



# Setting up a business

Version 1.0

**A practical guide to setting up a small business or social enterprise, especially in a rural context, drawing on Biblical principles for flourishing individuals and communities.**

This workbook covers finding and refining a business idea, and testing whether the business idea is likely to work out financially. The workbook is written in as straightforward a language as possible for the widest accessibility, but the content is profound and relevant to those from any level of educational attainment. The workbook is adapted with permission from a guide first published in 2008 by Tesseract. [www.tesseract.com](http://www.tesseract.com). [www.reconxile.com](http://www.reconxile.com)

**The Arthur Rank Centre** is a Christian charity serving rural churches and their communities. [www.arthurrankcentre.org.uk](http://www.arthurrankcentre.org.uk). We've quoted passages from the Bible we believe are helpful in thinking about the principles underpinning running a successful and ethical business. Jesus was a man who ran a family business in a village, and his parables were often about rural businesses such as vineyards, building barns, and putting talents to work to get a return on investment. Of course, ethical principles are not unique to Christianity, and we hope that those of other faiths and none will empathise with the wisdom contained in these spiritual reflections, and find this guide of use in planning their enterprise.

**Acknowledgement:** We are enormously grateful to Mike Clargo of Tesseract and others for their work in the original development and permission to adapt the material for the UK rural context.

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## 1. Introduction

Are you based in a rural area and considering setting up your own enterprise? Wondering which of your ideas might work best? Or stuck for ideas? Wondering where on earth to start? Not sure if you want to take the plunge?

Then this book was written for you. As you work through this material, we hope that your next steps will become much clearer, and you will be inspired to set up something that will not only help you flourish, but your wider community too.

Enterprises come in all shapes and sizes. Perhaps you are looking for something to run in your spare time, or part time. Perhaps it'll be just you, operating as a self-employed individual. Or maybe you hope to grow a business that will employ other people too. Maybe you want to work with a friend and form a partnership. Or work with a community group and set up a social enterprise, which is a business run with broader goals than profit.

The same basic business principles apply to all of these types of enterprise, even if the profit is called surplus and used for a charitable purpose. And all enterprises run in a positive way can bring people together, and help communities to flourish.

Setting up a business is not difficult, but it is hard work, and it does need you to think about things carefully. This book is about working your ideas through, planning how you'll do things, and researching your customers, your market and your competitors. We hope that by putting in the work on paper, you will be saved from the pain and expense of a business that fails. And you'll be able to choose which idea is the best suited to you and the resources available to you, and therefore most likely to be a success.

Entrepreneurs are simply those who understand that there is little difference between obstacle and opportunity and are able to turn both to their advantage

Victor Kiam,  
American Businessman

The people who get on in this world are the people who get up and look for the circumstances they want, and, if they can't find them, make them.

George Bernard Shaw  
Writer



*The Arthur Rank Centre is a Christian organisation serving rural communities and churches. We've included some biblical references and concepts that we believe are helpful in thinking about the principles underpinning a successful and ethical business. You'll find our reflections in boxes like this one throughout this guide.*

*Of course, ethical principles are not unique to Christianity, and we hope that those of other faiths and none will empathise with the wisdom contained in these spiritual reflections, and find this guide of use in planning their enterprise.*

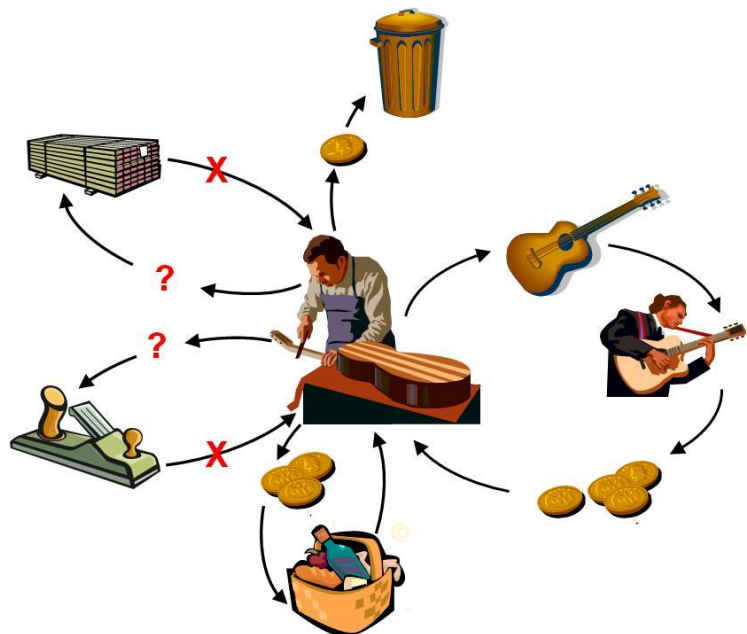
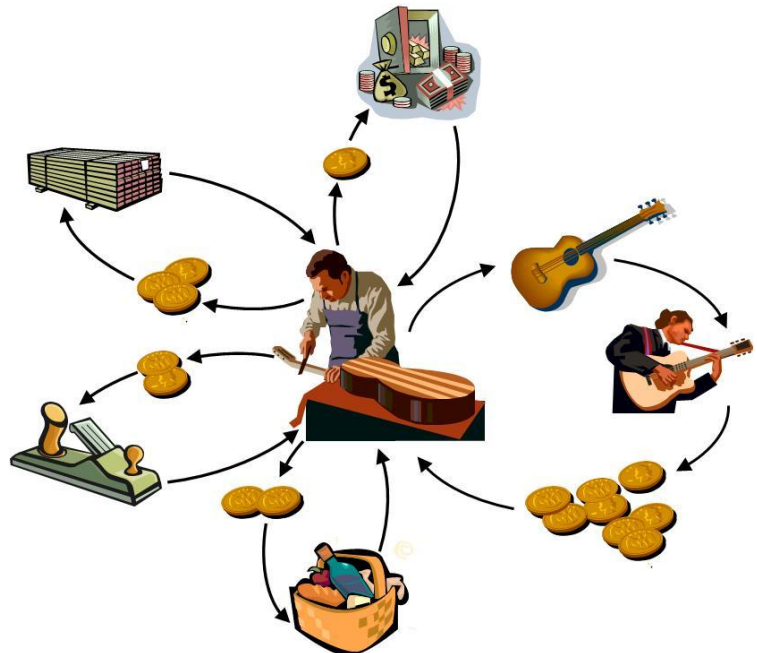
Some businesses do fail, some succeed wildly and others fall somewhere in between, but how do you know which of your ideas is mostly likely to succeed?

From experience, those who succeeded in business:

1. Made something or did something that people wanted so much that they were happy to pay enough for it
2. Did it well enough, often enough, that people came to them to buy it from them, rather than going to someone else
3. Made it or did it in such a way that, even though it cost them some of what people paid for it, they always had some money left over
4. Took care of the money left over, ensuring they not had enough for themselves and their families, but also for replacing all the equipment used in their business.

Those who failed in business, failed to do one or more of these things, either at the beginning, or at some point later on.

At its heart, business is that simple!



It is often the case that people's first idea for their business does not work out – they have a good idea, but they can't quite make it succeed on every one of the four points. This is common and usual! People who are successful in business are often on their third or fourth idea. Their first few ideas failed. For the more fortunate ones, their ideas failed on paper or at the planning stages, before it had cost them too much. But you will meet people who are on their third or fourth business – their first and second businesses failing after they had put a lot of effort and money into them. They have learnt from their failures, and not been put off.

All types of people set up successful enterprises. From those who failed at school to those who excelled, from introverts to extroverts. But if you are considering setting up an enterprise, do think through your personality and resilience first – how well do you relate to other people? Would you enjoy the interactions with suppliers and customers? Can you learn from your failures, and pick yourself up and try again? Things will go wrong - they always do. Will you cope? You will inevitably receive criticism – are you able to take it graciously? And really listen to extract anything useful to your business? Are you comfortable taking responsibility for the enterprise? When circumstances work against you at times, are you able to turn problems into opportunities, or do you tend to blame? When you are in charge, the only person who can solve problems is you!

If that sounds hard but possible, or you're not sure, then doing the planning using this book should help clarify your decision. It should also help you sift through the various ideas you come up with, and choose the most suitable.



### Exercise 1

Who do you know who has a successful business?

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Why is it successful?

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Was it their first idea?

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Who do you know who has failed in a business?

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Why did they fail?

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What have they learned about making a successful business?

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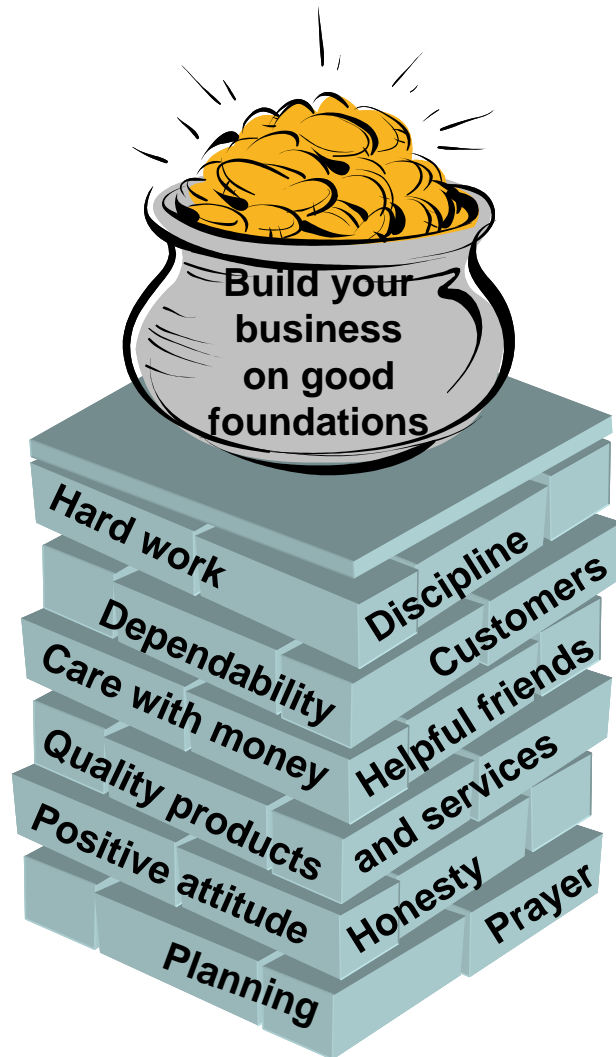
As well as your personality, do also think about your ideal work environment and bear it in mind when choosing your idea – do you prefer working alone or need to find others to work with, or next to? Do you want to work inside or outside?

You may need to run several ideas through this guide before you come up with one that is going to suit you and be profitable. But that's actually a really good plan - it will give you a range of ideas so you can pick the very best. One that suits your skills, your resources, your personality and your pocket.

And just think, if it works out, you could be doing something you love, and getting paid for it. Imagine having the opportunity to do what you do best, every day!

For this guide to really work for you, you'll need have a go at the exercises, not just in your head as you read, but on paper. It'll make all the difference.

This guide has been written to enable you to start up an enterprise that enhances both your life, and the lives of others around you. Your course is probably being delivered by volunteers. By the end of the sessions we hope you will have enjoyed using the guide so much that you will recommend the course to others, and perhaps even volunteer to help deliver the next course.





## 2. What will my business be?

The first question you need to answer is “What will my business do?” You may already have a business idea, or several, that you are considering. The following material should help generate lots of ideas to give you a long list to choose the best from.

To be successful, businesses have to do things that somebody else wants enough that they are willing to pay for it. It can be helpful to think of things as ‘products’ or ‘services’ but sometimes businesses do have a bit of both mixed in together.

A product is something you can touch and see and hold, which you can make, grow or re-sell, and which you can simply pass on to someone else (and get paid for it) – for example: asparagus, cakes, furniture, cushions.

A service is where you do something for someone else; where you provide effort and skill to do work for other people (and get paid for it) – for example: dog walking, childcare, tutoring, cleaning for them.

Your business can either provide products, or services, or a mixture. But some really simple rules apply:

1. Someone has to want what you provide, and want it enough that they are willing to pay enough for it.
2. You have to have the abilities and resources (resources are tools, land, buildings. etc.) to provide what people want, when they want it, and how they want it.
3. The product or service you plan to sell should be ethical, legal, and something you’re proud to provide.



**Exercise 2:** What examples of products can you think of?

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And what examples of services can you think of?

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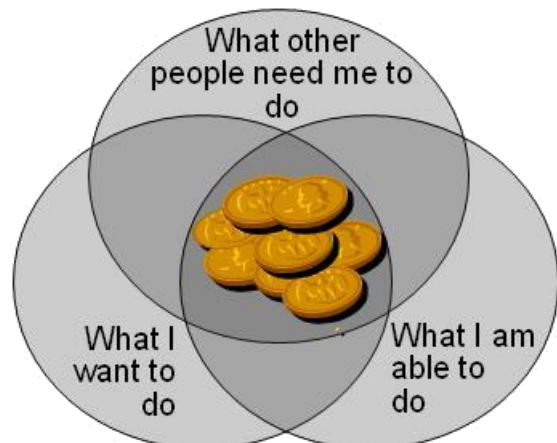
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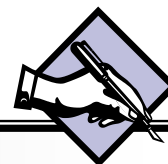
“A vision without a task is but a dream, a task without a vision is drudgery, a vision and a task is the hope of the world.”

From a church in Sussex, England ca. 1730



Use these statements to help you to identify some business ideas.  
The first time you do this, take the steps in the order of the three simple rules.

Start by thinking about what people need; what they need enough that they are willing to pay for it. With practice this is likely to grow into a very long list. You know about lots of people: your neighbours, people at your church, people in your community or village, ex-colleagues, people of different ages, perhaps visitors to your area or even people overseas – and each of these people has a long list of needs: food, clothing, transport, education, health, information, entertainment, things that make their work easier, things that make their lives more enjoyable. Write down all the ideas you have about who they are and what they might need. Because this is going to be a long list, you might find it easier to get a few friends to help you to think about all of the needs that could go on the list. Try writing the list now before you proceed any further with the book, and see if you can fill at least 2 sheets!



