot go on making losses forever.



THE RIGHT BUSINESS FOR YOU?

You are the only person who can answer this question so think of the following points and get someone who knows you well to talk to you about your answers:

- Does the business fit with your own personal goals . what you really want out of life?
- Have you the skills to make the business work not just the skills to make the product or deliver the service but also the management and other skills needed to make a business grow?
- If you haven't all the skills, is there any way you can make up for the gaps?
- Will the business fit with your family circumstances? In almost every new business you will have to work longer hours than you would work if you were to be employed by someone else but in some businesses you will have to work really irregular and long hours. Will this

impact on your family and will they support you?

- How do you handle pressure, commitment and stress? Being your own boss can be lonely at times. It can be full of ups and downs and you are responsible for everything
- Are you a people person? To succeed in business you need to be able to get on well with all kinds of people
- Have you the total commitment needed to make the business work?
- Can you cope with taking calculated risks?
- Have you the self-confidence needed to set up a business?
- What do your family and friends think? They know you best of all

Use **Checklist Four** and the tool overleaf to help you decide if this is the right business for you.



LEARNING FROM OTHERS... YOU CAN SET A RANGE OF PRICES
Jean Harries in Carmarthen, offers a wide range of beauty treatments – for some products she has a minimum charge and then prices rise depending on the amount of time a customer wants. For other products, there are fixed charges.

CHECKLIST FOUR: THE RIGHT BUSINESS

QUESTION	YES	NO
This business will help me get what I really want from life		
I have the skills to make this business work		
If I lack any skills I can either learn them or employ someone with the skills		
I think I will enjoy the work		
My family and friends are in favour of what I am doing and will support me		
I believe I can handle the pressures of being my own boss		
I get on well with all kinds of people		



Laying the Foundations

SECTION

02



DEFLECT
LIMIT



V LEARNING FROM OTHERS... YOUR PREMISES NEEDS CAN CHANGE AS YOUR BUSINESS GROWS

E J Thomas & Co, Llanelli specialise in industrial instrumentation and started with 3 employees in a small living room.

In a few years a 2,000 sq. ft. factory was purchased and then in 1999 the company moved into a hightech factory unit almost 3 times the size of the first workshop. In the same year the company opened an office in Port Talbot to provide a better service to customers in South East Wales.

You have decided the business idea is right so what do you have to do next?

Choosing Premises

You will need a base from which to operate the business. The nature of that base depends on your business; if you are going to retail you will need a shop, if you are going to manufacture you will need a workshop, if you are going to provide a service you may need an office and/or a workshop or store. In retailing it is often said the three things which decide the success of a business are location, location and location.

There are some points which almost make the decision for you about where to locate: Do you expect your customers to come to you? If you do, then the easier you are to find and to reach the better. If not, then the time it will take you to get to your customers is the deciding factor, bearing in mind that time is money when you are a small business and there is always the cost of travel.

Some other pointers around premises:

- Apart from staff, premises costs will probably be your biggest costs so choose wisely

- You may well be able to work from home, but check the planning situation and be sure you won't have objections from the neighbours. Think also about the effects on your home life of combining your business with your home
- Some people setting up in business want to own their own premises. That can be a good idea, but money tied up in bricks and mortar is money which cannot be used in the business. There is not much point in having a lovely building if you cannot pay your bills
- Get the best premises you can afford, especially if you are retailing
- Some landlords will allow a rent-free period if you are making improvements to their building
- Get premises which are big enough to allow for some expansion
- If you are asked to sign a lease, get professional advice from a solicitor; you may think you understand your lease but it is worth getting advice from a professional

Use **Checklist Five** opposite to help you think about premises, especially if you plan to rent.

CHECKLIST FIVE: CHOOSING PREMISES

QUESTIONS	YES	NO	ACTION NEEDED
Does the location of the premises suit the business?			
Do you have planning permission for what you want to use the premises for?			
Is there adequate parking nearby?			
Are all mains services available, i.e., water, electricity (Three Phase if you need it), sewerage?			
Is there room for modest expansion?			
Are there any health and safety issues to be concerned about? (For example, do you need a fire escape?)			
Do the premises comply with disability legislation?			
Are there adequate toilet and canteen facilities?			
Will you have enough storage space?			
Do you have or can you erect adequate signage?			
Is the rent reasonable in comparison with other similar premises?			
Will you have to pay a service charge, e.g., to cover cleaning or lighting of common areas, in addition to any rent?			
Do you know exactly what you are responsible for and what the landlord is responsible for, e.g., who maintains the outside of the building, who insures the building?			
Do you have access to the premises on a 24 hours, 7 days a week basis?			
Are the premises accessible for customers and staff?			
Have you got proper professional advice?			

Taking on staff

You may also need staff but try not to employ any staff until you absolutely have to.

Moving from being a one-person business to a business employing even one worker does not automatically mean your earnings will double.

In the early stages of employing someone, you will spend time instructing and supervising the new worker, time which you then cannot use to earn money or make sales yourself.

Many new businesses employ family members, partly to keep costs down but also because they feel more comfortable working with someone they know. There are good and bad points in this arrangement. Family members are less likely to be dishonest or unreliable and they may work harder. However, how do you discipline or sack a close member of your family? It is often best to keep personal and work relationships separate.

Use **Checklist Six** below to help you think about taking on staff.

CHECKLIST SIX: TAKING ON STAFF QUESTIONS

QUESTIONS	YES	NO	ACTION NEEDED
Have you written down exactly what the new worker will do?			
Does this require a full-time or a part-time post?			
Might there be advantages in having two part-time workers rather than one full-time worker?			
Have you written down what experience, skills and knowledge you expect the new worker to have?			
Have you thought about how you will recruit and select a new worker?			
Are you good at interviewing? If not, who can help you?			
Have you approached the Local Employment Service for help?			
Have you checked out the wages that someone in this post might expect?			
Have you considered the practical issues, such as where the new worker will sit/work and what training/tools/equipment they will need?			
Have you thought about a contract of employment?			
Are you aware of the rates of NI you will have to apply?			
Have you checked out employer's liability insurance and what it will cost?			

Choosing Equipment, Tools & Raw Materials

If you need equipment or tools, think seriously about buying second-hand. Newspapers often advertise auctions for machinery and fixtures and fittings for sale. Use the Internet to source suppliers if you prefer to buy new. If you are buying new equipment, you should consider registering for VAT, so you can claim back the VAT.

If you need raw materials or goods for resale, try to open trade or credit accounts with a number of suppliers, so you can buy at wholesale prices. Because you are a new business, it may be a while before you will be allowed credit. You will probably be asked for references before credit is granted, but buying at wholesale prices makes a huge difference to your costs. Of course, if you are paying cash, negotiate for discounts.

Keep records and receipts for all the money you spend on equipment, tools and raw materials.

Making Contacts

Business success is **know how** plus **know who**.

Having a good range of contacts and using those contacts to help your business is called 'networking'.

The most successful business owners are the best networkers so, from day one, keep a record of all the contacts you make. Your network can be the most important resource you have.

Use **Checklist Seven** opposite to see just how big your network is and who might be of particular use to you.

