

SETTING UP

Owning a business can be quite rewarding but at the same time problems can arise, some of your own making and some not. Problems of your own making will be less if before diving into the abyss; take account of the following:

PREPARING THE BUSINESS PLAN

- a) Give consideration and have a clear understanding of the short and long-term objectives.
- b) It should never be forgotten that the primary objective is to make a profit.

A business Plan will bring the investor and the entrepreneur into the same focus as without a proper business plan many banks, and or investors will likely not become involved.

Many entrepreneurs continue to believe that if they build a better mousetrap the world will beat the path to their door. Having or developing a better mousetrap may be significant, but it is only part of the challenge. It is also important to satisfy the needs of the market and/or investors. The entrepreneur must identify customer interest and financiers want to

know how soon they will be repaid and this in turn depends on how good the financial projections are.

A comprehensive, carefully thought out Business Plan is essential whether;

- starting up a new business or
- extending an existing business or
- seeking additional capital or
- proposing a new activity

There is nothing more challenging than the preparation of a Business Plan.

The Plan must describe the company and the proposed project accurately and attractively. Even though its subject is a moving target the Plan must detail the company or the project's present status, its current needs and expected future. You must present and justify ongoing and changing resource requirements, marketing decisions, financial projections, production demands and personnel needs in a logical and convincing fashion.

Often a manager has to struggle very hard to assemble, organise and edit a document; so it is not surprising when fundamentals are overlooked. One of the most important fundamentals is the accurate reflection of

three different viewpoints as follows:

1. The Market - including the existing and prospective clients, customers and users of the planned product or service.
2. The Investors - whether of financial or other resources.
3. The Producer - whether they be the entrepreneur or the inventor.

Too many business plans are written from the viewpoint from the third constituency - the Producer. They describe the underlying technology or creativity of the product in glowing terms and at great length. They often neglect the constituencies that give the venture its financial viability that is the Market and the Investor.

All Business Plans are different.

1. DO YOU HAVE ADEQUATE CAPITAL?

Quite often the heaviest expense a business ever experiences is during start up and it is therefore vital that adequate funding is available during this phase.

Analyse your estimated expenses according to whether they are fixed and

variable. Establish the breakeven point, i.e. the point at which the sales generated produce a return that covers the cost of production.

Determine what profit you consider achievable in relation to what you expect, taking into account the time and effort you will have to contribute, the expertise you have to offer and the investment you have to make. You will need to consider whether you have enough money readily available from your own resources to purchase the assets which will be required for start-up. You must then determine how much money is required to cover your operating and other costs through to the time when profits are being generated. If you're most conservative estimates tell you that your cash reserves will run out before the business achieves profitability you will then have to borrow to take you through to the stage when the business is profitable, stable and needs no more financing. In this context you should evaluate your borrowing capacity.

2. HAVE YOU RESEARCHED AND UNDERSTOOD THE INDUSTRY YOU WISH TO ENTER?

If you have never worked in an industry before, then you are likely to have little firsthand knowledge of it. You must therefore research it and make enquiries about it from reliable sources. These sources may be friends or

relatives in the relevant industry. In your investigations you should not only seek to understand the industry as it is now, but you should also form a view of the potential for stability and growth and certainly consider if the market can produce the level of profit which you want. It may be helpful to work in the industry for a while.

3. HAVE YOU CONSIDERED THE LOCATION?

Location in some cases can mean the difference between success and failure. In situations where the business has to be market oriented, you should try to visualise where your customers are and select the location accordingly. If, for example, you establish a business which depends upon passing trade and there is no parking, then you have a problem. A good place for a pharmacy is near a medical centre and of course any manufacturing operation is ideally located nearby the source of raw materials and labour.

4. THE ACCOUNTING SYSTEM

Establish an adequate system of accounting and ensure that you understand what the figures should tell you. Ally yourself with an accountant who will visit your business premises and take an interest in

the business and you. Speak with the accountant regularly and analyse the accounts together. Be sure you understand every facet of them. Your accountant or lawyer will assist you in ensuring that the business, as constituted and operated, complies with all legal requirements and that all appropriate registrations are in place.

5. THE APPROPRIATE CREDIT POLICY

If you are proposing to sell your goods and/ or services on the basis that the buyer is to have terms i.e. time to pay, you must establish an effective credit policy and ensure that the policy is known to the customer and rigidly adhered to.

If at all possible, it is highly desirable to trade without giving credit.

6. INSURANCE

The requirement for insurance is to protect against the one-off, unplanned expense e.g. replacing stock either stolen or damaged by fire. Neglecting to insure adequately can result in business failure