### Exercise 3: What people need...

#### People

#### Needs

*People in my village need*  
*Childcare*  
*Transport*  
*Help using the Internet*  
*Pet care*

*Office workers need*  
*Cleaning*  
*Couriers*  
*Computer services*  
*Lunches*

*Tourists need*  
*Guides*  
*Food*  
*Places to stay*  
*Places to visit*

Please continue on one or more separate sheets of paper



Before moving on from this list of people's needs, consider the difference between businesses, charities and social enterprises.

To survive, a business has to make money from selling something. It cannot give away all its products for free. A charity can do things for people who cannot afford to pay, because it gets an income from donations.

The first simple rule was that 'someone has to want what you provide, and want it enough that they are willing to pay enough for it'. Consider the needs on your list. Are they all things that people are willing, and able, to pay for? You may need to go back through the list and cross off all of those needs that people cannot afford to pay you for. You may find that a struggle if you really care about these people and their needs. You may decide to use some of the profits from your successful business to give to a charity meeting those needs. Or you could set up something to help them yourselves – perhaps cross-funding one customer group from another. For example, you could design websites at discount rates for charities, and subsidise the work from commercial clients, or you could offer horse riding for the disabled with contributions from your livery business.

If you are part of a group of people and you want to set up an enterprise together whose goal is something other than profit, you may want to set up a social enterprise. These may be registered at Companies House as a Company Limited by Guarantee, with a directors and members, or as a Community Interest Company or other legal structure. This doesn't mean you aren't concerned about profits, as you need them to continue your work, but because your profits are ring-fenced for the goals of the enterprise, you may be eligible to apply for grants to help with running costs or equipment, whilst still being able to be employed and be paid a reasonable salary.

### **Farmers' market**

A local environmental charity, amongst its other activities, sought to reduce the food miles of produce bought by people in their area. They decided to set up a farmers' market for food grown and made within a 20 mile radius.

They formed a social enterprise, with members and a Board of Directors drawn from the charity itself, plus the stallholders and other local supporters. The legal documents (memorandum and articles of association) of the social enterprise linked it to the charity so that any profits could be ploughed back into the work of the charity.

The social enterprise was able to trade, charging stallholders for their pitches. Social enterprises are also able to raise finance by getting loans (e.g. from a local CDFI - Community Development Finance Institution) and are often eligible for grants (e.g. from local government schemes or grant making trusts).

If you are thinking about setting up a charity or a social enterprise, it's important to find the best legal structure for what you'll be doing, so do get advice. There is a lot of fantastic material and information online – Appendix G contains some helpful links to start your research.

The second step is to make a new list of all the needs you have the 'abilities' and 'resources' to meet. Your abilities are the skills, talents, knowledge, health and physical strength you have, such as cooking, writing, welcoming people, teaching, driving, being artistic, heavy lifting, childcare, organising, computer programming or web design. Your resources are the materials, tools and similar things, such as a washing machine, DIY tools, computer hardware and software, a car. Of course, most businesses will need to buy extra things but it is helpful to think through what you've already got or could borrow.

Write down all of the things you are able to provide either as a product or a service. The following questions might help you to generate some ideas:

1. What have you ever made or grown? Or what work do people say you do well? What can't you help yourself doing? What do you lose all track of time when you are doing it?
2. What do you see other people doing, that you could also do in your area?
3. What could you be trained to do?  
What could you be helped to do?  
(Your business could be about doing things with the help of your family and friends, or other people you know)
4. How could you change (or transport) what exists around you into what people need elsewhere?
5. What are some people not able to do, that you can do?

You will probably be pleasantly surprised by quite how many things are on your list.

### Exercise 4:

## What do I have the ability and resources to do?

- Cooking*
- Mending clothes*
- Setting up Facebook pages*
- Driving a vehicle with a trailer*
- Search engine optimisation*
- Gardening*
- Selling things on eBay*
- Caring for animals*
- DIY*

Please feel free to continue on separate sheets of paper.

When you have finished your list of what you are able to do, the third step is to compare it with your first list of what people need, and see how many matches there are between what you can do and what people need. If there are very few matches, don't be discouraged – it probably means your lists aren't yet complete. Try the following two exercises:

1. Work through your list of needs one-by-one, and use each of these needs to help you to think of other things that you are able to do to meet these needs, even if only in part – and then add these to your list of what you are able to do
2. Work through your list of things that you are able to do one-by-one, and use each of these abilities to help you to think of other needs that could be met by you, even if only in part – and then add these to your list of needs

As you work through these exercises, you will find the number of matches that you have between what people need and what you are able to do increase.

The third step is to look through the list of matches, and cross out what you are unwilling to do, and circle those things that you most want to do. But before you undertake this third step, take time to reflect on this and ask friends you trust for their thoughts too. Whatever you choose to do now, if successful, will not only impact your life as you will be doing it for a long time, but it will have the potential to make a real difference to the people around you.



#### **Exercise 5:**

What new ideas do you get for 'what you can do' when you look through the list of needs?

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What new ideas do you get for 'what people need' when you look through your list of abilities?

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From your list of matches, which do you want to think about further?

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### Praying for guidance

*We would also encourage you to pray to ask for God's wisdom with the decision, and if you can, with friends you trust too, asking God to speak to you.*

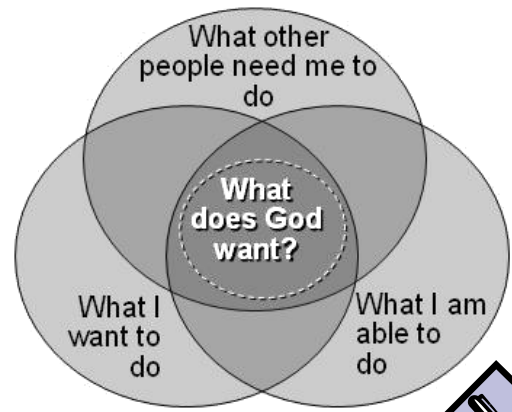
*Sometimes God speaks to us simply through things other people say, or he may give someone a specific prophecy for your business. Other ways of hearing from God are through words leaping out at us as we read the Bible, through dreams, visions or pictures, senses, impressions or feelings, or even simply the circumstances around us. God does have an opinion on your life choices, and if there's something he's guiding you towards, he will help you as you do it.*

As you work through the rest of the book, you are likely to find you have to return to this chapter from time to time, to pick up another good business idea. Maybe your earlier ideas didn't work out in the planning stages, but just possibly because your first business is really successful, and now you want to start up another one.

When you revisit the chapter, please feel free to re-order the steps:

1. You could start with what you want to do as a list, and then cross out those things that you are unable to do (even with training) and those things for which there is no need
2. You could start with those things that you are able to do (or could be trained to do), and then cross out those things that you don't want to do or for which there is no need.

When you have selected the business idea you want to use, move on to the next chapter.



### Exercise 6:

#### Think about the choices you have made:

Did you feel led in any particular way toward or away from these choices after careful consideration?

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What do your friends say about your choices?

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What do you really want to do, and why?

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Will you be proud to provide it? Is it ethical and legal?

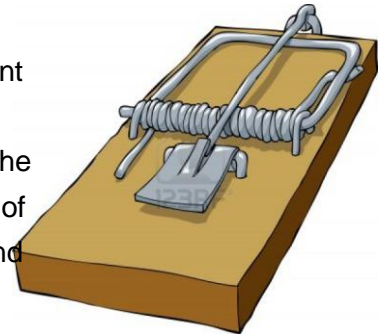
.....

#### My business idea is:

1. ....
2. ....
3. ....

### 3. How will I sell my products or services?

Ralph Waldo Emerson is often quoted as saying: “Build a better mouse trap and people will beat a path to your door”. What he meant was ‘good products sell themselves’. That may have been true a hundred years ago, but today, even if you have the best product in the world, you need to place it in the middle of a busy highway with lots of flags around it, and even then most people are likely to avoid you and complain about the space you are taking up.



To be fair to Emerson, once they know you have the best product; once they have bought your product for the first time, they may well beat that path — but the question is “How do you get them to know – How do you get them to make that first buy?”

To sell your products and services requires two things:

1. That your product or service really is ‘better’
2. That enough people know your product or service really is ‘better’

So what do we mean by ‘better’? We mean that your product or service meets the needs of your customers more than the products or services of anybody else. Though this sounds simplistic, in business it is often the simple things, thought about deeply, that make all the difference.

Pause for a minute, and think about what you buy, who you buy it from and why you buy it from them (all of the reasons) – make a list – then look at your list, and see what you think is ‘better’ as a customer. Get some of your friends to make a list and see what they think is ‘better’ when they are customers. If you and your friends choose who to buy from in this way, then it is likely that other people will too – including the people who will be your customers.

#### Exercise 7: What do I buy?



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Who do I buy it from?

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Why do I buy it from them?

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What would cause me to buy it elsewhere?

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What do I mean by ‘better’ in this case?

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For most customers, better means:

1. More consistently (more reliably) – people find that your product or service meets their need equally well, each and every time that they use it – it is never less than good.
2. More completely – people find that your product or service meets more of their needs and wants than anybody else's product or service.
3. More economically – it costs less (overall) for people to use your product or service than for them to use somebody else's product or service – this could be because your offering is cheaper, but it could also be because it does more, or because it is easier for them to buy.
4. More conveniently – people can get your product or service at the times they need them, in the quantities they need them, and in the place they need them, without going out of their way, and any product is easy and ready to use.
5. More enjoyably – people find that the experience of buying your product or service from you is something that brightens up their day and makes them feel good about themselves.
6. More ... – what else do you want to add?

Your competitors will be meeting the same needs by selling similar products or services. Your product or service doesn't have to be better than your competitors' on all of these things at once BUT it does have to be better on enough of them to be seen as better overall – and the better it is, the more successful you are likely to be.



### Exercise 8:

**How can you make your product or service to meet your customer's needs:**

More consistently?



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More completely?



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More economically?



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More conveniently?



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More enjoyably?



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And better in any other way?

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#### **Best Childcare:**

Clean house  
Collects children  
Good cook, organic food  
Correct car seats  
Organised  
Fun  
Flexible  
Kind

The first step for you, is to work out exactly how good your product or service has to be to be 'better'. To do this you need to talk to your (soon to be) customers, and you need to look carefully at your competitors. This is your 'Market Research'.

Start by identifying very clearly who your customers will be. The following questions will help you to think this through – please use them to think carefully about your customers. Use each question to try to widen your thinking and open your mind to new ideas. Use the questions also to spot where your first ideas may be unrealistic, and where you may need to find easier or simpler answers.

Write down a list of your answers for each question:

1. Whose needs will your product or service be fulfilling? Who are all the people who have this need? Is there anything common about them (things like age, location, gender, wealth) – What is your 'customer profile'? (A customer profile is a word picture that describes your most likely customers – for example the customer profile for this book is men and women living in the rural areas of the UK who are considering setting up an enterprise).
2. Which of these people do you think are the most likely customers for your product or service, and why?
3. How far away from your place(s) of business do they live or work? Do other people with the same need live or work further away? What 'geography' (areas on a map) will your customers come from?
4. How do they currently have their needs met? From whom or where do they get what they need – and in what way?

**Please note:** The exercise on the preceding page helps you to understand what 'better' means for you. But harsh experience has taught us that it does not always mean 'better' to our customers.

We will do similar exercises later in this chapter, but only after you have spoken to your customers about them. It is their view that will determine your success.



#### Exercise 9:

Whose needs will your product or service be fulfilling?

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Which are the most likely customers for your product or service?

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What 'geography' (areas on a map) will your customers come from?

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How do they currently have their needs met?

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This last question will help you to identify your 'competitors' – the people who currently meet the needs of your customers. They may do so poorly, but the truth is: they are still in business, so they must have got some things right; there must be some experience that they have that you can learn from – and it's normally a lot cheaper to learn from somebody else's experience than from your own!

Experience is a hard teacher – She gives the test first, and the lesson afterwards!

Source unknown

Step two then, is to identify all of your competitors, and to understand what they have already learned.

Start by making a list of the people who currently meet those needs of your customers that you want your product or service to meet. And then go out and seek to learn what they have learned.

Figure out how they work e.g. if they're a café or shop, visit them; if they've got a website, examine it, and look for the things that make them successful. Answer these questions:

1. How do they appear to get their customers to talk to them – what do they do to make themselves known (attract customers)?
2. How do they treat their customers when they are speaking to them – what do they talk about, and what do they say that seems to convince their customers to buy from them?
3. What is similar about different competitors' products or services, and how do they differ?
4. What can you notice that might be a clue as to why some of your competitors are more successful than others? Is it because of differences in the products or services (and if so, what differences?) or is it because of differences in how they deal with the customers and provide their products or services? (And if so, what?) Or is it both?
5. Who would you buy from, and why?



### Exercise 10:

#### General Competitor Research

Who are your competitors?

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How do they attract customers?

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How do they treat their customers?

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Similarities between competitors?

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Differences between competitors?

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Clues to success?

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Please feel free to continue on a separate sheet of paper.

Now, this may seem a bit cheeky, but why not try and speak to your competitors (perhaps by buying a product or service from them). Ask them what they think makes them successful; and what their customers see as important when they buy from them.

Remember to make notes as soon as you can (while remaining polite and courteous), and remember, your competitors should not be your enemies – they may even be a source of referrals, help and advice in the future.

You could also contact or visit a successful similar business elsewhere and ask their advice – they usually won't mind giving away information as you won't be a direct competitor.

But ultimately your competitors are your competitors, and to have a successful business you will need to understand them, and understand how to beat them. Use the table on the right to list out your competitors, their strengths and weaknesses, and also the prices they charge for the products and/or services you will be competing against.

In researching your competitors, you also need to understand how the competition works. To what extent do competitors gain and keep customers based on price alone, and how much do quality and other factors play a part?