CHECKLIST SEVEN: YOUR NETWORK

PEOPLE	HOW THEY MIGHT HELP ME
Family	
1	
2	
3	
4	
Friends	
1	
2	
3	
4	
Neighbours	
1	
2	
3	
4	
Workmates, Past & Present	
1	
2	
3	
4	
Past Employers	
1	
2	
3	
Former Teachers/Schoolmates	
1	
2	
3	
People I Play Sports or Socialise with	
1	
2	
3	
4	
People in my Community	
1	
2	
3	
People I do Business with	
1	
2	
3	
4	

Surprised at the numbers? You might easily have 100 people on your list. Remember, each one of them has probably 100 people on their list also so, if every one of the people on your list knew that you have just set up a dressmaking business and they told everyone on their list, then a lot of people will know you are in business and it hasn't cost you a cent.

Some tips on networking:

- Grow your network. Go to events and meetings. If the Local Enterprise Company offers a training workshop, or the Chamber of Commerce is having a workshop, go along, not just for what you might learn but for who you might meet. Swap business cards with everyone you meet; keep the cards you get carefully. The author of this booklet got a £12,000 contract from a business card he had given out seven years previously! That card paid for itself and many more!
- A network has to be a two-way street; you must be prepared to give as well as to take
- Finally, keep confidences and don't badmouth people, especially your competition, in your network; you might be surprised how quickly comments get around and people wonder, if you badmouth others, what you are saying about them

Raising Money

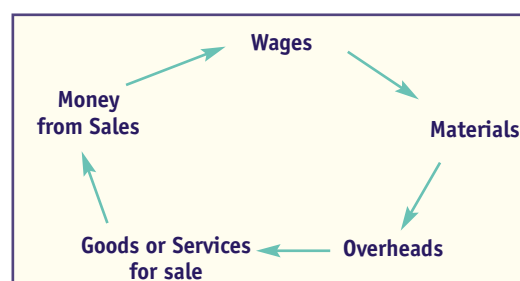
You will need money to start your business but what will you need it for, how much will you need and where and how will you get it?

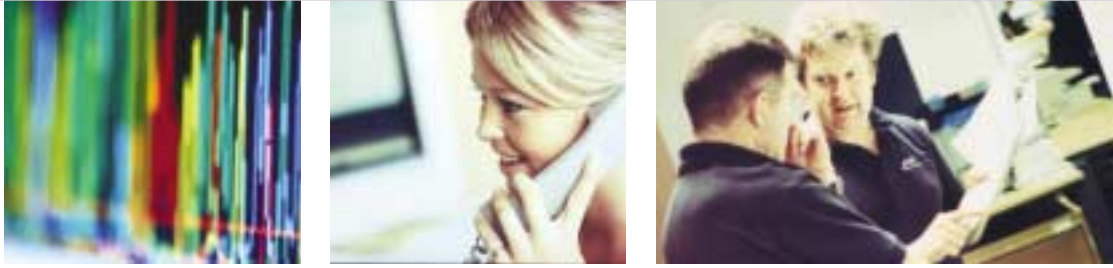
Estimating your financial needs

Generally, you will need money for two things: getting started and keeping the business going. To start the business, you may need what are called **fixed assets**, and to keep the business going, you will need what is called **working capital**.

Fixed assets are things which you can see and which are fairly permanent. They include premises, building alterations, cars, vans, equipment, tools, machinery. Estimating what you will need for fixed assets is usually straightforward and often involves no more than looking for quotations or negotiating.

Working capital is the money that works in your business. Think of it this way: you need money to buy raw materials, to pay your own wages and to meet your overheads so you can produce goods for sale. You won't usually get money for the goods you sell until you make and deliver them. You need therefore to have the cash to meet your bills until you get paid. That money is called your working capital.





Remember, the longer you have to wait to get paid, the more working capital you need and the more sales you make, the more working capital you need. Working capital is the blood in the veins of your business. More businesses fail because they do not have enough working capital than for any other reason, so it is essential you manage your working capital.

Cashflow forecasts

Using a tool called a **Cashflow Forecast** allows you to estimate your working capital. A cashflow forecast involves working out how much money you expect to receive in the business over a year, and then estimating how much money will go out of the business over the same period. In doing this, you take account of the credit you may be giving your customers and the credit you may be getting from your suppliers. You then subtract the incoming cash from the outgoing cash on a monthly basis, and the difference is your working capital requirement. There is a worked example of a cashflow forecast at the end of this publication, together with a blank form to help you to prepare your own cashflow forecast.

If you need to borrow money to start your business or to grow your business, the first thing any lender will want to see is your cashflow forecast.

How much money will you need to set up your business?

CHECKLIST EIGHT: MONEY NEEDED TO SET UP THE BUSINESS

	Amount in £
Building	
Equipment	
Vehicle	
Setting up costs (legal costs, consultancy, phone installation, etc.)	
Working Capital	
Total	

V
**LEARNING FROM OTHERS...
 YOU CAN RAISE MONEY
 FROM A VARIETY OF SOURCES**

Clive Morgan Joinery Works of Llandeilo was funded by a mix of personal investment from the owner, an overdraft from the bank and grant aid from Carmarthenshire County Council. There is also the possibility of a loan from Finance Wales.

Finding where you might get the money you need

The first source for money is **you**. No one will finance all your start-up costs. If you do not have anything invested in the business, investors and bankers will not see that you are committed to the business and are willing to risk your own money.

You need to be prepared to invest all you can in the business. This may be in cash and/or in tools or equipment or transport you already have, or it may be a personal loan to you from a family member or a friend.

The second source can be **grant aid**. A grant is money you do not usually have to pay back, unless you do not observe the conditions attached to the grant. There can sometimes be a small amount of grant aid which is repayable.

The third possible source of finance is **loan finance**.

The fourth possible source of finance is the **bank**. Obviously you need to have a bank account first so, if you do not have one, you will need to open one immediately.

Banks offer money in a variety of ways:

- An **overdraft** allows you to take more money out of your account than you put in. The amount is fixed and you cannot exceed that amount, without the consent of the bank. The overdraft is usually for a period of 1 year, but the bank may end it at any time, especially if it feels you are abusing the facility or if you appear to be getting into financial difficulties. Banks may want some form of security for an overdraft
- Banks also lend money as **loans**. Loans differ from overdrafts. They are usually set for periods of more than 1 year; some are short-term, say 3 years and others can be long-term, say 10 years. Short-term loans are usually for funding needs such as equipment; long-term loans are usually for funding things like premises or building alterations. The interest rates are usually fixed for short-term loans and more flexible for long-term loans. Banks may require security for loans. Provided you keep making your repayments in line with your agreement, the bank is very unlikely to call in a loan. One tip – always keep your bank manager fully informed; banks do not like surprises. Establish a good working relationship with your bank by telling them in advance when you see troubles coming and it will be very helpful at a later date

There are some other possible sources of finance, including:

- The **Credit Union**. Again, you will need an account. Credit Unions lend money to members on quite favourable terms and they will normally be less demanding in terms of seeking security
- **Hire Purchase** or **leasing** may be suitable, if you are thinking of buying a car or van or piece of equipment. There are some technical differences between the two methods but essentially you are paying a fixed amount each month which allows you to use the goods
- If a lot of your business is dependent on giving credit to your customers, you may want to think about using a scheme called “**invoice discounting**”. Your accountant or bank manager can advise you fully on this option, but it may allow you to get up to 70% of your invoiced amount on the day the invoice is issued so that you are getting cash to a large extent.

