

CERTIFIED BUSINESS BUILDING ONLINE COURSE - SESSION 11:

• Money and Business Planning

Starting a business is like juggling a combination of water balloons and knives. Part of it is easy. If you drop a water balloon, it's no big deal. But if you drop a knife, you can lose everything.

While the focus of this session is on complying with government requirements, not the nitty-gritty of running a business, here are some ideas for learning how to balance your new juggling act.

Money

Don't count on outside money, unless from friends or family. Generally, it is impossible to get loans until you have an operating record (or a past history of a successful business).

Other sources of money are credit card advances (watch for the high interest rates), home equity financing, and "winging it" - hoping that your bills come in after your income.

Unless you like to juggle with knives, you should not begin business without enough funds to pay your living expenses for a year as well as your business' fixed costs for six months.

Business Plans

Most experts recommend preparing a business plan, but many new business owners find the task difficult. Many start it and do the easy parts, leaving the hard parts for their "to-do" stack.

The part of the business plan that you can't or don't want to do are the "knives" in your juggling act. You will have the same mental blocks against these tasks once your business gets going, but you will have less time to do them. It is critical that you identify these areas before beginning business - and either overcome the blocks or find experts to fill these gaps. Even if you find experts, we urge you to learn something about that area or it will be like juggling with an eye patch on.

Before beginning business, you should be able to explain clearly:

Business Overview

- Your business: what you will do or sell.
- Your industry: why you chose this particular industry, its current health, its vulnerabilities, its opportunities.
- Your competitors: their problems, their strengths, why others have succeeded or failed.
- Your competitive edge: how you will ensure that existing (or new) competitors won't wipe you out.
- Your customers: who they are, their needs, hopes, preferences, why they are dissatisfied with existing businesses (or what would make them more satisfied), how they will learn about your business, what will make them come back.

- Your financial goals: the minimum income you need the first year and in future years.

Business Details

- Operations: everything people will need to do on a typical day. The forms, supplies, inventory, support and help they will need to accomplish each task. A system (or person) to track that these tasks are done on time.
- Staffing: the number of people you will need, their pay (including benefits), the training they will require, how you will encourage their productivity, how their performance will be evaluated; the procedures to take if an employee doesn't work out (to avoid wrongful firing claims).
- Location: why your chosen location is the best one you can find to attract your customers.
- Advertising: initial and ongoing costs, what response you expect to your advertising, how you will track responses for further evaluation.
- Pricing: your pricing policy, how this relates to your competitors' prices, your credit and return policies.
- Inventory management: how much to order at a time, the lead time to get additional inventory, other suppliers if your main suppliers can't serve you. How you will handle "old" inventory, possible cost savings from ordering larger quantities.
- Money: how much you need each week, how much you expect to get each week.
- Initial equipment and start-up costs.
- Total fixed costs (your monthly costs if you didn't sell a thing).
- Break-even point: how much in \$ sales you need to break even, how many items you must sell to get that level of income, how many customers you will need to reach your break-even point, why you think these estimates are easily achievable.
- Record keeping: the written items (receipts, invoices, reports) or systems you will need to keep track of the business, audit trails to discourage theft.

Advertising

Advertising can be the most effective money you spend - or a complete waste. The key is to identify what type of customer you want to reach and where they are likely to see your advertisement. Then target the advertisement to appeal to that customer. When you develop an advertisement, consult with experts whenever possible. Always ask how the advertisement can be tracked for effectiveness and the response rate you should expect. Is that expected response rate and the expected sales going to pay for the advertisement? Make sure that you have some way to evaluate whether the advertisement is reaching your targeted customers and whether its message appeals to those customers.

Finally, don't overlook informal, free ways of advertising, and gimmicks or incentives to attract customers and to encourage customers to come again ... and again and again.

Budgeting ... educated guesses

Many people feel overwhelmed when they try to do financial projections. How are you supposed to know the sales levels when you aren't even in business? The secret is guessing ... many times. First, estimate what a great day (or month) might be. Then a horrible day. And several levels in between. What are the resulting profits (or losses)? Next, fill in some "guesses" with information. The more actual cost estimates you can get, the more realistic your numbers become. Go to a similar business and observe whether your estimated number of customers or sales are realistic.

Regardless of how much information you get, you will still want to develop three budgets based on low, medium, and high sales. Before beginning business, your goal should be to make sure you can survive with your low budget, carefully plan to reach the middle one and hope for the high one.