### Exercise 11: Specific Competitor Research

[illegible]

## Bed & Breakfast Example

After researching the B&Bs in her area, Mary found they ranged considerably in price. She examined their websites, stayed in a few, and asked visiting friends to check others out. The price depended on the property, location, room size and decor and services offered. Customer reviews of competitors online were incredibly useful as they told her what people valued, e.g. that a quality breakfast was key.

As she had a charming period cottage, Mary decided she had the raw materials to go for the top end of the market. She focused her research on what she would need to improve (upgrading bathrooms and décor), and how much this would cost, and she went on a cookery course.

Finding the clues to beating your competitors fair and square usually lies in gaining a better understanding of your customers than your competitors have. You need to find the customers that are not won-over by price alone, and really understand what other factors are part of their decision of 'what to buy' and 'who from'. You need to understand what they see in a 'better' product or service that encourages them to pay a bit more. The best way to do this is to talk to them and ask them, but this is not always possible and so you may need to ask people who know them (at least better than you do).

If your competitors' products or services are reviewed online (e.g. on Amazon, Tripadvisor, Yell, checktrade.com etc.), reading customer reviews is a great way to find out what they appreciated and what could be improved. If your competitors have physical premises such as a shop, stall or restaurant, wait nearby until a customer has just bought something and then try and start a conversation. Some good questions to throw in at different times may be:

1. "What do you look for when you are trying to buy a good ... (whatever the product or service is)?"
2. "Is that the best place to buy them from around here? ... What makes you say that?"
3. Or "I have been thinking about doing something like that myself, and I was wondering how I could do it in a way that was better – do you mind if I ask you if you have any ideas on that?"

The answers you get are likely to concern a number of things, and particularly price, quality, and ease of getting what you want. Remember to write down everything you learn (as soon as it is polite) because this is very important information that will cost you a lot if you have to relearn it through your own experience.

**Note:** Please do not attempt this exercise until you have **actually spoken to real customers**, or you will simply be repeating the exercise on page 16.



### Exercise 12: Customer research 'Better' as my customers see it:

What is important to my customers?

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What do I have to get 'right' if I want to be better than my competitors?

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When you have a complete list of your customers, and what they see as 'better', use this to help you to describe exactly what your product and service needs to be like if it is to bring 'enough' customers for you to be successful.

How many customers will be 'enough'? To answer this, one way is to think about how big the market is for your product (usually referred to as the 'Total Accessible Market'), what fraction of it you will need to make your business work (usually referred to as your 'Market Share'), and whether this is achievable.

Use the box on the right to help you to give it an initial think through. Don't worry if you're not sure about the answers as you are likely to need to revisit them when you have completed Chapter 5 (page 32) – once you have a clearer idea of what 'revenue' you need, and how quickly you need it.

#### Terms & Conditions

When you think through your sales growth, bear in mind that you may not be paid at the point you deliver your service – understand the terms and conditions that you will need to work with, e.g. it may be standard to offer customers 30 days or more to pay invoices. You'll be able to adjust your plans for this on page 40.

## Exercise 13: Calculating the Market

### 1. Total Accessible Market

How many customers (roughly) are there for your product or service in the areas you can physically serve? .....

How many times a month do they tend to buy your product or service (or a similar one from your competitors)? .....

How much do they spend on the product or service each time, on average? .....

How much is the total market worth in your area per month?

*(All three numbers above multiplied together)* .....

### 2. Market Share

How much money in sales do you need coming in every month to make your business work? .....

*(This is called your revenue and is the total of all your sales (not your profits), and you may need to revisit your answers to this section once you have completed Chapter 5 – but for now, simply try to take a rough guess at it)*

What proportion is this of the total amount the market is worth per month? ..... %

*(Multiply the number above by 100 and divide it by the last number in part 1)*

### 3. Competition

How many competitors are serving the same areas as you will be serving? .....

What proportion of the market does each competitor have currently? ..... %

*(This is likely to be a range, but you may not actually know the answer – in which case, simply divide 100 by the number of competitors to get a rough average)*

How realistic is it that you will be able to get the share of the market you need? .....

### 4. Expected Sales Growth

How do you see your sales increasing over the first six months towards your market share?

1                      2                      3                      4                      5                      6

And now the big question. Do you think you can find a way to produce products and services that your customers need, at price that they will be willing to pay, in the quantities you will need to deliver them?

If the answer is 'no', you need to return to the previous chapter and pick another business idea.

If the answer to this question is 'yes', the next big question is how do you get your future customers to know about and use you. This is your 'advertising strategy'.

Use the boxes on the right to think through exactly what you need to communicate to your Total Accessible Market, and reach them where they are, to get the market share that you need.

Think too about your business name: your own name may be fine for self-employment but a descriptive name helps communicate what you do.

Tips and ideas of marketing, sales and designing your promotional material (signs, flyers, adverts, letters and website) are in Appendix B at the back.



### Exercise 14: Advertising Strategy

Who are the groups of people I need to reach with news of my product or service?

What sort of message will they listen to and be influenced by?

What practical means will I use to get my message across to them?

[illegible][illegible][illegible]

## Advertising Actions

## Dates

Cost
------

[illegible][illegible][illegible]

Carry over to Exercise 18 >>>

## 4. Planning your product or service

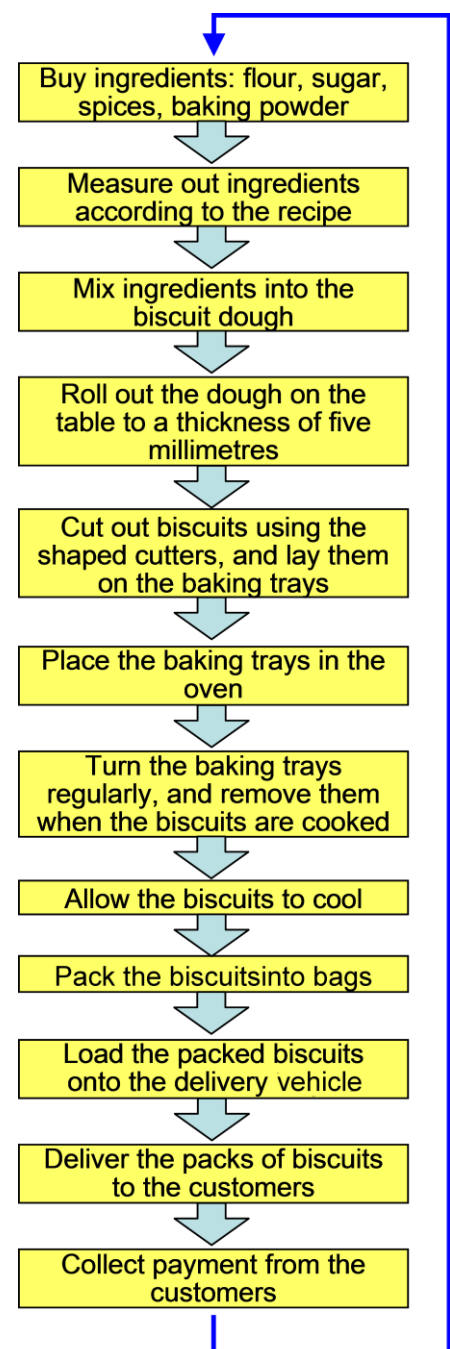
If you have got this far, you now have a clear picture of what you are going to do, how well you are going to need to do it, and you are fairly confident that you can find a way to make that happen. So the next step is to plan this out so that you know exactly how you will produce your products or deliver your service.

Let us start by trying to understand and list (in order) all of the things that will need to happen right up to the point that you have a happy customer. In business this is called the 'process flow'. It is a list of the activities that need to happen, one after another, from the starting point when things first come into your business, right up to the point that your product or service is delivered to the customer. The process flow can be represented in a Process Flow Chart like the one on the right.

The following real example of a gourmet biscuit-making business may help to explain this more clearly:

1. Buy ingredients: flour, sugar, spices, ...
2. Measure out ingredients according to the recipe
3. Mix ingredients into the biscuit dough
4. Roll out the dough on the table to a thickness of five millimetres
5. Cut out biscuits using the shaped cutters, and lay them on the baking trays
6. Place the baking trays in the oven
7. Turn the baking trays regularly, and remove them when the biscuits are cooked
8. Allow the biscuits to cool
9. Pack the biscuits into bags
10. Load the packed biscuits onto the delivery vehicle
11. Deliver the packs of biscuits to the customers
12. Collect payment from the customers

**Note:** For simplicity, the emphasis on the examples in this section leans toward products rather than services. However similar service examples to the ones you see here can be found in Appendix C on page 51.





You can now use your Process Flow steps as a powerful tool to make sure your business is totally customer focused: Page 23 is a template for you to use as Exercise 15 – though as this may be a long list, you may want to copy several sheets before you start.

Now think through, for each step of your process, what you need to produce the ‘better’ product or service that your customers need. The three columns to the right of your process steps are labelled:

1. Doing ‘better’
2. Tools and equipment
3. People and skills

Take out your list of what your customers mean by ‘better’ (see page 19) and for each process step that you have written down, consider what you will need to do in that step to make your product or service ‘better’ in the ways that you have described. Write your answer in the column headed ‘Doing better’ beside the process step. (If you would like to think through this step in more detail, an alternative way of doing this, called QFD, is explained briefly at the back of this book)

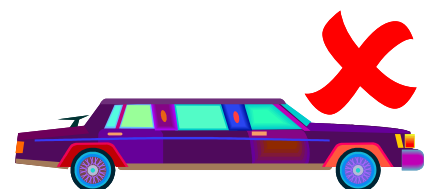
The next step is to think through what ‘tools and equipment’, and what ‘people and skills’ you will need to do that process step as well as you have described, and write the answers to this in the last two columns, also in line with the process steps. As you do this part of the exercise, please bear in mind that you will have to pay for all of the tools, equipment, people and skills that you need, so keep a practical mind, and keep things as simple and as cheap as possible (but not so cheap that it becomes unreliable – sometimes the cheapest things can work out the most costly if they are not reliable or fully working – make sure that what you buy is suited to the task).

Process Step			
Allow the biscuits to cool			
Pack the biscuits			
Load the packed biscuits...			
Deliver the packs of biscuits			

**Tip:** It is important that you identify all of the steps in your process flow, so go over it a number of times, and even act it out, to make sure that you are not missing anything. Get your friends to help you – they will enjoy helping you to act it out – and don’t treat any question as silly, because it could be the most important thing that you haven’t thought of.

Process Step	Doing ‘better’	Tools & Equipment	People & Skills
Allow the biscuits to cool		Rack of shelves & wire trays	
Pack the biscuits	Do not chip or break	Packing table	Careful Packer
Load the packed biscuits...		As above	As above
Deliver the packs of biscuits	Deliver on same day as cooked	Modified delivery	Driver

**Tip:** If you can observe your competitor’s businesses, or if you know someone who has observed them, understanding their process flow may help you to develop your own.





[illegible]

\*When considering people and skills which are needed, please bear in mind that during 'start-up' of your new business, the 'people' is quite likely to be you and you alone.

Now is a good time for a 'sanity check'. Does the quality of any equipment you're buying improve the product or service in any way? (e.g. a smarter desk or computer probably doesn't). If not, try and get away with something second-hand, borrowed or basic – you can always upgrade it later on when your business is thriving, and you'll also know better what you really want – think of the early months as a kind of 'pilot' of your business – so you can tailor exactly what you need as you develop your methods. Also if possible, compare your list of what you think you need in your business, with what you understand your competitors are using. If your list is much bigger than what your competitors use, you may need to go back over your process steps and reconsider whether there are items of equipment or numbers of people that you can do without. You may be providing 'a better biscuit' but you are unlikely to sell many if they cost five times as much as 'a good biscuit'. Anything you can do to produce 'better' with simpler, cheaper or fewer tools,

Consider also cheaper options for advertising on page 22



equipment and people will make your business more likely to succeed..

When you have refined your list down to what you really need, the next step is to think through where you will operate and keep it all – you need to consider what space, buildings and supplies that you will need. Can you set aside some space and start by working from home? Or do you need to look online, or enquire locally to find somewhere that meets all the needs of your process flow? Make sure you find out the rent, the rates (note this is not the same as the 'rateable value' on brochures) and roughly how much heat, lighting and water will cost. Will it need any work? e.g. gas connection, phone line or high speed broadband, better lighting, redecoration? Does it have the correct usage code for your business – you can apply to your local council to get this changed e.g. retail to café. Any of these can cause real delays to getting up and running (which becomes critical if you have a business loan you're paying back each month or any other fixed costs like rent you can't get out of).

And now the biggest step of all, you need to **plan** it all out. You need to work out where it is all going to be, how you are going to get it all together, and how you are going to get it running.

You need to make a list of everything you need to do to set up the business, prepare any buildings you might need, obtain and put in place the tools and equipment, recruit and train the workers, buy your first lot of supplies, attract the attention of your customers, and sell them your first batch of products or services.

## Exercise 17:

### Initial Planning Questions

Where can I get the facilities (e.g. premises) & tools & equipment I need?

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Who will I need to help me operate & run my business? Where will I find them?

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Who will I get my supplies from? And do I need to have a back-up?

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Actions	Dates	£
<i>Request gas connection</i>	<i>1 May</i>	<i>135</i>
<i>Install oven</i>	<i>9 May</i>	<i>0</i>
<i>Install second hand steel rolling table</i>	<i>2 May</i>	<i>60</i>
<i>Buy food mixer</i>	<i>1 May</i>	<i>85</i>
<i>Buy trays</i>	<i>3 May</i>	<i>48</i>
<i>Build shelves for cooling</i>	<i>4 May</i>	<i>20</i>
<i>Modify delivery vehicle</i>	<i>7 May</i>	<i>150</i>
<i>Get gas connected</i>	<i>3 Jun</i>	<i>30</i>

There's a table opposite to help you plan everything that needs to be done. Here's a quick checklist of things you may need to consider, drawing mainly from the previous two pages:

**Tip:** Planning at this level of detail takes time, but unless you have done it thoroughly, it's hard to tell if your idea is possible, and how much money you'll need to set it up.