- **Private investment** may be an option. There are some people who have money to invest and who are sometimes prepared to put it into small businesses. However, they will be looking for a return on their money, and may even want a say in how the business is operated.

Remember, money is something you buy like any other product.

You wouldn't buy a computer or a drill without bargaining or shopping around for the best price. Do the same with money. Lenders need you as much as you need them.

All money carries a cost. Too many people borrow money, without realising how much it costs. There is an to the right of how much a loan from a bank could cost over three years.



EXAMPLE:
If you borrow £10,000 over 3 years at 7%, you will pay £2,100 in interest. If your business makes profits at 10% each year you would have to sell at least an additional £21,000 of goods or services over the 3 years simply to repay the interest. That works out at around £140 of extra sales per week.

CHECKLIST NINE: SOURCES OF MONEY FOR THE BUSINESS

	Amount in £
Own investment	
Family loans	
Bank borrowing	
Hire Purchase	
Grant aid	
Other	
Total	

Where do you expect to raise the money you need?



Your Business Plan

When you are looking for money, the lender will almost always ask for a copy of your business plan. Apart from this, and perhaps even more importantly, a business plan is a tool that allows you to control your business. It is just like the steering wheel of a car. It sets out what you aim to do in your business and how you propose to do it. You can then check how you are actually doing and ask yourself why things have turned out differently. You may need to steer the business in a different direction. A sample business plan is at the back of this booklet and there is also a blank form which you can complete to produce your own business plan.

Try to prepare as much as possible of the business plan yourself. When you go to the bank or any other lender, they will ask you questions about the plan and, if you have not been involved in preparing the plan, you might not understand it and be unable to answer questions. That makes a lender nervous.

However, if you feel you need help to produce a business plan, contact the Local Enterprise Company.

A business plan does not have to be complicated, but it must be written in such a way that anyone reading it will know:

- Who is setting up this business? What skills background and experience does the promoter have?
- What products will they make, what services will they provide, what will they be selling?
- Who are the customers?
- Why will they be likely to buy the goods on sale?
- How much will they pay and how often?
- How will sales be obtained?
- Where will the business be based?
- How many staff, including the owner, will be employed?
- How much money does the business need to get started and to operate?
- Where will this money come from?
- How much of the money is coming from the owner of the business?
- How much is the business looking to borrow?
- Can the business meet the costs of this borrowing and can it repay the loan in a reasonable time?
- Will the business be profitable? When?
- Who will manage the business and control the finances?
- Who are the advisers to the business?
- What is the legal format of the business?



It is not enough just to state the facts as you see them; you need to be able to back up your statements. For example, to show you stand a chance of getting sales, you should have some orders or at least some letters from possible buyers.

To back up the financial statements you are making, you will have to prepare financial projections.

These include the cashflow forecast mentioned earlier and also a **profit or loss forecast** and a **balance sheet**.

The cashflow forecast has already been explained. The profit/loss forecast is simply your estimate of the amount of money your business will make or lose over a year.

A balance sheet is a snapshot at a set time, usually at the end of a year, of the financial position of the business. What and how much does the business own? What and how much does the business owe? Taking one sum away from the other, how much is left? If the difference is a plus, then this is what the business is worth. If the difference is a minus, the business is said to be insolvent; in other words, it cannot pay its bills.

The balance sheet will also show where this money came from, in other words how the business has raised the money it needs to operate.

Samples of each of these documents are at the end of this booklet together with blank copies so you can make your own.

The Legal Forms of Business

The easiest and most common form of business is a **sole trader**; in other words, you are in business on your own and you are responsible for everything.

There are very few formalities involved in setting up as a sole trader and there are no costs involved. Some of the disadvantages are that you are personally responsible for all debts and there may be some tax disadvantages. You do not have to stay as a sole trader; you can decide at a later date to set up a limited company or to enter a **partnership**.

When two or more people set up in business together, it is usually called a partnership.

Partnerships can be difficult. At the beginning, when everyone is enthusiastic and working hard, it is great and you have someone to talk to and share the worries and the joys. Unfortunately, if things get tough or a partner runs into difficulties, perhaps even unconnected with the business, and they are unable or unwilling to pull their weight, then it can be unpleasant. Many good friendships have been lost through broken business partnerships.

Remember, a partnership does not mean you share the risks; if things go wrong in a partnership and you owe money to a bank or other creditors, they will chase you for all of the money, not just half of it.



Exercise:
**Which form of
business will you
choose?**

If you decide to go into business as a partnership, here are a few tips:

- Try to choose as partner(s) people who have skills or contacts which are different from yours.
- Sort out at the beginning exactly who does what in the business.
- Agree what each partner is going to earn from the business.
- Get a solicitor to prepare a written partnership agreement which sets out all the understandings between you and your partner(s).
- Have regular meetings to discuss how the business is doing.

The third possible form of business is a **limited company**, which can be set up by two or more people. It is possible for two people each to invest £1 each and they are then the shareholders in the company. This could be a married couple or two people who are unrelated.

The shareholders own the company and are entitled to any profits. They appoint directors to manage the company; shareholders and directors can be the same people.

A limited company can be private or public. If it is private, the shares cannot be bought on the open market but, if it is a public company, shares can be bought publicly.

A company is a formal structure and it is advisable to ask a solicitor to set it up for you. A limited company is a completely separate legal entity from the owners of the business. This means it can give you some protection, in that you are not personally responsible for the debts of the company, unless you have given a personal guarantee to the bank or other creditor. There may be some advantages, such as tax benefits.

A limited company presents a professional image in the marketplace. However, it carries a number of legal responsibilities and it is more expensive to set up and maintain a limited company.

You should seek advice from your accountant and your solicitor before finally deciding on the type of business format you will choose. You also need to consider the tax implications of your decision.



Up & Running

SECTION

03

If you have got this far, you will be in business. There are now two key things you have to do:

- Get orders by marketing your business
- Keep the money flowing and look after it

Marketing

Marketing has been described as “Finding out what people want and selling it to them at a price they are prepared to pay and at a profit to yourself”. It has also been described as “Selling goods which don’t come back to people who do”. Marketing is not complicated, it is basic common sense and there are just four things you need to manage to ensure you get sales.

Product/service

Your product or service needs to be right for the customer. That means the design has to be good, the quality has to be at least reasonable, there has to be a choice if possible (sizes, colours, materials, etc.) and the packaging and presentation has to be right. No matter what business you are in this applies to you. The fitted kitchen you make has to look right, it has to be strong enough to do the job, it has to fit into the space properly. The meal you offer in your snack bar has to be tasty and presented on a clean plate in clean surroundings. If you cut lawns, the grass must be cut properly, the sweepings must be removed, the edges must be done and so it goes on.

Use **Checklist Ten** to think about your product in terms of your marketing.

CHECKLIST TEN: GETTING THE PRODUCT/SERVICE RIGHT

What are the essential things or features my product/service must contain?	
What quality is my customer looking for?	
How can I make sure I offer that level of quality?	
How can I offer customers a choice?	
How can I present my product/service so that it looks right?	
How do I make sure my product/service looks at least as good as the competition’s?	