Once you begin business, track your estimated budgets with the real numbers so you can make adjustments. Because the economy is always changing, it is best to continue with three budgets, so that you can survive a business downturn.

Money + timing = cash management

Generally, you have to pay bills before you get money in as income. This can be a very serious problem if you receive income two to three months after you performed the service. Below is a worksheet that you can use to evaluate how much cash you will need to operate your business. Before beginning business, we urge you to prepare one worksheet for each of the next twelve months.

Estimated Cash Needs

Even very successful businesses need to manage cash flow - that is, have enough cash on hand to cover weeks when their money out the door exceeds the money coming in. Established businesses use lines of credit with banks. New businesses generally must have enough cash on hand to survive the tough weeks by themselves.

Bottom line

Don't spend your profits (or take a draw) until you have evaluated your cash flow needs for the next 6 months.

Month: _____

Week 1

Money Out:

Salaries _____

Rent _____

Utilities _____

Inventory _____

Taxes _____

Insurance _____

Car Expense _____

Other _____

Other _____

Money Actually Received:

Cash Sales _____

Payment on Accounts Receivable* _____

Deficit or Surplus: _____

Week 2

Money Out:

Salaries _____

Rent _____

Utilities _____

Inventory _____

Taxes _____

Insurance _____

Car Expense _____

Other _____

Other _____

Money Actually Received:

Cash Sales _____

Payment on Accounts Receivable* _____

Deficit or Surplus: _____

Week 3

Money Out:

Salaries _____

Rent _____

Utilities _____

Inventory _____

Taxes _____

Insurance _____

Car Expense _____

Other _____

Other _____

Money Actually Received:

Cash Sales _____

Payment on Accounts Receivable* _____

Deficit or Surplus: _____

Week 4

Money Out:

Salaries _____

Rent _____

Utilities _____

Inventory _____

Taxes _____

Insurance _____

Car Expense _____

Other _____

Other _____

Money Actually Received:

Cash Sales _____

Payment on Accounts Receivable* _____

Deficit or Surplus: _____

Cash you will need to save from prior month to pay for deficits during this month:

*Many businesses give their customers 30 to 60 days payment terms. If you plan to do this, use this worksheet to show the actual cash that you expect each week.

CERTIFIED BUSINESS BUILDING ONLINE COURSE - SESSION 11 QUESTION & ANSWERS

NAME: _____
ADDRESS: _____
CITY, STATE, ZIP, PC: _____
PHONE: _____
FAX: _____
E-MAIL: _____

Please be sure to fill out the information above, complete the test and e-mail or mail it back to us at iridology@netzero.net or P.O. Box 485, Weimar, CA, 95736-0485. We will grade your question & answer session and will let you know if we have any questions or concerns. **Please use a separate sheet to do this assignment.**

1. What you will do or sell?
2. Why you chose this particular industry, its current health, its vulnerabilities, its opportunities?
3. Your competitors: their problems, their strengths, why others have succeeded or failed?
4. How you will ensure that existing (or new) competitors won't wipe you out?
5. Your customers: who they are, their needs, hopes, preferences, why they are dissatisfied with existing businesses (or what would make them more satisfied), how they will learn about your business, what will make them come back?
6. Your financial goals: the minimum income you need the first year and in future years?
7. Operations: everything people will need to do on a typical day. The forms, supplies, inventory, support and help they will need to accomplish each task. A system (or person) to track that these tasks are done on time?
8. Staffing: the number of people you will need, their pay (including benefits), the training they will require, how you will encourage their productivity, how their performance will be evaluated; the procedures to take if an employee doesn't work out (to avoid wrongful firing claims)?
9. Location: why your chosen location is the best one you can find to attract your customers?
10. Advertising: initial and ongoing costs, what response you expect to your advertising, how you will track responses for further evaluation?
11. Pricing: your pricing policy, how this relates to your competitors' prices, your credit and return policies?
12. Inventory management: how much to order at a time, the lead time to get additional inventory, other suppliers if your main suppliers can't serve you. How you will handle "old" inventory, possible cost savings from ordering larger quantities?
13. Money: how much you need each week, how much you expect to get each week?
14. Initial equipment and start-up costs?

15. Total fixed costs (your monthly costs if you didn't sell a thing)?
16. Break-even point: how much in \$ sales you need to break even, how many items you must sell to get that level of income, how many customers you will need to reach your break-even point, why you think these estimates are easily achievable?
17. Record keeping: the written items (receipts, invoices, reports) or systems you will need to keep track of the business, audit trails to discourage theft?