1. Where are you planning to house your business?
2. What will you need to do to prepare the buildings?
3. Where will you get all of the tools and equipment that you need?
4. Do you need to prepare, assemble or install any of the equipment?
5. How will you get your workforce? It may be just you on your own.
6. How will you ensure they are trained in their job, & to use the tools they will work with?
7. How will you get your supplies delivered?
8. Where will you store things and how will you transport them?
9. Do you need to arrange any licences, banking or legal arrangements?
10. How will you attract your first batch of customers? (See exercise 14)
11. How will you collect money from them, and what will you do with it?

## Exercise 18: Planning the business

[illegible]

\* Keep your costs as low as you can – your business may depend on it & remember to include advertising actions from page 21.

**Total of above costs:** .....  
Carry over to Exercise 20.



Once you have a complete list of actions, think through when you will do each of these actions, and put the date in the second column. Some things will need to happen before others, and some things may take time to arrive or happen, so need to be done early on. Ensure everything is planned out, right from getting the money you need to pay for setting up the business, all the way up to receiving payments from your customers and buying further supplies.

Planning out everything in detail will help to make sure things happen in the right order – but it **won't** ensure things don't go wrong. Some things will go wrong! That is the nature of plans ... but ... the point of good planning is to think through where the plan can go wrong in advance, and be ready to prevent it or deal with it quickly. Exercise 19 on the right will help you to think this out. Focus your attention on the risks which are most likely to happen and which would have the worst impact on your business.

Finally, think through how much (if anything) you will need to spend to make each of the actions happen. Write this in the third column against each task and total the amount. These are called your set-up costs, which you'll need for the next section.

### Exercise 19: Key risks & how to avoid them

How could my plan go wrong?

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What will I do to prevent it going wrong, or deal with it when it does?

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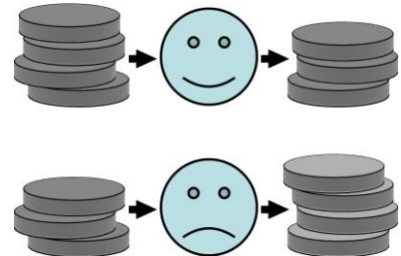
### Exercise 20: My set-up costs are

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## 5. Making the figures add-up

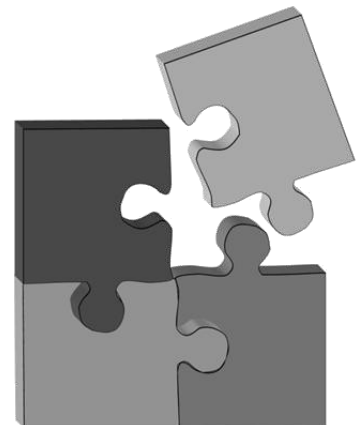
Mr Micawber, a famous character of the popular 19<sup>th</sup> Century novelist Charles Dickens, had a very simple, but essential view of business. In the book 'David Copperfield' he outlines his thoughts something like this: "Income: twenty shillings, expenditure: nineteen shillings and sixpence, result: happiness. Income: twenty shillings, expenditure: twenty shillings and sixpence, result: misery!"



In short, for our businesses to succeed, 'income' (the money coming in) must be more than 'expenditure' (the money going out). It is so simple a principle that it is easily overlooked – at a cost of many businesses, and the misery of many people. This section looks at whether income will be more than expenditure for your own business. Doing it on paper is much cheaper and will ensure that you set off with a business that can work in terms of 'finance'.

Finances can be a little difficult at first, because of all the different categories of money that there are in a business, but it is very important that you understand them and get it right if your business is to succeed. More businesses fail because people do not understand and control their finances than for any other reason. Please don't delegate your finances to someone else – by all means get help, but you need to understand and have a good grip on what's coming in, what's going out, and when.

Working through the finances of your business is a bit like working on a home-made jigsaw puzzle where you have to whittle away at the pieces in order to get them to fit together. When you first go through this chapter, it is quite likely that the pieces won't fit together at all, and you will have to go back through the chapter a number of times, adjusting each of the pieces as you go, until they make a complete picture with no gaps. If you can make a complete picture with no gaps, then you stand a good chance of your business succeeding, but if you cannot, then you will probably need to go back to Chapter 2 and pick another idea to work through.

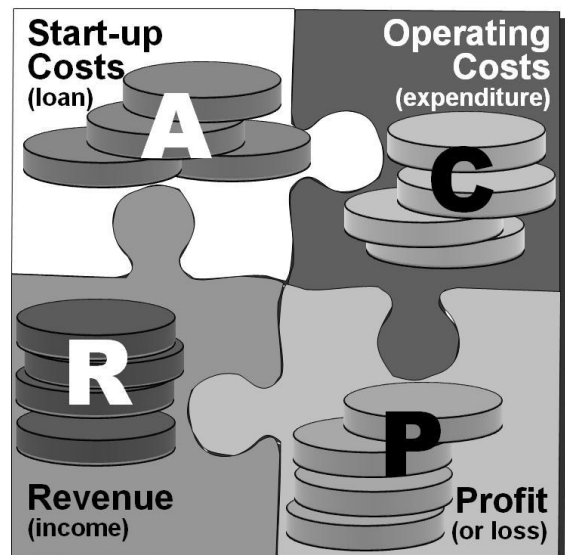


There are four main pieces to your jigsaw puzzle – four things that will determine whether your business is likely to make money or not; whether your business is ‘viable’.

The four pieces are:

1. Your start-up costs (A): These are the costs of setting up the business before the business can pay its own way. They include your initial set-up costs (the figure you calculated at the end of the last chapter), and any additional money you need to operate up until you start getting enough money in from your customers to cover your costs. You may have savings or you may need a loan of some sort – either from friends, relatives or from a local loan scheme, or from a bank – which will need to be repaid out of your profits.
2. Your operating costs (C): these are the monthly costs to your business of making products or delivering services – it is everything you spend, every month, simply to stay in business.
3. Your revenue (R): this is the monthly income into your business from people paying you for your products or services
4. Your profit (P): this is the money you have left over after you have received all of your revenue, and paid all of your costs out of it. If it is a minus number (your costs are bigger than your revenue) this is a loss – and it is bad news for your business

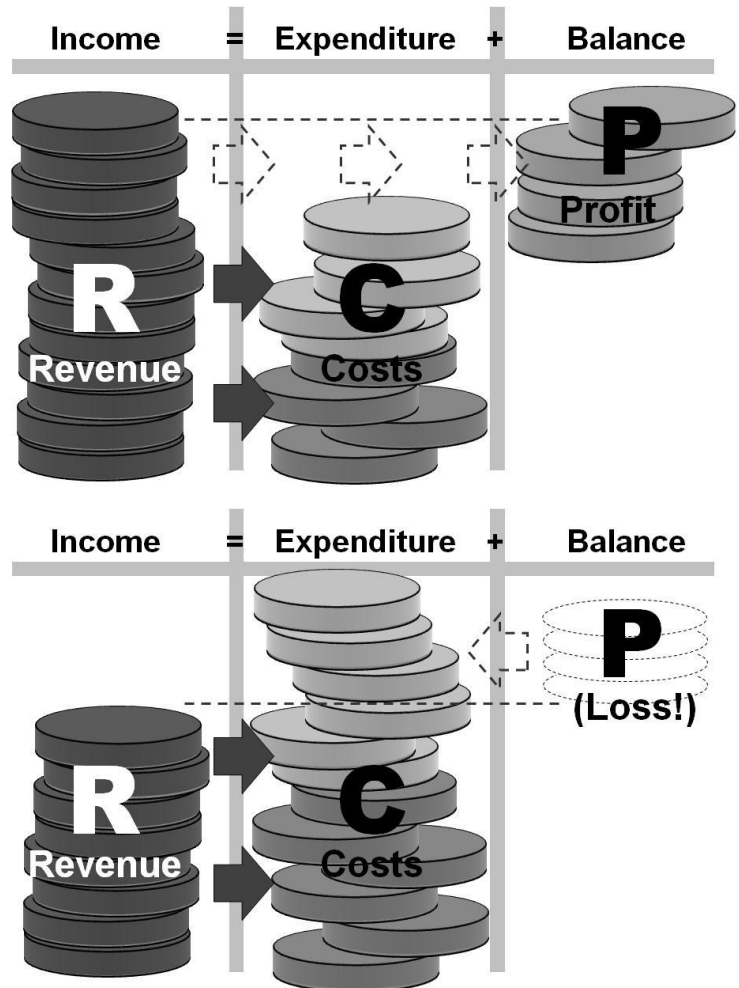
Finances are not complicated, but they are easy to get lost in. To help you find your way about, this section uses letters (such as the A, C, R and P on the diagram) so that you can more easily see where the various figures come from and what they relate to.





To be viable, your revenue (R) must be 'significantly' more than your operating costs (C). What we mean by 'significantly' is that the money left over after you have paid your costs out of your revenue should be at least enough to cover your monthly loan repayments in respect of your start-up costs (A) and to cover the minimum you need to withdraw to live on.

If your revenue (R) is less than your operating costs (C) you will be making a loss, and this will drain any money that you have until you are no longer able to meet your costs (or your loan repayments), and then you will go into debt, be unable to buy what you need, and your business will collapse. (See the diagram on the right) .



Most new businesses do have a few months at the start where they are steadily building up to profitability, and their owners need to know how long this might take, and how they will survive until then – you will cover this on page 39.

You might be able to see from the pictures above, that your costs do not have to go up a lot, or your revenue to go down by much before your profit disappears and your business is in trouble. This is why understanding and controlling your business finances is so important.

Start by working through your business idea, bit by bit, to see how things will work out for you. But please don't be alarmed if when you first work things out, it comes out as a loss – this is usual, and can often be put right by some of the 'whittling' of the jigsaw puzzle pieces we referred to earlier.



### ***Jesus tells a business parable***

*The parable of the talents in Matthew 25: 14-30 is a story Jesus told to teach us how God isn't pleased with people who are too scared to take any risks with money. God wants you to take some investment risks with the money and talents you have been given and use them to make more money than you started with.*



Let us start with the nice piece; revenue (R).

To think this through you will need to identify what we call a 'basic unit of sale' or 'unit' for short – this is likely to be one item of product (for instance a pack of biscuits, or a kilogramme of fruit, or a pair of curtains),

or one average delivery of service (for instance an average length dog walk, or cleaning an average house, or a night's bed & breakfast).

Next you have to estimate how many of these 'units' you expect to sell each month, and how much you expect to sell each 'unit' for.

This is where your 'market research' will be useful – in particular the work on page 19 – what did you learn from speaking to customers and observing competitors that will guide you on quantity and price? How many 'units' were your competitors selling per hour, or per day, and how much were they being paid? And in your conversations with customers: how many do you think would buy from you, how often, and at what price?

Use your 'market research' to think through how many 'units' you expect to sell each month, and the price you expect to sell them for, and write your answers to these questions in the box on the right. Please note, if your business provides a number of products or services (for instance, a retail shop) you may need to do this for each item, and then add the results for revenue (R) all together.

Remember this is only our first pass – we may need to revisit this to ensure we get all the jigsaw pieces of our business finances to fit properly.

### Revisiting Market Share:

Check back to page 19 to make sure that you relate the revenue you calculate here with the market share you calculated there.

### Exercise 21:

My 'basic unit of sale' is:

**U** .....  
 .....  
 e.g. one pack of biscuits

My selling price will be:

**W** .....  
 .....  
 e.g. £2.50 per pack

My monthly sales quantity will be:

**Q** .....  
 .....  
 e.g. 400 packs

Our monthly revenue (R) will be our selling price multiplied by our monthly sales quantity ( $R = W \times Q$ ):

**R** .....  
 .....  
 e.g. £2.50 x 400 = £1,000 per month

### Farmhouse Bakery sales forecast

	U	W	Q	R
Biscuits	pack	£2.50	400	£1,000
Cakes	cake	£8	100	£800
Cookies	box	£6	200	<u>£1,200</u>
<b>TOTAL</b>				<b>£3,000</b>

you would still have the cost of paying your staff and your rent and things like that. One way to think of this is that your operating costs arise both from simply 'being' – holding everything together as a business from day to day; and also from 'doing' the work you need to do to serve your customers. In business language these two different types of costs are called 'fixed' (F) and 'variable' (V):

For simplicity, and if the amount of money is relatively small compared with the other costs, you might want to ignore this and consider it all as fixed or variable (depending on which the biggest part is), but if the amount of money concerned is fairly large, you should consider splitting it up into what is consumed in 'being' and what is consumed in 'doing'.

1. Fixed costs (the cost of 'being') are the things which you have to pay whether you are selling anything or not. They are 'fixed' in that they do not change with the amount of work you do. These will include items such as rent, and the wages of support staff like administrators or shop assistants. (Tip: Any payments that are regular with time e.g. a set payment per month, are probably a 'fixed cost')
  2. Variable costs (the cost of 'doing') are the things that you have to pay only if you are working, in order to do that work (and therefore they 'vary' in proportion to your work level). Variable costs include items such as piece-work labour (people paid per piece of work) raw materials and supplies (Tip: Payments that are not regular with time and which go up and down with how busy you are, are quite likely to be a 'variable' cost)

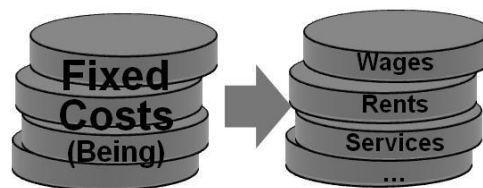
## Exercise 22: Fixed & Variable Costs

[illegible]

Page 32

Try the exercise on the right to work out which of your costs are fixed or variable, using the explanations above.

Your total operating cost (C) is simply your fixed costs (F) added to your variable costs (V).  $C = F + V$ .