Price

Remembering that you are in business to make a profit, you have a number of choices to make about your selling price:

- **You can sell cheaper than the competition**

If you do this, you may attract sales for a while but all that might happen is that your competitor will undercut your prices and there is a price war. The only person to benefit from that is the customer

Remember, your selling price makes a statement about your product. If you go in to a shop and see something which is a lot cheaper than you expect, what is your reaction? It must be no good or not as good as the dearer item on the shelf beside it

Remember, it is a lot easier to lower prices than it is to raise them. Try not to sell on price only

People are influenced by many things when they go to buy. They look at appearance, colour, size, fit, novelty, reputation, image, after-sales service, guarantee and above all, they buy from people they like

- **You can sell at the same price as the competition**

Choosing this option is saying to the customer, "My product is as good as my competitor's". It is a fairly safe option, because you may have room to drop a little if you find you need to.

- **You can sell at a dearer price than the competition**

Yes, this is an option. You might choose to do this if you are convinced that your product offers more than the competition's product. Your higher price is making that statement. You are also appealing to people's basic instinct, which says, if it is dearer, it must be better. However, this will only work with items which are not everyday buys, though the staff in the office will happily pay over the odds for their daily sandwich if they get unusual fillings, it is a risk, so do your homework well before going down this route. You must have something extra to offer if you decide to charge a higher price.

- **You can have special offers**

This is really more of a decision about your promotion and advertising, but special offers can draw in new customers. Calculate what they are costing before you start.



EXERCISE:

How will you set your prices? Cheaper than, same as, dearer than the competition?

V

EXERCISE:

Where and how will you sell?**Sales and distribution**

You have to sell in the right place and get your product to the customer.

There are lots of places to sell, depending on your product. Look at some of the options:

- Door to door
- Shops of all kinds
- Market stall
- Business to business (calling on other businesses using a sales representative)
- Mail order (responding to orders sent to you as a result of advertisements you place in newspapers or magazines)
- Direct mail (sending offers out to potential customers through the post)
- At exhibitions or trade shows or events like wedding fairs
- On the Internet, either on your own website or on a host website
- Through a catalogue
- Through party plans
- At the roadside
- Car boot sales
- By tendering to public bodies
- By getting sub-contracts from larger businesses
- By acquiring a franchise (paying a successful business for their know how)

Some people sell through “middlemen”, usually called agents or distributors. **Agents** are people who sell on your behalf and get a commission for all they sell (after you get paid of course!). They do not carry stock or buy goods from you.

Distributors or wholesalers do buy goods from you and carry stock of your products. You sell to them at a price cheaper than people normally buy from you, so they can sell at a profit themselves.

Whichever way of selling you choose, it must fit your product. You wouldn't try to sell lingerie at the side of the road, nor would you sell fitted kitchens through party plans. Choose the way you will sell based on the costs and on the ease of doing it.

Promotion/advertising

You must promote your product as widely as you can.

One of the biggest challenges for any new business is getting your story out. How do you make sure people know you are in business? Most people reply, ‘advertising’. But do you know what newspaper or television advertising costs? Even a one-off small advertisement in a local newspaper could cost over £100 and a very short advertisement on television could cost thousands of pounds. Most small businesses cannot afford huge advertising budgets, so what do you do?

The best advertisement is a satisfied customer. Get it right first time and your customers will do all the advertising you need. Don't you tell people about the great meal you had or the great deal you got on a car repair? You'll also tell people about the terrible service you got in a shop or about how you stayed in for a whole Saturday and the boiler repairman didn't turn up.

There are other things you can do which don't need to cost a lot of money and they can be effective if you do them right:

- Get business cards printed; never go out without them and give one to everyone you meet. Tell everyone you meet you are in business and ask them to tell others... but don't bore people or push too hard
- Get press publicity when you launch your business; most newspapers and other media are always on the lookout for human interest stories. If you have an angle it will help. Are you the first woman car mechanic locally? Do you make clothes specially for disabled people? Are you opening a shop especially for asylum seekers and refugees? Are you the first person locally to open a business on the Internet? Have you just won a big contract from Scotland? Think of an angle or a hook like this to hang your story on
- Make sure your business can be easily found; get the biggest sign you can afford
- Use community noticeboards in supermarkets
- Sponsor the local school or youth football team or whichever group fits your business and be sure the group that you sponsor gets you publicity
- Use flyers through door-to-door drops
- Consider an advertisement in the Yellow Pages
- Give incentives to encourage loyalty among your customers; have free draws for regular customers, have a loyalty card if you operate a restaurant – buy nine meals and get one free. Say thanks to regular customers; even a Christmas card is appreciated. It is a lot easier to keep existing customers than it is to get new ones so keep them sweet
- Reward customers who introduce or recommend you to another customer
- Make sure your telephone is answered promptly and in a friendly manner
- Have an answering machine, or use a telephone answering service if you are often away from the phone
- Keep appointments, answer letters and return phone calls



Managing Cash Flow

Keeping the money flowing is critical to the survival and success of your business.

Cashflow is the lifeblood of any business; cash is king in a business.

To keep the money flowing in, you should:

- Deal in cash when you can, but remember to keep records
- Only give credit when you have to; remember, giving credit is actually lending money. Before you give credit, ask yourself, “Would I lend this person £500 (or whatever the amount is)”
- Ask for a deposit or negotiate stage payments if you are starting a long piece of work
- Send out your invoices promptly
- Have trading terms and stick to them; if someone does not pay within the trading terms, get on the phone immediately. Remember, if someone owes you money for longer than 90 days, you will lose an element of your profit due to interest charges and recurring overheads
- Actively pursue your debts.
- Finish a job, do not give the customer the excuse you are not finished.
- Take as much credit as you can yourself without doing damage to the trading relationship with your supplier.

Keeping the books

To look after the money when you get it, you will need a book-keeping system. There are some options here for you.

One is to start with a computerised book-keeping system. These are now inexpensive and fairly simple to operate. If you can do this, or if you can get someone to do it for you, it is the best option because someday your business may grow to the point where you have to have a computerised system and you will spend a lot of time and money changing from a manual system to the computerised system.

You may want to consider enrolling for a training course in book-keeping.

If you cannot, or do not want to, use a computer, there are a number of very good book-keeping sets specially for small businesses which you can buy from any good office supplies company.

Try to avoid using old files and scraps of paper.

Book-keeping is covered in more detail in another publication in this series, but here is a quick guide.

A good general rule is to keep every piece of paper belonging to your business until your accountant tells you it is not needed.

- Start by writing out an invoice (a bill or docket) for everything you sell and keeping a copy of each invoice.
- In a book or on a page record all of these invoices, in other words, what you sold and who you sold it to. This book is called your **sales invoice book**
- Get an invoice for everything you order or buy yourself and keep these in a file
- In another book, or on another page, record these invoices, in other words, what you bought or what you have been charged. This book is called your **purchases invoice book**
- When you receive money, whether by cash or cheque, write the details into another book; that book is called your cash book.
- When you write a cheque, put the details in another book; that book is called your **cheque journal**
- From time to time, you will need small sums of cash to pay small bills or costs like meals or parking fees; this is called **petty cash**. You should also keep details of any expenses incurred in this way.
- Ask your bank to send you a statement at least every month and keep all the statements in the wallet the bank will give you (for free).