To calculate your fixed costs (F), make a list of all the things that you will need to pay out on a regular basis (monthly, quarterly, annually) whether you produce products or services or not. Then write down beside them how much each of these things will cost you per month (for

Fixed costs

---

Rent

Water

Fixed cost item	Price	per ?	Monthly cost
Rent	£120	Quarter	£40 per month
Water			

instance: one twelfth of the cost of an item that is charged annually, one third of the cost of an item that is charged quarterly, all of the cost of an item that is charged monthly, or four and a third times the cost of an item that is charged weekly). A sheet like Exercise 23 on the right will help you.

**Usually, you don't include your own salary as a fixed cost – we will look at this in the profit section on page 37.**

### Exercise 23: Fixed Costs

Fixed Cost Item	Price	Per	Monthly Cost
.....	.....	.....	.....
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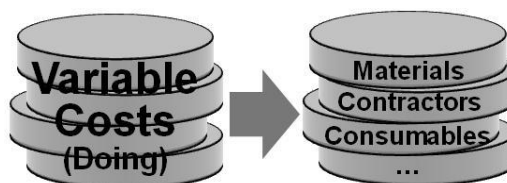
When you have finished your list, add up all of your monthly 'fixed' cost figures, and write the total in the box on the right – this will be your fixed operating costs per month; the money you will have to find each and every month simply to keep the business going.

**Exercise 24:**

My total fixed costs per month will be:  
(*Total fixed monthly cost from Ex 25*)

**F** .....

To calculate your variable costs (V), there are a number of steps. Firstly we need to understand how much each 'unit' will cost us to make. Then we need to adjust this to take account of the likely wastage and spoilage we will get. And then we will multiply this number by the number of units we intend to sell each month to find our monthly variable cost (V).

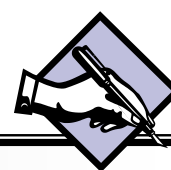


Variable cost item	Price	Units of sale covered	Cost per unit of sale
Flour (5kg bag)	£6	30	£0.20
Sugar (1kg bag)			

To start, make a list of all of the things you need to pay out, over and above the fixed costs, for each 'unit of sale' (production or service) in Exercise 27. This would include any materials or items or goods used up in the production of the item or the delivery of the service, such as flour (if baking) or detergents (if cleaning) or hot water and breakfast ingredients (if running a B&B) or contract labour (if paid per piece of work).

**Exercise 25: 'Ideal' Variable Costs**

Variable Cost Item	Price
.....	.....



### Exercise 25: 'Ideal' Variable Costs

[illegible]

To calculate the 'cost per unit of sale', make sure you divide the total cost of the item by the number of 'units of sale' that item will cover. Each variable cost item (e.g. detergent) may cover a number of sales units (e.g. if you buy detergent in 5 litre bottles at £30, and cleaning an average house (one 'unit of sale') consumes about 25 ml, then each 5 litre bottle will cover about 200 average houses ('units of sale'), and the 'cost per unit of sale' is therefore £30 divided by 200, which equals £0.15 (or 15 pence).



Add up the column 'cost per unit of sale' for all of the items to calculate the total ideal cost per 'unit'.

When you have calculated how much cost it takes to make one 'unit' of product or service if everything were to go perfectly – then we now need to be realistic about how often things will go wrong, and you will have to abandon your efforts and start over again (either because of mistakes, or because of damage, or age, or weather, or people not turning up – e.g. for driving lessons – or other things like that). You will need to adjust your costs per unit to account for this in order to get a more realistic figure.

To do this simply, use the following steps:

1. Calculate the cost to produce 100 'units' in ideal circumstances by multiplying the ideal variable cost per unit (I) by 100.
2. Estimate how many of the 100 units will probably end up unsaleable due to damage, waste or 'other reasons', and subtract these from the 100 to calculate how many saleable 'units' you will produce in every hundred (G). Please note that some of these 'other reasons' may be entirely intentional, as in the case of offering free school places to a proportion of students (for example, those with disadvantaged backgrounds). However it is important that you record G as only the 'saleable' units in every 100, because you will need to apportion your costs of producing 'waste', whether intentional or not, over the saleable units.
3. Divide the cost per hundred 'units' (H) you calculated in step 1 by the number of good 'units' per hundred (G) you calculated in step 2 to arrive at a more realistic cost per 'unit'.

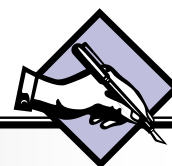


### Exercise 26:

My Ideal costs per 'unit of sale' will be

**I** .....

Add up the right hand column in Exercise 25 to get the total figure.



### Exercise 27:

My 'ideal' cost for making 100 units is:

**H** = (100 x I) = .....

I can be found on this page

The number of 'saleable' units (those you expect to sell at full price) I expect out of every hundred is:

**G** .....

This figure (G) is technically known as the 'percentage yield' of your process.

My realistic costs per unit then is my cost for producing one hundred divided by the number of 'good' units that I can sell:

**X** = (H ÷ G) = .....

Both H & G can be found above

My variable costs per month will be:

**V** = (X x Q) = .....

X can be found above, Q on page 34

4. You can now calculate your likely variable costs per month (V) by multiplying the real costs per unit figure you wrote in the line (X) by the monthly sales quantity you wrote on page 31 (Q).

It is very important that you consider all of the costs, both fixed and variable – anything you overlook can quickly turn what looks like a ‘viable’ business into one which quickly fails. Things that often get forgotten are maintenance costs, replacement costs, legal costs, security/insurance costs, marketing and publicity costs, costs of offering discounts on products or services, and waste costs. It is always worth looking back over your figures (and getting a friend to help you) to see if there is anything you have missed out – if you have missed anything out, simply update your figures and carry on.

You can now calculate your operating costs by adding your fixed costs (F) to your variable costs (V). ( $C = F + V$ )

#### Worked example of variable costs:

In our biscuit factory, each biscuit produced (good or bad) costs us 2.3 pence (£0.023) in terms of raw ingredients, fuel and contract labour etc. Out of every day’s production of five hundred biscuits produced, an average of fifteen get broken, one tray (of about 20 biscuits) in every fifty gets over-cooked, and about two packs (of ten biscuits) in every forty go stale before they can be sold.

This means that for every 100 biscuits, costing £2.30 in total (**H**), an average of three get broken, two get burned, and five go stale (if you do the maths), which leaves 90 as saleable (**G**). So now for £2.30 of cost we get 90 biscuits we can sell, so each biscuit realistically costs us 2.53 pence (£0.0253) and 100 biscuits realistically costs us £2.53 (**X**). We sell 900 packs of ten biscuits a month (9000 biscuits), which means our variable costs (**V**) are £230 per month.



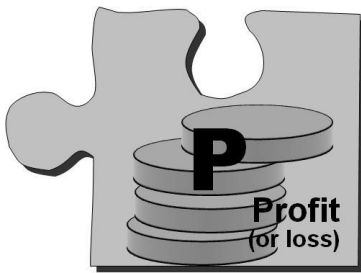
#### Exercise 28:

My operating costs per month will be:

$$C = (F + V) = \dots\dots\dots$$

*V can be found above (Exercise 27) & F can be found on page 34*






And now the important test. Is your business idea 'viable'? Do we need to adjust the various jigsaw puzzle pieces of our model to make them fit. (Remember that if this is your first pass through, not to be alarmed if they do not fit – it is very likely that you will

need to do some 'whittling' before they do.)

Your 'operating profit' (P) holds the answer to the question of whether your business idea is viable – it is your monthly revenue figure (R) less your monthly operating costs (C). Take your monthly revenue figure (R), and subtract your monthly operating costs (C) and write the number in the box on the right. ( $P = R - C$ )



#### Exercise 29:

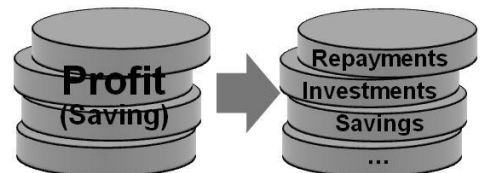
My operating profit per month will be:

$$P = (R - C) = \dots\dots\dots$$

*R can be found on page 32 & C on page 37*

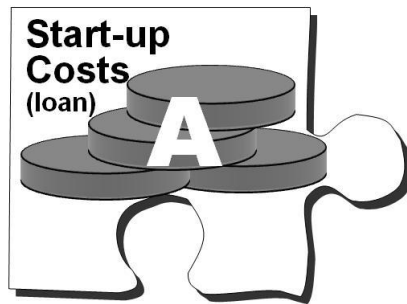
If your answer is a negative number, you need to look at how you can reduce your costs (C) or increase your revenue (R).

If your answer is a positive number, then that's a good start. But it's not enough for the answer to simply be positive – your profit needs to pay for:



- your loans (this is covered in the start up loan section on page 43)
- your business development costs, such as new equipment, bigger stocks of raw materials or goods for sale.
- your salary (sometimes called 'owner's drawings' if you are a sole trader, or taken out of profits as 'dividends' if you set up a private limited company)

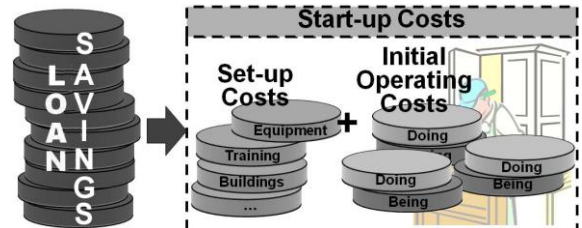
By not including your own salary in the fixed costs, you can see how much profit the business is generating, and whether it's enough to cover your needs. However if you are setting up a social enterprise and applying for grants, you may need to include your own salary in the fixed costs.



Before you decide whether to start this business or not, you need to work out how much money you'll need available at the start – your start up costs. You may need to borrow the money, or know whether your savings are

enough.

Your start up costs are not just the set up costs you worked out on page 29, but also enough money to keep you going and pay your costs (your operational costs – fixed and variable - plus any loan repayments), until the point your business has grown big enough to cover those costs by what your customers are paying you.



If you also need the business to provide you with an income right from the start, you'll need to calculate the minimum you can survive on (your Survival Budget), bearing in mind any other income you (or your household) have coming in to help. There is a Survival Budget planner in Appendix F at the back of this book. The start up costs will need to include enough to cover these withdrawals as well.

The best way to work out your start up costs is to do a 'cashflow forecast'. Cashflow is simply all the cash flowing both into and out of your business. This will be notes and coins in your cashbox, and cheques and bank transfers when they actually clear on your bank account.

Think about how it appears on your bank statement – you have an opening balance, then it shows what money came in, what money went out, and a closing balance for that statement (which of course becomes the opening balance for the next statement). A cashflow statement is a bit like a series of bank statements, lined up side by side:

<i>Big Bank</i>		<i>Big Bank</i>		<i>Big Bank</i>	
<u>Jan Statement</u>		<u>Feb Statement</u>		<u>Mar Statement</u>	
	£		£		£
Opening balance	70	Opening balance	55	Opening balance	5
Petrol	-15	Equipment	-50	Cash deposited	+20
Table & chair	-10				
Closing balance	55	Closing balance	5	Closing balance	25

	A	B	C	D
1 CASHFLOW	Jan	Feb	Mar	
2 Opening Balance	70	55	5	
3 Sales Revenue	0	0	20	
4 Set up costs	10	50	0	
5 Rent	0	0	0	
6 Delivery costs	15	0	0	
7 Closing Balance	55	5	25	

A cashflow **forecast** is your best guess at what your bank statements will look like in the future, so that you can forecast whether the business will have enough money to pay its bills. Timing is everything – if it runs out of cash, your business could fail, even if it is profitable!

	A	B	C	D	E	F	G
	CASHFLOW	Jan Actuals	Feb Actuals	Mar Actuals	Apr Forecast	May Forecast	Jun Forecast
1	Opening Balance	70	55	5	25	5	-30
2	Sales Revenue	0	0	20	25	15	60
3	Set up costs	10	50	0	0	0	0
4	Rent	0	0	0	30	30	30
5	Delivery costs	15	0	0	15	20	25
6	Closing Balance	55	5	25	5	-30	-25

A cashflow forecast should be used to work out the start up costs of your business, so that you can ensure you've got enough savings, or that you borrow enough (but not more than you need). **The amount you need is the worst negative position that the closing balance ends up at.** You might like to think of this as the biggest overdraft situation in any of the months.

To draw one up, you need to know two things:

1. **What** is coming in or going out
2. **When** each flow is likely to happen

Watch out for:

- Sales revenue – you may need to offer your customers credit terms of 30 days to pay their invoices, or even longer. Your work may be paid in instalments when stages are completed, or you may have to wait for lengthy processing, or funds may be withheld in other ways.
- Supplies – you may need to pay deposits upfront for equipment, premises rent or supplies – you'd be very lucky to be given any credit yourself at the start of your business so you will probably have to pay for things immediately.

You can avoid having a cash crisis by regularly doing a cashflow forecast – spotting the problem ahead of time allows you to take action – e.g. get a loan, negotiate a delay in payments to suppliers, or collect your cash in quicker.

In this example, the business was started with savings of £70 which covered the first three months, but when they did their forecast for the next 3 months it wasn't looking quite enough – they forecast going into their overdraft by £30 at the worst, which would be in May. They need to borrow £30. This situation has arisen because their sales revenue has been delayed, and they had to start paying rent. If they could speed up their cash collection they might not need to borrow the £30.

#### Tip – cash collection

Invoice your customers promptly (e.g. inserted with each delivery), to make sure you are not waiting to be paid for any longer than necessary. Keep a record by customer and month due so that you can see what's due in which month.

Turnover is vanity!  
Profit is sanity!  
But cash is reality!

Simon Lasky  
Colchester TBG

Appendix H contains a detailed sheet for you to map out your cashflow, but as a basic exercise use the box below to think through your monthly finances:

In order to think clearly about timings if there is a delay in receiving your sales revenue, it is often helpful to forecast when you will make (and invoice) your sales on one line, and then below it when you will actually receive the money.

The balances are usually shown at the bottom of the analysis.

What is the worst closing balance?

These are your start up costs.

Once you know them, you can see if you need a loan. If you do, check the Sources of Finance in Appendix E at the back of this book.

### Exercise 30: Basic cash-flow analysis

Month		1	2	3	4	5	6
Sales units	Q						
Sales Revenue invoiced							
Sales Revenue received	R						
Set up costs	S						
Fixed costs	F						
Variable costs	$V=Q \times X$						
Loan repayments	L						
Cashflow in month	$Cf=R-S-F-V-L$						
Opening balance	Ob						
Closing balance	$Cb=Ob+Cf$						

Write down your expected sales growth from Ex 13 in the row Sales Revenue invoiced (the Sales units row Q is included for you to use if you find it helpful). Now adjust it for any delays you anticipate in receiving the cash, and put your answers in the row Sales Revenue received (R).

Fill in your set up costs (S) from Ex 18 in the months you expect them to be spent.

Fill in your monthly fixed costs (F) from Ex 26

Fill in your monthly variable costs (V) from Ex 29 - this will be your monthly sales units (Q) x realistic cost per unit (X) and will vary each month depending on how many sales units you make that month.

Estimate your loan repayments (L) - they will probably start in month 2 (if unsure, estimate as 1/10th of your loan).

The Opening balance (Ob) for month 1 is how much cash you are starting the business with.

Calculate the Cashflow (Cf) in each month - this is  $R-S-F-V-L$

Under Closing balance (Cb) write down how much will be left at the end of each month - this is the Opening balance plus the Cashflow in that month. The Closing balance of one month becomes the Opening balance of the next month.

#### Tip: cashflow layout

You can design your cashflow with any number of rows so you can break down your income and costs into useful categories.

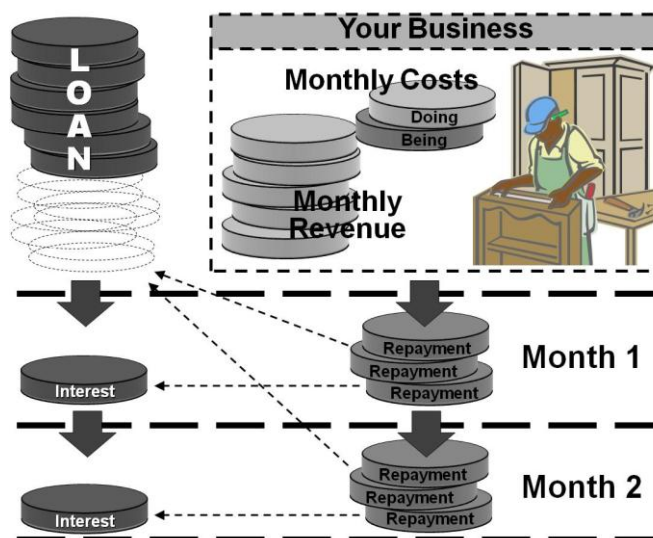
#### Exercise 31:

My start up costs are:

**A** = .....

(these are my set up costs (S) plus the money to keep my business going until its income is enough to pay its bills)

If you need a loan, your loan repayments will depend on a number of things – the amount of money you borrowed, who you borrowed it from, how long you have borrowed it for, the interest you are being charged, and how the repayments are calculated. Each repayment will include interest, with the rest going towards chipping away at your loan capital. Most lenders expect you to begin paying the money back the month after you borrow it. The longer you have a loan (e.g. 36 rather than 12 months), the more interest you end up paying, but the more manageable the monthly repayments are.



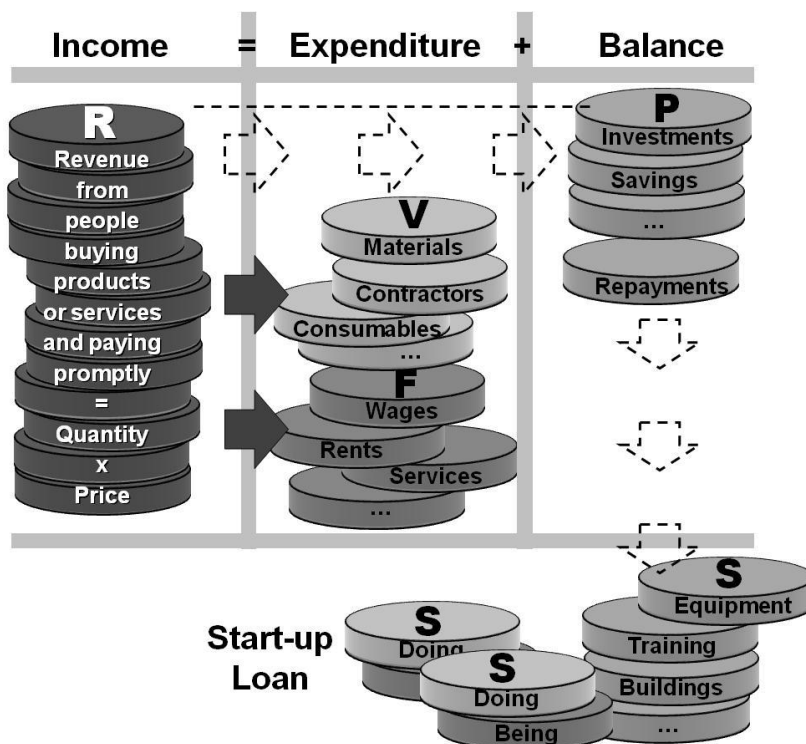
Remember that your profit, after fixed and variable costs, needs to be able to do four things: 1. Provide you with a survival income 2. Meet your loan obligations (whatever they may be) 3. Enable you to maintain "capital" equipment, and 4. Enable you to re-invest in more equipment/property/people/stock etc. to grow your business. If not, now is the time to start **'whittling'** the pieces of your jigsaw to make them all fit together.

#### Tip - Loan repayments

Banks can give you sample loan repayments, or there are online calculators e.g. on [www.moneysavingexpert.com](http://www.moneysavingexpert.com)

Let us start by looking at the different pieces of the jigsaw all in one place.

The goal of whittling is to make your profits (P) greater than your loan repayments which depend on your start-up costs (S) – this gives us the options of reducing (S) our start-up costs or increasing (P) our profits. In turn, increasing (P) our profits gives us the option of increasing (R) the revenue we obtain from our customers, or reducing (V) the costs of *doing* our work or reducing (F) the costs of *being* a business.





At this point, you should have a breakdown of each of these things, and all you need to do is work through each one to identify item by item where you might improve things. The following points may help you to do this:

1. Increasing the revenue (R) we get from selling our products or services can be achieved by selling more, or selling the same but at a higher price. Think through where you might find further customers, or what you might offer those customers that will make your product or service more valuable to them, and therefore worthy of a higher price (but remember to check out your conclusions by 'market research'), or whether you could also sell anything else to your customers.
2. Reducing the costs we expend on producing our products or services (V) can be achieved by reducing the amount of wastage, or by increasing the efficiency of your labour (utilising their time better to get more of the work done), or by negotiating discounts for the materials and supplies you are using.
3. Reducing the costs we expend on simply staying in business (F) can be helped by only employing the full-time staff you need, by not renting premises or equipment that is more expensive than you need, and by keeping non-production activities to a minimum.
4. Reducing the amount we needed to borrow to set-up in business (S) can be achieved through using second hand or borrowed equipment and premises wherever possible, by negotiating a loan repayment holiday for the first few months if possible, and most importantly by keeping the time between taking up the loan, and the first customer payment to an absolute minimum.

### Exercise 32:

#### What ideas do you have for:

Increasing the revenue (R)?

.....

.....

.....

.....

.....

Reducing the costs of 'doing' (V)?

.....

.....

.....

.....

.....

Reducing the costs of 'being' (F)?

.....

.....

.....

.....

.....

Reducing the costs of setting up (S)?

.....

.....

.....

.....

.....

Reducing time to get money in (T)?

.....

.....

.....

.....

.....

Please feel free to continue on a separate sheet of paper.

With this in mind, we encourage you to go back through your figures, keep your costs to a minimum, do things as quickly as possible, borrow and repair wherever possible, buy only what is essential and only hire (or contract) the people you need and can trust. Through perseverance we hope that you can whittle the pieces of your own jigsaw puzzle until they fit.

Before leaving the area of finance however, there are three important issues to look at. The first concerns break-even, the second concerns raising finance to start up your business, and the third concerns reinvestment to keep it going.

What is the minimum amount of goods or services you need to sell, to cover your costs, i.e. how much do you need to sell to break-even? As an example – if your fixed costs (rent etc) are £500/month and you sell packs of biscuits at a profit\* of £1/pack, you need to sell 500 packs each month to break-even. Any more and you're in profit, any less and your business is not yet viable. Knowing your break-even can be a useful yardstick to monitor how well the business is doing easily.

So, the break-even point is the minimum quantity of product or services that you need to sell (at the planned price) in a month, to cover all of your costs and any loan repayments. To calculate the break-even point, subtract the 'real variable costs per unit' (X) from the selling price (W) and this will tell you how much each sale will contribute toward meeting your monthly costs. By dividing this figure into your fixed costs you will know how many sales you need to cover these, and by dividing it into the value of the loan repayments you can find out how many further sales you will need to cover your loan. The two figures added together will tell you the total (break-even) sales you need per month during start-up. See Exercise 34.

*\*technically, this is the 'gross' profit generated by each unit, which is called 'contribution' as it contributes to paying your fixed costs, leaving you with your 'net' profit*



### Exercise 33: What is my break-even point during my start up period:

How much money does each unit of sale contribute - selling price per unit, less real costs per unit: (W - X)

$$Y = (W - X) = \dots\dots\dots$$

*W can be found on page 33 & X on page 38.*

How many do I need to sell to cover my fixed outgoings each month?

$$M = (F \div Y) = \dots\dots\dots$$

*F can be found on page 36 & Y above.*

What are my likely loan repayments each month?

$$L = \dots\dots\dots$$

How many more do I need to sell to cover my loan repayments each month?

$$N = (L \div Y) = \dots\dots\dots$$

*L & Y can both be found above.*

Break-even point during the period you are repaying your loan: (M + N)

$$B = (M + N) = \dots\dots\dots$$

*M & N can both be found above.*

**Note:** Look back at your expected sales growth on page 20 (*question 4 in Exercise 13*) and determine at which month you will reach your break-even point (*remember to convert B from quantity to value to do this*).



If through whittling the figures in this section, you can deliver a 'viable' business, you can proceed on to the next chapter (although you might want to spend a bit more time double checking things in this one, just to make sure, and perhaps looking for where you can adjust things to make even more profit). But if you cannot make things fit, this might be a good time to return to Chapter 2 and select your next business idea.

Or you could do the numbers for another business idea, and compare which looks the best financially. For example, you might find your second business idea only needs half the start up costs of your first.

Appendix E contains information on raising finance for your business. You may have savings, or redundancy money, or you may be able to borrow money from family or friends. If not, you may need a loan from a bank or a local lender, you may be able to get some grants if you are a social enterprise, or you may seek investors in your business rather than a loan. In practically all cases they will ask for a business plan to build their confidence that you know what you are doing. A template for a business plan can be found in Appendix H at the back of this guide, and it is cross-referenced to the exercises you have already completed which should make it relatively easy to fill in – you've already done most of the work!.

### Comparing business ideas:

Do a cashflow forecast for each business idea – how much do you need to borrow? How quickly will you reach breakeven and start making profits? But when choosing which to go for, also ask yourself: Do I have the resources to do this? Do I have the aptitude and ability to do this? Will I like doing this every day?



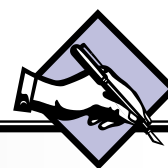
### ***Making a profit***

*Making a profit has historically been viewed with some suspicion by some in the church. But profits can be used for great good, like expanding the business to employ more people, serving more customers with what they need, and giving away to local needs or charities. It is the love of money, not money itself, that is the root of all evil (1 Timothy 6:10).*

*And in fact, research into what makes companies the most successful has shown that if profit is not your number one goal, and you're aiming instead at other important things like good quality working relationships and minimising environmental waste you're actually more likely to increase your profits.*

Within the business plan, there is a section which refers to your equipment and replacement policy (Page 4 of the business plan). While this might seem premature (early) given that you have not yet got your business off the ground, it is still an important question for any would-be investor in your business. The reason for this is to do with building confidence that your equipment will remain operational long enough for the investor to get his or her money back, or that you have a strategy of replacing it within that time that is properly costed out. Their fear is that your business may be vulnerable to a key and irreplaceable piece of equipment that is going to break down in the first few weeks.

In any event, even if the equipment is sure to last through your start up, it is unlikely to last for ever, and you need to think about how you will raise the money for replacements, and this money should ideally be out of profits (saved up over time for the purposes of reinvestment) rather than an additional loan. To help you think this through, the exercise box on the right asks you to list all of the key pieces of plant and equipment, and what you plan to do about their replacement. When you have completed the exercise, it is important to check that the profits you will generate over the same timescale will sufficiently cover all of your capital expenditure.



## Exercise 34: Equipment and Facilities Replacement Plan

[illegible]

## 6. Into business!

If you have reached this far, and worked through all of the earlier chapters, then being in business should simply be a matter of putting your plans into action shouldn't it? So what are you doing sitting here reading this? Starting a business is a leap of faith, but it can be really quite frightening. Maybe it is time to just get things moving.

You will need to decide on your business structure. The main choices are as follows.