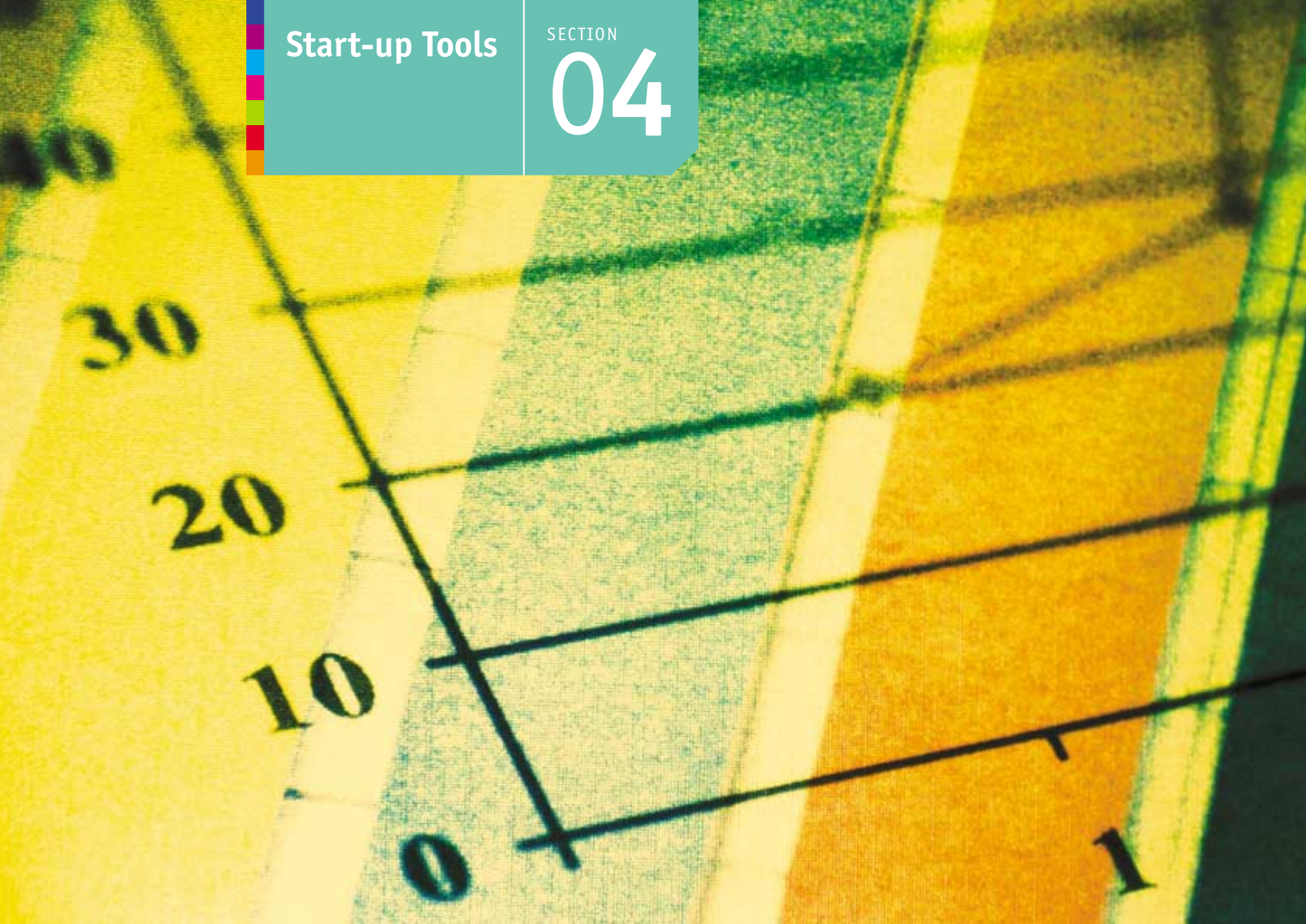
Now you have the records, what do you do with them?

Every month you should prepare a simple profit and loss account, showing what you earned (your sales) and what you spent (wages, materials and overheads).

Take one from the other and see what profit or loss you have made for the month. Compare your figures with the forecast you prepared at the beginning of the year and look carefully at any big differences. Look also at who owes you money and what money you owe. Make a list of those who owe you money and chase payment.

List those you owe money to and decide who you will pay. Include VAT and NI in your list.

Check your bank statement. First, you want to see how much money you have in the account or how much money you owe the bank. Remember the bank statement may not show all the cheques you have written and it may not include some lodgements. Second, check the account to make sure it is correct; banks can make mistakes too. It is a good idea to revise your cashflow and your profit/loss account forecasts every quarter using the information you have from your books.



SAMPLE MARKET RESEARCH QUESTIONNAIRE

This is based on a market research survey carried out by a lady planning to start a business, making specialist clothing for young children between 5 and 11 years of age. She approaches a number of young mothers whom she can meet at the school gates or in shopping centres. Before she starts, she does a test run with her questionnaire. Notice that she can record most of her answers very quickly by ticking or circling a phrase.

Good morning/afternoon; my name is.....and I am thinking of setting up a small business locally to make clothes for small children. Would you give me just a couple of minutes of your time to answer some simple questions? Thank you.

1. Do you buy clothes for children between the ages of 5 and 11? (If No, thank person and move on.)

2. Which of these do you buy:

Shirts	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Blouses	Yes <input type="checkbox"/>	No <input type="checkbox"/>
T-shirts	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Sweatshirts	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Sweaters	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Short trousers	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Long trousers	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Dresses	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Skirts	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Other	Yes <input type="checkbox"/>	No <input type="checkbox"/>

3. Where do you normally buy these clothes? (Tick all the person mentions)

Local small shop	<input type="checkbox"/>	Local large store	<input type="checkbox"/>
Through a catalogue	<input type="checkbox"/>	Elsewhere (please say where)	

4. Which if any of these is important to you when you are buying clothes?

	Very important	Important	Not very Important
Design	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quality of material	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Choice of colours	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Choice of sizes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Range of materials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Guarantee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Price	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The brand name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer care	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. Do you have any difficulties buying clothes which meet your needs as you have just described them?

Design
Quality of material
Choice of colours
Choice of sizes
Range of materials
Guarantee
Price

6. What is the single most important thing you consider when you are buying clothes?

7. How many children do you have and what are their ages?

Child 1 ___ Child 2 ___ Child 3 ___ Child 4 ___ Child 5 ___ Child 6 ___

8. Approximately how much money do you spend each month on children's clothing?

£50 £75 £100 £150 £200 more than £200

Thank you very much for your help.

ADVICE ON COMPLETING THE BUSINESS PLAN WORKSHEET

There is an example of a completed Business Plan and a blank Business Plan worksheet following these notes to help you. Ideally, your answers should be typed.