- **Sole trader:** essentially this means self employment (but you can have employees). The accounting requirements are simple, national insurance is lower than for employees, you can trade in your own name with your existing bank account or a business account. However, sole traders have 'unlimited liability' meaning that you are personally responsible for any debt. Which means the business, if it goes badly wrong, could leave you personally bankrupt. Many people offering personal or professional services use this structure, but take out Professional Indemnity Insurance, so if you make a mistake say in your advice that is costly to a customer and you get sued, this is covered by insurance.
- **Partnership:** this is similar to sole trader, but you share ownership with a business partner. There is normally unlimited liability (unless you have a limited liability partnership). You need to ask a lawyer to draw up a partnership agreement.
- **Private limited company** (company limited by shares): this has limited liability, meaning that if the business goes badly wrong it will go bankrupt; but you were not (normally) be personally liable for the debts. Nevertheless, Company



### **Work and Enterprise**

*One of God's key concerns is for us to have good, healthy relationships with those around us. When asked what the most important commandment was, Jesus replied 'Love the Lord your God with all your heart and with all your soul and with all your mind and with all your strength'. The second is this: 'Love your neighbour as yourself.' How we deal with suppliers, customers, and especially how we treat colleagues and employees will impact us, them, their families and our communities. As the founder of a new enterprise, you have a tremendous opportunity to set the tone, and create a context for human flourishing, not just a way of bringing in money.*

Directors have legal responsibilities and you should take advice – talk to an accountant and/or lawyer. A limited company needs to be registered at Companies House and you will need to submit a simple annual report and produce proper accounts. You can have one or more owner (shareholders). If you have more than one shareholder, ask a lawyer to draw up a shareholder agreement.

- **Social enterprises and charities:** there are various structures, including companies limited by guarantee, community interest companies, co-operatives, industrial and provident societies, charitable incorporated organisations and unincorporated associations. See [www.gov.uk](http://www.gov.uk) and take advice.

The mechanics of starting a business – the legal and tax requirements – are well covered at [www.hmrc.gov.uk](http://www.hmrc.gov.uk). If you are starting a limited company, you will need to register at Companies House, [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk). There are many on-line company registration agencies that will check your proposed name, register the company and provide a standard set of documents for you.

This book has been deliberately kept as short as possible in order to make it less frightening to the person just starting off. Once you have started your business there are many other books you can read on the subject – a few are recommended in Appendix G. But for those who have just started out, and who have not yet had the opportunity to read anything else, the following points might help.

1. Do not get your business finances confused with your personal finances.
2. Your business needs cash to operate – if as the owner, you decide to take some of the wealth out of the business, only take money out of profits, never out of the business's operating funds.
3. Your customers are the only reason your business survives – treat them with respect and care. Take trouble to sort out any problems. Ask them for referrals. Invest in sales and marketing to increase revenue.

4. Treat your employees with respect and pay them a living wage. They do not deserve to be poorly paid; pay them as you would wish to be paid.
5. Keep your 'process flows' and your plans updated to reflect all that you are currently doing and intending to do.
6. Keep your financial records up to date at all times – if you do not know whether you are making a profit, then it is likely that you soon won't be.
7. Always use some of your profits to find ways to improve your business and to find new ways to attract more customers to your business.

The following pages include some appendices to help you with thinking through your business, planning it out, and getting a start-up loan. The appendices are:

- A. **Glossary of terms used in the workbook** – and a way of looking up the letters used in the calculations
- B. **More on marketing** including sales and design of promotional materials
- C. **Service Examples** – Relating to Chapter 4
- D. **QFD for small businesses** – a tool to help you to think through how your process steps can be used to provide 'better' products and services
- E. **Sources of Finance** – Outlining where you might look for sources of start-up loans in your area
- F. **Survival Budget Planner** – to help you work out how much salary you need to draw out of the business in the early days when money is tight
- G. **Useful links and books** – further sources of information on businesses and social enterprises
- H. **Business Plan** – a planning form to use when applying for a start-up loan.

## 7. Appendices

### A. Glossary of terms (and letters) used in this Workbook

Term	Page	Term	Page
<b>Advertising</b> – activity to make people aware of your business	20	<b>N</b> <b>Loan part of Break-Even</b> - the additional monthly sales quantity required to meet loan repayments	43
<b>A</b> <b>Start-up Costs</b> – the costs of setting up and running your business until it makes a profit	38	<b>Process Flow</b> – the full set of process steps required to do your work (see below) laid start to finish	21
<b>B</b> <b>Break-Even Point</b> – the monthly sales quantity required for the business to stop making a loss	43	<b>Process Step</b> – each activity which builds up to making the product or delivering the service	21
<b>Cash Flow</b> – the actual money which flows into and out of the business, and how much is left	39	<b>P</b> <b>Profit</b> – the money which remains from the revenue after <u>all</u> costs have been accounted for	37
<b>Competitor</b> – Another business which can meet the same needs of your customers that you meet	16	<b>Q</b> <b>Sales Quantity</b> – the number of products or services sold per month	31
<b>C</b> <b>Operating Costs</b> – The costs of both existing as a business, and of trading/working as a business	32	<b>R</b> <b>Revenue</b> – the money coming into the business as a result of sales of the product or service	31
<b>Customer Profile</b> – a word picture of the typical types of customers which your business serves	15	<b>S</b> <b>Set-up Costs</b> – the costs of setting your business up to do work, such as tools and equipment	27
<b>F</b> <b>Fixed Costs</b> – the costs required to exist as a business, month to month, such as rent, salaries etc.	33	<b>Total Accessible Market</b> – the total value of all sales of you and your competitors in your area	19
<b>G</b> <b>Percentage Yield</b> – the number of good/'saleable' products or services in every 100 produced/delivered	35	<b>T</b> <b>Start-Up Period</b> – the time it takes from starting your business (getting the loan) to making your first profit	25
<b>H</b> <b>Hundred Unit Cost</b> – the cost of producing 100 products/services not all of which might be 'saleable'	35	<b>U</b> <b>Basic Unit of Sale</b> – a description of what you sell – best explained in the third paragraph on page...	31
<b>I</b> <b>Ideal Variable Costs</b> – the cost of producing products/services if every thing came out good/'saleable'	35	<b>V</b> <b>Variable Costs</b> – the costs which vary with how much business you are doing, such as supplies	32
<b>Income</b> – another word for revenue	28	<b>Viable</b> – the ability of your business to make a profit on an ongoing basis	29
<b>Loss</b> – a negative profit; the result of costs being higher than revenue	29	<b>Wastage/Spoilage</b> – the amount of product/service which you cannot sell because it is inferior in some way, perhaps damaged or old	35
<b>Market Research</b> – the activity of discovering what your potential and actual customers really think/want	15	<b>W</b> <b>Selling Price</b> – the price you charge for one 'basic unit of sale'	31
<b>Market Share</b> – the proportion of all the business you potentially could get which you currently have got	19	<b>Y</b> <b>Contribution</b> – the amount of money which each unit of sale contributes toward fixed costs	43
<b>M</b> <b>Break-Even without Loan</b> – as for Break-Even but assuming there are no loan repayments to be made	43		



## ***B. Marketing and sales***

Marketing is a way to increase the success of your business by looking at it from your customers' point of view. Put yourselves in your customers' shoes: what would persuade you to try out a new supplier or spend more or pay a higher price?

Marketing specialists talk about 'the four Ps': Product, Price, Place and Promotion.

### **Product**

Have you got the right product (or service) for your customers?

- Can you add new products that your competitors don't sell, and perhaps drop some of your less profitable items?
- Can you identify different groups of customers who need slightly different products or services? Would it help to have a different version of your product or different packaging for men and for women? Or do you have business customers with different needs to other customers? For example, a restaurant might deliver packed lunches to office staff.
- Is there a better or faster or specialist or 'made to measure' or 'value added' product you could offer at a higher price? For example, a fruit grower could sell organic pineapples or sell bottled fresh juice. Or a printing business might introduce an express service for urgent jobs at a higher price.
- What other products might your existing customers buy from you? For example, if they are pleased with your window cleaning service, could you offer to clear their gutters?

### **Price**

What prices will maximise your profits?

- What is your strategy: are you trying to sell a lot at a low price or a few high quality items at a high price?
- Many businesses set a price that is a bit more than the cost of producing the product or service. But for some items, especially if they are new or unusual or difficult to get hold of, customers might pay much more than this. Are you charging too little for some products?
- Does changing the price have a big effect of how much you sell? If so, reducing your price a little could increase sales so much that you make more money (if you have enough to sell!) If changing the price does not have a big effect on how much you sell, increasing your prices could make you more money.
- If you are selling your time, don't undercharge. 60% utilisation is good for a consultant – the rest of the time is unpaid selling or administration. And you must allow for holidays, sickness, office costs etc. So you may need to charge double your employee hourly rate or more but your customers will save because they only have to pay for the time they need and can save on employer National Insurance, pension, etc.

## Place

Where and how should you distribute your product or service?

- Is there a location that your type of customer visits but there is no identical competition? For example, can you sell your tourist product / service at or through a hotel?
- Are there additional ways to sell, e.g. on-line or through agents in different places?

## Promotion

There are lots of different ways to communicate what you have and persuade people to buy from you.

- Can you get a mention on the radio – perhaps there is a new product or a special event the radio would cover?
- Is there a trade show you could go to, perhaps share a stand with others?
- If you have a premises customers visit, does it look smart?
- If people walk past, do you have a sign that attracts attention and explains not just what you do but also a benefit of using you?
- Would a leaflet help – perhaps with quotations from satisfied customers? Or would a good quality brochure give you credibility?
- Would a special offer help you? If you have a good product that people use often but perhaps haven't tried, offering a free sample could help. If people usually buy one item, how about offering '3 for the price of 2' to increase orders, and just charge for the two most expensive items?
- Can you work with a friend selling complementary (not competing products)? For example, a photographer could give a '10% off' voucher (for a limited time) for a photo frames shop on the condition that this shop does the same for the photographer, which should increase the number of customers for both.
- Can you ask your customers to introduce a friend and give them both a small discount?

## Tips on designing your promotional material

You may decide to outsource the actual design work to a professional agency, or you may find useable templates online which will give a professional enough finish. Either way you do need to think carefully about the look you're going for, and the words you use. Think about your customers when planning your promotional materials such as signs, fliers, brochures, advertisements, letters and of course your website:

- How will you get their attention? (e.g. photos, colours, 'feel'). Where are they most likely to see your materials? On the side of a local bus? Online? On a flier through their letterbox? On a wall by a traffic light queue? With a free sample at a stall?
- Advertise the *benefit* not the product (e.g. 'Relaxing break' not 'B&B', 'Local web designer' not 'Websites built', 'Flexible childcare' not 'Childminding services')

- State your specialism – tell them what makes your product or service better.
- Maybe ask a question? (e.g. Need a quiet break somewhere relaxing? Looking for a local website designer? Checking out your local childcare options? Dog need walking?)
- Make sure you include the *action* you want them to take (e.g. Book now, Arrange a free consultation, Pop in and see us, Give us a call).
- If you're planning to have a website for your business, you need to plan out what pages you want, and write the text that will appear on each one. Don't leave this to the designer, as it'll be both better and cheaper if you do it.
- Register the domain name (e.g. amazon.com) yourself (either as a private individual or as a company), rather than leaving it to a web developer so that this important piece of intellectual property is clearly yours and you can change who you use.
- Find some websites you like, and work out why. You may not be able to afford anything as fancy but you can still pick up really good ideas. Think about your customer profile (Ex 9) and look at websites serving similar customers, to see how their design may be tailored to your type of customer (e.g. if your business is selling services to mothers of young children, find websites selling goods to these mums and you might notice they are designed to work well on mobile phones, while mums hold or feed their babies, so you may want to specify yours does too).
- If your business is conducted online (e.g. is a webshop), you probably need to use a professional. But if it's a local business and you only need a simple web presence, you may be able to DIY one using free software such as WordPress.

## Sales

Some business will require 'field sales' i.e. going out to meet prospects. This is especially true for business services and consultancy where you might be selling contracts each worth thousands of pounds. It's difficult to generalise but here are some tips.

- See yourself as a consultant: ask your prospect questions to understand the underlying problem they need to solve. They might say they need a new web site, but try to find out why and what they want to achieve as a result. Is their aim to increase sales, or to reduce the cost of telephone customer support, or something else? Also ask who is involved in the decision, and what the budget is.
- If possible, outline your proposed work with them and give them an idea of cost, to check their reaction. Then write a proposal, take this to them and go through it.
- People buy three things: you, your business, and the deal you are offering. If they like and trust you, and your business looks credible, they will be less concerned about getting the cheapest price.
- Don't forget to keep in touch with existing and past customers as they will be the easiest to sell more to; and ask them to suggest other customers and how you could do better.

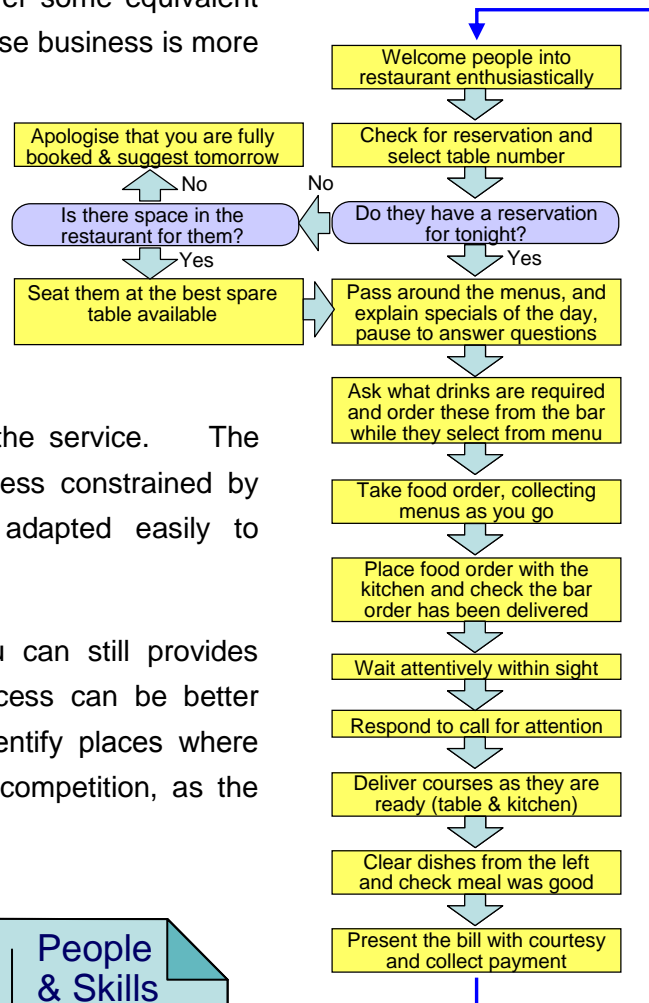
### C. Service Examples for Chapter 4

Most of the examples used as illustrations for Chapter 4 were heavily biased toward production rather than service.

In this section of the appendix we want to offer some equivalent service focused examples for those of you whose business is more service oriented.

One important thing to note about how services vary from production is that the process is often more flexible, with decision points which switch the flow in a number of different ways depending on what is required. Also, there may be a number of different process flows for different parts of the service. The reason for this is that the process is often less constrained by capital equipment, and can therefore be adapted easily to whatever the customer requires.

However, mapping the process as best you can still provides tremendous opportunity to see how the process can be better adapted to the customers' needs, and to identify places where quality of service can be improved over the competition, as the example below shows:



Process Step	Doing 'better'	Tools & Equipment	People & Skills
Welcome enthusiastically	Offer an initial refreshment	Hot towels & iced aperitifs	Natural & courteous manner
Select table number	Give table preferred	Log of preferences	
Explain specials	Remember clearly	Use blackboard	Enthusiasm for food
...	...	...	...
Present bill with courtesy	Make it appear as a gift	Tie with ribbon and chocolates	Arrangement skills

Page 3

## D. QFD for small businesses

In Chapter 3 we looked at how the needs of the customer, in terms of what they describe as 'better', can be thought through in terms of what you need to do at each process step to ensure the result really is what the customers want.

QFD is a tool which helps you to do this in more detail – its initials stand for Quality Function Deployment:

- Quality is what the customer means by 'better'
- Functions are the steps in your process
- Deployment means (in this case) making sure the 'Functions' do all that they can to ensure 'Quality'

The tool is in the form of a grid. Down the left hand side of the grid: the rows represent all of the different customer requirements – what they mean by 'better'. Along the top: the columns represent all of the process steps that you need to deliver your product or service (& ensure that it is 'better').

The squares in the grid then provide a way to map each of the steps in your process onto the 'Better' they need to make happen (or could help make happen). We use three symbols for this: A bullseye symbol means that the customer requirement cannot be met at all without taking a lot of care over this process step. A triangle symbol means that this process step can help to meet that customer requirement if we take extra care over it. A circle symbol means that the process step is more important than a triangle, but less important than a bullseye.

The grid helps us to think through what we need to do in process step if we are to stand the best chance of meeting customer's needs better than the competition.

For more information on QFD visit [www.tesseractacts.com](http://www.tesseractacts.com).

Customer Requirements for 'Better' (Chapter 2)	Process Steps (Chapter 3)					
	Buy & measure out ingredients	Mix ingredients into the biscuit dough	Roll out the dough and cut out biscuits	Place biscuits on trays in the oven	Bake biscuits, turn the trays regularly	Remove the biscuits
Tastes good – has a nice biscuit flavour	●	△			○	
Crisp when I bite into it but doesn't crumble	○	●	△		○	△
Not too small or too big – right size for a snack			●	△		
Can be bought from a shop nearby where I live						
Not expensive – I want to buy them cheaply	○		○	○		
Looks home-made and with interesting shapes			●			

each  
our

## ***E. Sources of Finance***

When you know how much you need to start up your business, you can think about where to find the money.

- **Savings or assets** - the first source of finance you should consider for your business is your own savings, or money that you can raise from any surplus items that you can sell.
- **Loans from friends and family** – great for small amounts, often they won't charge interest, and usually quick. They may give you a repayment holiday at the start. But if your business isn't as successful as you hope, you risk damaging good relationships if you can't pay the money back when it's expected. Make sure you put something in writing.
- **Loans from banks and building societies** – these financial institutions don't always lend to start-up businesses as they're often too risky. They are looking for stable, proven businesses. So if you're starting up a standard business, like being a self-employed tradesperson, you may be OK, but if it is a less standard business you may need to run a pilot version of the business to prove it will work, and contribute some money as well e.g. 30% of the total needed to demonstrate your commitment. Banks will often need a business plan (see Appendix H), and included within that a Cashflow Forecast for the first 12 months. Apply in plenty of time – it can take 2-3 months to actually receive the money, even if approved. The interest rate they offer you will depend on how risky they consider your type of business – and it could be as high as the rates on credit cards! You will have to start repayments the month after you receive the loan funds i.e. often well before you have started to get money in from your customers. Sometimes banks will want to secure the loan. This means they can claim on the security if you can't make repayments. If they lend to you as a limited company, they will take personal guarantees from those involved (usually the directors) which means if your business cannot repay the loan, you must pay them back from your personal funds. For larger loans, they often want a charge over your property, which they can repossess if you can't repay your loan.
- **Loans from CDFIs** – Community Development Finance Institutions – most areas of the UK are covered by one CDFI or another – find your local one through the CDFA. These not-for-profit organisations distribute loans from various funds. They work in a similar way to banks, charge similar rates and need similar information, but are usually for businesses already refused a bank loan.
- **Investment capital from friends and family** – when friends and family don't need the money back quickly, and they believe your business will be really successful, they may invest in your business by owning a percentage of it, which entitles them to a proportion of any future profits (rather than just loan repayments). To do this you'd need to set up a Ltd company, so that you can assign shares in it to your investors. The advantage to you is nothing is payable until and unless the business is profitable.
- **Investment capital from business angels** – like the dragons on the popular TV series Dragons' Den, business angels are people who invest their own money in businesses in exchange for shares. They often join your Board and offer advice and steering – could be very useful, or interfering! But they will need to sell their shareholding, usually after 3-5 years, so are usually only interested in businesses with potential to go national and get publically listed, to give them a market for their shares.
- **'Peer to peer' lending** – see especially [www.fundingcircle.com](http://www.fundingcircle.com) .



## F. Survival Budget Planner

How much salary will you need to draw out of the business in the early stages? This may be before the business is even in profit, and if so it will come out of your start-up funds, so it's important you work out what you really need. If you are receiving benefits, talk through your plans to set up a business with your benefits advisor, as there may be schemes to help. If you are currently employed, it is often much less stressful financially if you can gradually go part-time, whilst you build up the business.

Vital living costs	£ per month
Mortgage/Rent	
Council tax	
Utilities - Gas, Electricity, Oil & Water (non-business)	
Phone & Mobile phones & Internet & TV	
House insurance & any personal insurances	
Food & general housekeeping	
Car tax, car finance, insurance, service & maintenance	
Travel – train, bus, taxi & petrol	
Loan repayments, credit card minimum repayments	
Children's expenses & presents	
Any other vital living costs	
<b>TOTAL VITAL LIVING COSTS</b>	
<b>Household income (non-business)</b>	<b>£ per month</b>
All wages & salaries	
Pensions	
Benefits	
Any other income (e.g. rental income)	
<b>TOTAL HOUSEHOLD INCOME</b>	
<b>TOTAL SURVIVAL INCOME REQUIRED</b>	
= 'Total vital living costs' minus 'Total household income'*	

Tim's budget

Vital Living costs:	£
Rent	200
Bike tax & insurance	100
Petrol	50
Food	150
Phone	60
	<u>560</u>
Income:	
Wages from part time job at the pub	400
Extra needed to survive	<u>160</u>

Monthly family budget

Vital Living costs:	£
Mortgage	800
Heating	100
Electricity	50
Water	30
Council tax	180
Food	240
Car repayments	300
Petrol	100
House insurance	80
Car tax & insurance	100
Credit card min	100
Phones	120
	<u>2,200</u>
Income:	
Neil's net salary	1840
Susan average wages	300
Rent from Tim	200
<b>TOTAL INCOME</b>	<u>2340</u>
Spare each month	<u>140</u>
Min required from business if Susan gives up her job	<u>160</u>

This is just your survival budget – what you absolutely need from the business. If your business is a success, you will be able to pay yourself more, so you can spend money on clothes, entertainment and other non-essentials.

\* if this is a negative number, you theoretically have spare cash each month

## ***G. Useful links and books***

There is a vast arrange of books on setting up and running a small business, including running particular businesses such as B&Bs, coffee shops, coaching companies, etc. There are also free booklets from banks and others keen to win your business. Check out Amazon and / or your local bookshop.

### **[www.hmrc.gov.uk](http://www.hmrc.gov.uk)**

Advice on small businesses, record-keeping, tax and national insurance. They also run day courses on becoming self-employed where they'll take you through the paperwork.

### **[www.moneysavingexpert.com](http://www.moneysavingexpert.com)**

Excellent all-round consumer finance site, helpful for budgeting advice, cutting costs, and calculators such as the loan repayment calculator. Forums discuss self employment.

### **[www.plunkett.co.uk](http://www.plunkett.co.uk)**

Promotes and supports co-operatives and social enterprises in rural communities worldwide. Details and case studies of community shops, co-operative village pubs.

### **[www.makinglocalfoodwork.co.uk](http://www.makinglocalfoodwork.co.uk)**

Great examples of community food enterprises – if you're interested in setting up a social enterprise based around food. There is an excellent pdf guide called Simply Start up, guiding you through the process of planning your enterprise, and a document of Different Models for Community Supported Agriculture.

### **[www.socialenterprise.org.uk](http://www.socialenterprise.org.uk)**

A wealth of example and advice for social enterprises – businesses with a social or environmental mission.

### **[www.cdfa.org.uk](http://www.cdfa.org.uk)**

The CDFA is the association of all CDFIs – Community Development Finance Institutions – and will help you find your local institution in case they are currently operating a loan scheme for your type of business.

### **[www.princes-trust.org.uk](http://www.princes-trust.org.uk)**

The Princes Trust support young entrepreneurs – so if you're under 30, and have been unemployed for 6 months or more, you may be eligible for a grant, and business mentoring.

## ***H. Business Plan***

A business plan is a single document which sets out clearly what you are planning to do as a business, how you are planning to do it, and why it is viable.

Any organisation which you approach to lend you money for your business is almost certainly going to want to see a business plan – partly for their own sake; to give them confidence that their loan is reasonably safe, but partly also for your sake; they don't want to see you under the burden of a debt that you cannot repay.

But whether the lending organisation needs to see your business plan or not, you yourself want the confidence that your business will succeed, and that you will be able to repay the loan – and so a business plan is a useful document for you too.

Over the next seven pages, you have the opportunity to develop your own business plan – or rather to collect all of the exercises you have done through the guide into a business plan – because if you have completed the exercises for the business you want to proceed with, you already have done your business plan, and all that remains is to pull it neatly into one document.

On the business planning sheets which follow, to help you to find the information you will need, the relevant pages from this guide are cross referenced to each section. These cross references appear as little black boxes in the lower right corner of each section.

**Note:** Please show your plan to a number of friends who you can trust and who are willing to challenge you on your numbers, and to spot where you may have forgotten some key costs, or been optimistic on revenues and other things. In that way, you can build real confidence that you have a business that will work.

# Business Plan

Answering the questions set out in this business plan will help to ensure that you think through all of the most important decisions in setting up your business, and that your business will be on a firm foundation for success. It will also help you to communicate your ideas to those people who you may need to approach for a start-up loan. Many of the answers can be taken from the exercises undertaken in "Setting-up your own small business". Numbers in black squares relate to the relevant pages of that particular business guide.

Please reprint this form as required which is also available from [www.reconxile.com](http://www.reconxile.com)

**Full Name** .....

**Contact details**

Address .....

Phone ..... Email .....

**Experience/qualifications**

*These do not need to be formal qualifications, but can be any experience you have that will help you to understand your business and what it will be like to run it.*

**Brief description of the intended business**

*In brief outline, who is involved in your business, where will the business be located, and what will the business be doing – what product or service will you be selling?*

*Are there any legal arrangements regarding set-up of the business?*

14

**Why do you want to set up this business?**

*Please explain why you are committed to setting up this business and what you hope to achieve through it.*

13

Have you read and completed the exercises in 'Setting-up your own small business'?

Yes / No

**What is most important for you to get right in your business?**

*Please list and explain what you believe are the main things that you need to do well in order to make your business successful?*

1. ....
2. ....
3. ....
4. ....

6

20

*Give a brief description of the range of people who are the most likely customers for your product or service – who they are, what they do, and why they need/want what you are selling.*

*Give details of what would be a realistic target area for your business to address (how large an area/radius from your intended place of business), how many customers are in that area, and how often they are likely to buy this product or service (either from you or your competitors)*

List out in the columns opposite the names (or types) of your main competitors, the price they charge for their product/service, and their main strengths and weaknesses in terms of quality, cost, reliability, customer service, reputation, advertising etc.

*What are the main things that determine which businesses will be most successful in attracting and retaining customers in your market?*

*Which of these things do you intend to do better than your competitors, and how do you intend to do it?*

*How will you make sure that your customers know that you are doing this, and how will you win them over?*

What share of the market do you intend to win in this way?

17

21

19

18

20

22

21

*Please give a summary of what customer and competitor research you have taken to arrive at your previous answers.*

20

18

*What is your basic unit of sale, and how many do you expect to sell, at what price, during the first six months of your business?*

Month	1	2	3	4	5	6
Number sold	.....	.....	.....	.....	.....	.....
Price per unit	.....	.....	.....	.....	.....	.....
Revenue	.....	.....	.....	.....	.....	.....

21

*How soon after a sale do you expect to be paid for it and are there any other important pieces of information about credit terms or special conditions?*

21

*What are the main process steps in producing and/or delivering your product or service?*

[illegible]

25









Cash flow forecast	42	Month 1		Month 2		Month 3		Month 4		Month 5		Month 6	
		Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
<b>Sales units</b>													
<b>Sales invoiced</b>		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Sources of Income:</b>		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
..... 31		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Total Income:</b>		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Outgoings</b>	33												
..... 34		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
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.....		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Total Outgoings:</b>		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
<b>Cashflow this month</b>													
<b>Starting cash position</b>													
<b>Closing cash position</b>													
<b>Notes:</b>		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
		.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....