- 1 **Section 1** asks you to give a picture of yourself or anyone else involved in actually running the business. After writing in details, such as your name and address, you can give information on your education. This can include the schools or colleges you attended, the courses you studied, the qualifications you got. Then give information about your work record. Start with your first employer and work on from then, each time naming the firm and what it did. Give your position and details of any special responsibilities you had.
- 2 **Section 2** asks you to describe your business idea. Give as much information as you can. Do not take anything for granted. You know what your idea is, but someone reading your plan may never have heard of it, so give a good clear picture of what you want to do.
- 3 **Section 3** is where you set out details of your market and how you will sell. If you have completed the checklists in the early part of this publication (pages 8 and 9), you can simply transfer the information from those sheets to this section. You should make sure to answer these questions:
 - Who are your customers?
 - What needs do they have?
 - Where, when and how often do they buy?
 - How much will they pay?
 - How will you promote your business?
 - Who are your competitors?
 - How will you compete?
- 4 In **Section 4**, give details of your premises. Indicate if they are your own or rented premises. If they are rented, how long is your lease? Say where they are, how big they are, if they have all services available, if you will have to do any repairs or alterations, what rent or other costs you will have to pay.
- 5 In **Section 5**, give details of the machinery and equipment you will need. It is enough just to list each of the main pieces.
- 6 In **Section 6**, give details of the businesses which will supply you with raw materials or goods for resale. Names and addresses are fine and, if you have agreed any credit terms, you should give those also.
- 7 In **Section 7**, give details of any staff you will employ. This should include the names of each job, a brief description of the duties, whether it is full-time or part-time and what the hourly wage rate is. You do not need to name the actual workers.
- 8 In **Sections 8** and **9**, set out how much money you will need to start the business and where you intend to get it. If you have completed the checklists on pages 21 & 23 on these topics earlier in the booklet, just transfer the information.
- 9 In **Section 10**, set out a summary of your expected profit/loss using the following table:

Sales:	£ _____
Costs of materials:	£ _____
Wages:	£ _____
Overheads:	£ _____
Net profit:	£ _____
- 10 In **Section 11**, give the names and addresses of anyone who is helping you. This could include your bank manager, accountant etc.

BUSINESS PLAN WORKSHEET – LANDSCAPE GARDENER EXAMPLE

1. Details of yourself and anyone else involved in running the business

Name:	Stuart Richards
Address:	Pembrey, Llanelli
Date of Birth:	29.5.1964
Tel No.:	0742 369218
Education:	8 O' levels National Diploma in Horticulture at Carmarthenshire College
Work record:	1984 to 1990: Dyfed County Council, Gardener Responsible for landscape maintenance of open spaces in housing estates 1990 to 1996: Ceredigion County Council, Horticulturist Responsible for design of new open spaces and all new planting

2. Your business idea

I plan to set up a landscaping garden business which will service mainly West Carmarthenshire. I will offer a garden design service, a garden establishment service, a routine maintenance service and specialist services, such as weed spraying, tree planting and tree surgery.

3. Where and how you will sell; how much you will sell?

My customers will be house owners and other property owners, such as public bodies, hotels and factories. They need to maintain the ground around their property in a neat and tidy condition to preserve the appearance of the building and to save time.

I will sell throughout West Carmarthenshire.

I estimate there are 8,230 households in my target area, 4 public bodies, 12 hotels and 23 factories. Each household will have their grass cut 10 times a year and I estimate I will get 200 households to buy my services. Other customers purchase on a daily basis and I estimate I will get 75 day's work a year from these customers.

To promote my business, I will:

- Advertise in the services section of the local newspapers
- Send flyers to home-owners in the area
- Create and maintain a website
- Put notices up on the community notice boards in the large supermarkets around the area
- Take an advertisement in the Yellow Pages
- Prepare business cards and distribute them as widely as possible
- Offer a first-class service
- Have my name and telephone number clearly displayed on my van

To get sales, I will:

- Call door to door in large housing estates
- Make personal calls to hotels and factories
- Submit tenders for work from public bodies

My competitors are: A & M Garden Services, Llanelli, MJ Landscape Services, Ammanford and Weeders, Cross Hands.

I have researched the prices my competitors charge and I plan to charge rates which are just slightly below their prices. I will also compete by being absolutely reliable, by travelling all over the area and by offering value for money.

4. Your premises

I will operate from home as I have a large shed which can store all my equipment and has room to park my van and trailer. I also have a small greenhouse and a plot of ground which I can use to produce some plants.

5. The machinery, equipment you will use

I have a lot of tools which I can use – for example, hedge clippers, strimmer, rakes, spades, etc., but I need a trailer, a van and a heavy duty lawn mower.

6. The suppliers you will use

I can buy grass seed and most plants from suppliers such as Jenkins of Burry Port. They have agreed to give me a monthly credit account. Specialist plants will be obtained from Treetop Nurseries in Carmarthen, but I will have to pay cash for these.

7. Details of any staff you will employ

I plan to employ a part-time assistant from month three of start-up. This person will work 20 hours a week, but I will be able to extend this if necessary. I will recruit a local person who has some experience in grass-cutting, as I expect the worker to spend most of his time at this work. I will pay £7.50 per hour.

8. How much money you will need to start the business?

Van	£12,000
Equipment	£5,000
Working capital	£3,890
Total	£20,890

9. Where do you hope to raise the money you need?

Own investment in cash	£10,000
Hire Purchase	£9,000
Bank overdraft	£1,890
Total	£20,890

10. A summary of your expected profit/loss for the first year

Sales	£66,100
Less:	
Materials	£1,000
Wages/NI	£10,850
Overheads	£17,800
Depreciation	£4,250
Drawings	£26,000
Profit	£6,200

11. Details of any business advisors you have

Bank Manager: Tracy Ryan, First Bank, Llanelli
Accountant: Neil Douglas, Llanelli

BUSINESS PLAN WORKSHEET

1. Details of yourself and anyone else involved in running the business

Name: _____

Address: _____

Tel No: _____

Date of Birth: _____

Education: _____

Work record: _____

2. Your business idea

3. Where and how you will sell; how much you will sell ?

4. Your premises

5. The machinery, equipment you will use

6. The suppliers you will use

7. Details of any staff you will employ

8. How much money you will need to start the business?

9. Where do you hope to raise the money you need?

10. A summary of your expected profit/loss for the first year

11. Details of any business advisors you have

ADVICE ON COMPLETING PROJECTED PROFIT & LOSS ACCOUNT

There is an example of a completed projected profit and loss account on the next page and a blank worksheet on page 44 to help you.

- Step one is to cautiously estimate your sales for the year. If you are providing a service, estimate the amount of hours you have available and then estimate how many of these hours you will sell. If you are manufacturing, estimate how many goods you will sell; for example, if you are making children's clothes, how many blouses, shirts, etc. where will you sell and at what price? If you are running a shop, think how many goods of each kind you will sell or estimate an average spend per customer.

Example of the landscape gardener:

There are normally around 40 hours in the week. The gardener might work many more than that but he assumes he will only work 40 at most. However, he realises he will not have 40 hours to sell. He has to allow time for doing his books, going to the bank, meeting customers, chasing bills and so on. He has to allow for being ill or for funerals or dental appointments. He finds he has only 30 hours of his own time to actually sell. He plans to take on a part-time worker to help him cope with the busy season and estimates that this worker will be available for 20 hours a week.

At the beginning, he will sell only some of his available 30 hours as it will take time to build up customers, so he reckons on building up sales slowly.

His sales estimates per month based on hours worked are therefore:

	MONTH												Total
	1	2	3	4	5	6	7	8	9	10	11	12	
No. of weeks in month	4	4	5	4	4	5	4	4	5	4	4	5	52
No. of working weeks	4	4	5	4	4	3	4	4	3	4	4	4	47
No. of hours worked per week (self)	5	15	20	30	30	30	30	30	20	15	10	10	
No of hours worked per week (part-timer)	0	0	20	20	20	20	20	20	20	20	20	20	
Charge out rate per hour (self)	50	50	50	50	50	50	50	50	50	50	50	50	
Charge out rate per hour (part-timer)	20	20	20	20	20	20	20	20	20	20	20	20	
Hours sold (self)	20	60	100	120	120	90	120	120	120	60	40	40	1,010
Hours sold (part-timer)	0	0	100	80	80	60	80	80	60	80	80	80	780
Sales – self (hours x charge out rate)	1,000	3,000	5,000	6,000	6,000	4,500	6,000	6,000	6,000	3,000	2,000	2,000	50,500
Sales – part-timer (hours x charge out rate)	0	0	2,000	1,600	1,600	1,200	1,600	1,600	1,200	1,600	1,600	1,600	15,600
Total Sales	1,000	3,000	7,000	7,600	7,600	5,700	7,600	7,600	7,200	4,600	3,600	3,600	66,100

To cover his costs he will charge £50 an hour for himself and £20 an hour for the part-timer. His sales for the year will be 1,010 hours multiplied by £50 (£50,500) and 780 hours at £20 (£15,600). This gives him a total of £66,100. He puts this figure in line A of his profit/loss forecast worksheet (see page 43).

- He next estimates the cost of any materials to be used. He will charge his customers for all the materials he uses for their jobs, so he does not need to include that in his forecast, but he still reckons he will spend some money on things like seed and oil that he will not be able to charge for. He estimates he will spend £20 a week on these items. Over a year, that is about £1,000 (50 weeks at £20 a week), so he puts that figure on his sheet.
- He deducts this amount from his sales and he has his gross profit, the figure on **line B**.
- He then has to estimate all his overheads. For each heading, he will base his estimates on his experience to date or on quotations he has received, for example, from an insurance broker. He inserts each figure on the correct line within the section on overheads.
- He adds up his overheads and puts a total in **line C** and then deducts them from his gross profit on line B and he is left with his profit, the figure on **line D**.

- 6 However, there are two other things he has to account for. He has taken £500 a week out of the business for himself; that is called his drawings, which is another word for his wages.

He has also bought a van at £12,000 and has spent £5,000 on other plant and machinery. It is good practice to charge some of the costs of these items each year against his profits. This is called depreciation. It is needed so that, at the end of their working life, the van and equipment can be replaced. He calculates the van and equipment will last four years, so he charges, or writes off, a quarter of their value each year. In his case, that is £3,000 for the van and £1,250 for the equipment. He includes these figures and that leaves him his **net profit**.

PROJECTED PROFIT/LOSS ACCOUNT (Example, landscape gardener)		£
A	SALES	66,100
	Less:	
	Materials	1,000
B	GROSS PROFIT	65,100
	Overheads	
	Staff wages/NI	10,850
	Rent	1,000
	Heat and light	500
	Electricity	500
	Postage	100
	Telephone/email/mobile	800
	Stationery	100
	Petrol/diesel	2,500
	Car servicing	1,000
	Car insurance/Vehicle Tax	2,000
	Hire Purchase interest	600
	Public liability insurance	1,000
	Employer's liability insurance	1,000
	Advertising	2,000
	Website	2,500
	Audit	1,000
	Sundries	1,200
C	TOTAL	28,650
D	PROFIT/LOSS	36,450
E	PERSONAL DRAWINGS	26,000
	DEPRECIATION	4,250
F	NET PROFIT	6,200

PROJECTED PROFIT & LOSS ACCOUNT

PROJECTED PROFIT/LOSS ACCOUNT (Example, landscape gardener)		£
A	SALES	
	Less:	
	Materials	
B	GROSS PROFIT	
	Overheads	
	Staff wages/NI	
	Rent	
	Heat and light	
	Electricity	
	Postage	
	Telephone/email/mobile	
	Stationery	
	Petrol/diesel	
	Car servicing	
	Car insurance/Vehicle Tax	
	Hire Purchase interest	
	Public liability insurance	
	Employer's liability insurance	
	Advertising	
	Website	
	Audit	
	Sundries	
C	TOTAL	
D	PROFIT/LOSS	
E	PERSONAL DRAWINGS	
	DEPRECIATION	
F	NET PROFIT	

ADVICE ON COMPLETING CASHFLOW FORECAST

There is an example of a completed cashflow forecast on the next page and a blank worksheet on page 47 to help you.

- 1 Start by looking at your sales as you have estimated them in your profit/loss account. Our gardener has decided he will mainly deal in cash, so he will get paid when he completes a job. He allows for some slow payers, however, and reckons he will probably be owed around £2,000 at the end of the first year. He estimates he will get the following cash from his sales; remember he has calculated these using the table on page 42.

	MONTH												Total
	1	2	3	4	5	6	7	8	9	10	11	12	
Sales: Self	1,000	3,000	5,000	6,000	6,000	4,500	6,000	6,000	6,000	3,000	2,000	2,000	50,500
Sales: part-timer	0	0	2,000	1,600	1,600	1,200	1,600	1,600	1,200	1,600	1,600	1,600	15,600
Total Sales	1,000	3,000	7,000	7,600	7,600	5,700	7,600	7,600	7,200	4,600	3,600	3,600	66,100

He inserts these figures along **line A** of his cashflow, the sales line. Normally the business will have slow payers most months but, for the purpose of this exercise, when it comes to the last month, he deducts £2,000 to allow for slow payers throughout the year.

- 2 He next inserts each of the items of his expenditure when he expects them to be paid in each of the lines in **section B**. Some will be paid monthly, but others may only be paid every quarter or even once a year. For example, he will pay his rent every quarter, he will pay his car insurance monthly for 10 months, he will pay his electricity every quarter and so on.
- 3 He then adds up each month's overheads and puts the total in each box across **line C** and subtracts them from the figures in line A. This gives him a monthly balance figure, which he puts in the boxes across **line D**. This figure is his working capital. It will change from month to month as income and expenditure changes each month. To get his working capital figure on an on-going basis, he adds the first month's total to the next and so on across the line. This results in movements up and down in the figures. If your working capital figure is negative, as it is in the first few months of this example, then you need to know how and where you will find the money to meet this shortfall. Usually this is done by using a bank overdraft.

In the early stages of the business, there may be more money going out than coming in, so his figures in **line D** may be minus figures. Minus figures are shown in brackets.

- 4 The next step is to put in any money to be spent on buildings, equipment or transport. The gardener will spend £12,000 on a van and £5,000 on equipment, both in month one. He puts these figures on **line F**.
- 5 He then puts in the amount of money he is investing in the business in **line G**, and any grants or loans he expects to get in the lines underneath. The gardener is investing £10,000 and expects to get Hire Purchase of £9,000 which will be paid to him in month one, though in practice it will go straight out to whoever he is buying the vehicle from.

The figures from **lines F** and **G** are added and the answer is put into **line H** for month one to give the running bank balance for the business.

He then moves to month two and adds the figure in **line H** from month one to the figure from **line D** in month two. The answer is put into the box on **line H** for month two. This is repeated across the page.

If any figures in **line H** are in brackets, the highest figure in brackets in line H is the largest amount of money he will need to find from the bank by way of overdraft.

CASHFLOW FORECAST

	1	2	3	4	5	6	7	8	9	10	11	12	TOTAL
INCOME													
A Sales	1,000	3,000	7,000	7,600	7,600	5,700	7,600	7,600	7,200	4,600	3,600	1,600	64,100
B EXPENDITURE:													
Staff wages/NI	0	0	1,085	1,085	1,085	1,085	1,085	1,085	1,085	1,085	1,085	1,085	10,850
Materials	250	0	0	250	0	0	250	0	0	50	0	0	800
Rent	250			250			250			250			1,000
Heat and light			100			150			150			100	500
Electricity			100			150			150			100	500
Postage	0	0	10	10	10	10	10	10	10	10	10	10	100
Telephone/email/mobile	50	50	100	50	50	100	50	50	100	50	50	100	800
Stationery	25			25			25			25			100
Petrol/diesel	100	200	220	220	220	220	220	220	220	220	220	220	2,500
Car servicing/Vehicle Tax			250			250			250			250	1,000
Car insurance	200	200	200	200	200	200	200	200	200	200			2,000
Hire Purchase	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Other insurance	200	200	200	200	200	200	200	200	200	200			2,000
Advertising	500	100	100	100	100	100	500	100	100	100	100	100	2,000
Website			2,500										2,500
Audit													
Sundries	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Drawings	2,000	2,000	2,500	2,000	2,000	2,500	2,000	2,000	2,500	2,000	2,000	2,500	26,000
C TOTAL	3,975	3,150	7,765	4,790	4,265	5,365	5,190	4,265	5,365	4,590	3,865	4,865	57,450
D MONTHLY BALANCE	(2,975)	(150)	(765)	2,810	3,335	335	2,410	3,335	1,835	10	(265)	(3,265)	
E WORKING CAPITAL	(2,975)	(3,125)	(3,890)	(1,080)	2,255	2,590	5,000	8,335	10,170	10,180	9,915	6,650	
F Van/equipment	17,000												17,000
G OWN INVESTMENT	10,000												10,000
HIRE PURCHASE	9,000												9,000
H RUNNING BALANCE	(975)	(1,125)	(1,890)	920	4,255	4,590	7,000	10,335	12,170	12,180	11,915	8,650	8,650

ADVICE ON COMPLETING PROJECTED BALANCE SHEET

There is an example of a completed projected balance sheet on the next page and a blank worksheet on page 50 to help you. The format used in these worksheets is the usual format for Balance Sheets. It is:

Fixed Assets.

Current Assets.

Total.

Less:

Current Liabilities.

Gives:

Total Assets.

Represented by (coming from):

Own Investment.

Profits Generated.

1 This is a snapshot of what value the gardener will expect his business to have at the end of his first year. In **Section A** (Fixed Assets), he writes in the amount of money he has spent on the van less the amount of depreciation, and the amount he has spent on equipment less the depreciation. The total of the three items – buildings, vehicles, plant and machinery – goes on line B.

2 In **Section C** (Current Assets), he puts in the amounts for each item shown.

Cash at bank is the amount he expects to have in the bank at the end of the year. It is the figure he finds on the very last box in **line H** of his **cashflow forecast**.

Debtors is the money he is owed from any customers who have not paid him at the end of the year. He gets this figure by subtracting the money he got from sales in his cashflow (page 46, **line A** – £64,100) from the money he expected to get in his profit and loss account (page 43, **line A** – £66,100).

Finally, he would put in the value of any stock he holds but he does not have any at this time.

3 He adds up the three sums in **Section C** and puts the total on **line D**. He then adds that amount to the total at **line B**. This gives him his total assets figure, which he puts in on **line E**.

4 In **Section F** (Current Liabilities), he puts in the amounts for each item shown.

The bank overdraft amount is the amount of money, if any, he owes the bank at the end of the year. He would get that figure from the very last box of line H in his cashflow (see page 46), if it were a minus.

Loans are the amount he borrowed by way of Hire Purchase, less any repayments he made during the year. In this case, he borrowed £9,000 and has paid back £3,000, so the figure he puts in is £6,000. Note in the **cashflow forecast**, he shows payments of £3,600; the £600 extra is interest on the Hire Purchase.

Trade creditors are the suppliers to whom he owes money at the end of the year. He got this figure by adding up what he bought and subtracting from that figure what he actually paid. In this case, he bought £1,000 in materials and £17,800 in overheads (see **Profit & Loss Account** on page 43). He paid £800 for materials and £16,800 for overheads (see cashflow on page 46).

VAT and Income Tax are the amounts he expects to owe at the end of the year, if he is registered for VAT and if he expects to pay Income Tax. Although this project has exceeded the threshold for VAT, for the purposes of the exercise, VAT is not shown but obviously payment of VAT and Income Tax would normally have an impact on the cashflow.

5 He then adds up all the sums in **Section F** and puts the amount in **line G** (Total Current Liabilities). He subtracts **line G** from **line E** and he has the net assets figure which he can put 40 in on **line H** (Net Assets). This sum of money is what the business is worth at the date of the balance sheet.

6 **Section I** shows where the funding for the business came from. In this case, it is his investment and his profits.

His investment is the amount of money that he put into the business (in his case, £10,000).

Any profits or losses he has made; that figure will come from his projected **Profit and Loss Account** (see page 43).

He adds the two together and the total is the same as **line H**; in other words, they should balance which is where the words **balance sheet** come from.

PROJECTED BALANCE SHEET		£
A	FIXED ASSETS (THINGS YOU OWN BUT WHICH CANNOT QUICKLY BE TURNED INTO CASH)	
	Buildings	0
	Vehicles	9,000
	Plant and machinery	3,750
B	TOTAL	12,750
C	CURRENT ASSETS (THINGS YOU OWN AND WHICH CAN BE QUICKLY TURNED INTO CASH)	
	Cash at bank	8,650
	Debtors	2,000
	Stock	0
D	TOTAL	10,650
E	TOTAL ASSETS (THE SUM OF THE FIXED AND CURRENT ASSETS)	23,400
F	CURRENT LIABILITIES (MONEY YOU OWE)	
	Bank overdraft	0
	Loans/Hire Purchase	6,000
	Trade creditors	1,200
	VAT	0
	Tax	0
G	TOTAL	7,200
H	NET ASSETS (WHAT YOUR BUSINESS IS WORTH, IF YOU TAKE THE CURRENT LIABILITIES FROM THE TOTAL ASSETS)	16,200
I	REPRESENTED BY: (WHERE YOU GOT THE MONEY YOUR BUSINESS IS WORTH)	
	Your investment	10,000
	Your profits or losses to date	6,200
J	TOTAL	16,200

PROJECTED BALANCE SHEET PROJECTED BALANCE SHEET

PROJECTED BALANCE SHEET		£
A	FIXED ASSETS (THINGS YOU OWN BUT WHICH CANNOT QUICKLY BE TURNED INTO CASH)	
	Buildings	
	Vehicles	
	Plant and machinery	
B	TOTAL	
C	CURRENT ASSETS (THINGS YOU OWN AND WHICH CAN BE QUICKLY TURNED INTO CASH)	
	Cash at bank	
	Debtors	
	Stock	
D	TOTAL	
E	TOTAL ASSETS (THE SUM OF THE FIXED AND CURRENT ASSETS)	
F	CURRENT LIABILITIES (MONEY YOU OWE)	
	Bank overdraft	
	Loans/Hire Purchase	
	Trade creditors	
	VAT	
	Tax	
G	TOTAL	
H	NET ASSETS (WHAT YOUR BUSINESS IS WORTH, IF YOU TAKE THE CURRENT LIABILITIES FROM THE TOTAL ASSETS)	
I	REPRESENTED BY: (WHERE YOU GOT THE MONEY YOUR BUSINESS IS WORTH)	
	Your investment	
	Your profits or losses to date	
J	TOTAL	



NOTES

NOTES

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