Contents

Introduction
STARTING UP A BUSINESS

Your business, like your own life, runs through a series of identifiable cycles.

It is true of all businesses, whether in manufacturing, wholesaling, retailing and the service industry whether you are a seasoned professional or a so-called "amateur" _ you're going to encounter certain challenges that go with each cycle.

This booklet will cover the normal life stages of a business. Right from the initial gleam in your entrepreneurial eye, through the startup, development, expansion stages and all the other possibilities. Included also are steps to an effective business plan.

Be honest with yourself - go through all the cycles and pick out one that most closely describes your present situation. Don't be surprised if some of the others fit you as well, but concentrate on the one you're in right now. Don't try to do everything that is suggested, but pick out one or two of the recommended actions and concentrate on the one you're in right now. Set priorities and check against the list in a month's time to see how you are doing.

Remember, if you have reached a plateau, the next step is not necessarily upward. Poor management or performance in any stage or cycle can quickly force you back one step.

Now read through the stages, holding a "mirror" to your own business. Check off some of the challenges and the things to do.

Pre-startup Stage
THE DAILY OPERATIONS OF YOUR BUSINESS

Characteristics:

This is testing time. You should have no fixed overheads. Preferably, you have another source of income. You do everything possible before you actually start up in business.

Challenges:

- Moving ahead without proper research.
- Assuming fixed overheads before you have assured income. Leasing premises, incurring interest costs, etc.
- Making premature commitments to suppliers, partners.
- Placing too much reliance on statements of future interest by others.
- Underestimating costs in an era of inflation.
- Overestimating your market.

What to do:

- Test your ideas with others: friends, potential suppliers, customers, Bank Manager.
- Look for negatives potential problems.
- Check patents licences government regulations your attorney on potential legal problems incorporation.
- Check possible sources of collaboration, partners.
- Check your finances - you will find that you must initially use your own capital, or a bank loan.
- List all your personal and business strengths and weaknesses.
- Ensure your family understands and accepts the risks.
- Make a proper business plan, with budgets and timing.

Keys to survival:

- Take your time; study, research, market-test.
- Get into a business in which you have some experience.
- Plan your overheads to be as low and flexible as possible. Consider sharing office or factory space, even use your home at first.
- Try to arrange for more money than you think you need.

- The bottom line in any new business must be profit and positive cash flow. Without these, you will not be in business for very long.
- Budget for a proper salary or drawings for yourself within a year_if the operation can't afford to pay a manager then it's not a business.
- Consider a working partner - but never a mirror image of yourself. Seek one with different talents and skills to complement your own.
- Remember, all owners are optimists_successful owners are also realists.

This is the time above all, for common sense.

Development Stage
EXPANDING YOUR BUSINESS

Characteristics:

You have finished your research; you have tested the market, and you have arranged for funds for a limited period. You are off and running!

The Development Stage starts off with fixed overheads and lasts until you reach breakeven. Fixed overheads include all the costs of doing business - administration, telephone, rental, interest on loans, stationery, etc. Your breakeven point is reached when your monthly gross profit (sales less cost of goods) equals your monthly overheads.

Challenges:

- It usually takes much longer to reach breakeven than you have estimated.
- Lead time for initial orders is longer than anticipated.
- Feedback is slower than you expect from the market place.
- Modifications in product, service, marketing, take longer than anticipated; they cost more money.
- You are still trying to do everything yourself; it is the stage when a large number of new businesses fail.

What to do:

- Start managing: set goals, even by week, and check performance against those goals.
- Have direct contact with customers and suppliers.
- Follow-up orders - don't just heave a sight of relief.
- Chase those receivables.
- Control your stocks.
- Control your cash.
- Remember: It takes years to build a reputation, and one mistake to lose it.
- This is the period to establish good business habits.

Keys to Survival:

You are now in business_to make a profit. You started for positive reasons - you saw an opportunity_you wanted to grow, to prove a point or even for other reasons_you got fired or became bored. Now your one goal must be to make a profit. It takes courage to start a business; it takes a lot more to keep it going successfully.

Don't be afraid to seek help. Your Bank Manager, business associations, your suppliers, even your competitors have perhaps a truer view of your progress than you have. This is a learning period. Remember, you are in business to provide a service, or a product, at a profit.

The Growth Stage
ENSURING YOUR BUSINESS SURVIVAL

Characteristics:

Your business has passed breakeven. You are making money. Up to now you have been doing most things yourself, keeping your staff and overheads at a manageable level. You are now thinking of expansion, adding a second line, opening a second store, expanding into new areas.

Challenges:

You must become a manager rather than a one-man band. Learn to delegate responsibility: learn from others and from more formal sources. For some, this is difficult. For others, it comes naturally.

In the Growth Stage, watch out for these challenges:

(1) Growth for its own sake. Growth is useless unless it involves more profit, including a better return on assets.
(2) You may need financing on a larger scale, from a bank or other source. You will most likely require financial statements, probably audited, profit and loss and balance sheets.
(3) At 5% of the market, the competition may ignore you. At 15%, expect reaction.
(4) All growth involves risks. It may move you back into another development stage.

What to do:

- Ask yourself, "Where do I want to be in five to ten years?" If you really want to remain small with a comfortable income - and many do - then are you where you should be? Growth is not for you (but take a look).
- Just as you did a business plan at the start-up stage, you need to do one with budgets for your expansion.
- If you want to end up owning a large company, you must manage in different ways.

Keys to Survival:

- Expand in areas where you have experience; if impossible, hire someone who has the experience or make a joint venture.
- Remember, the principle of managing by exception. (If you cannot know every detail of what goes on around you, make sure you get the key information).
- If you need additional financing, be prepared to share some of the reward with those who take a chance on you with their private funds.

The Comfort Stage
EVALUTING YOUR POSITION

Characteristics:

Your business has reached Comfort Stage. Approximately 80% of businesses are in this stage: growth is slight, less than 10% per annum, you take home a comfortable salary with benefits - business association memberships, trips for buying. You may own your building, which has appreciated in value; assets are worth more than listed on the books. You are comfortable_and satisfied.

Challenges:

- What if something happens to you?
- In the event of major sickness or even just wishing to retire, do you have well-trained staff ready to carry on?
- Others interested in your market would rather push you aside than buy you out. They may still be hungry rather than comfortable.

What to do:

- Be tough with yourself.
- Where do you want to be in five to ten years from now? (If you think it's just doing the same thing, you're wrong. At best, you'll be bored and the business will suffer).
- If your return on assets is less than 15%, you are not getting a good return on your investment. If it is less than 10% on the market or replacement value, you might as well be in government bonds.
- The mark of a good business manager is the ability to make money on assets, rather than have a warm feeling of ownership.

Keys to Survival:

Ask yourself the following:
- Have you let your product run down?
- Have you ceased any internal or external research and development?
- Are you becoming more and more dependent on one key supplier or customer?
- Are your employees becoming complacent and lazy?
- Do you wish to sell? A business in the Growth Stage is worth more than one in the Comfort Stage, because it can be sold on earnings and future earnings potential.
- To whom can you sell? Consider your own people around you.
- You will need to spend up to three years hard work building your company into a growth cycle - and then if you really want comfort, you can consider selling.

The Turnaround Stage
WHAT TO DO WHEN THINGS GO WRONG

Characteristics:

Your company is now in trouble. You have sustained losses for more than two years, your competition has taken over a large part of your market, and has discredited you with your customers. You have been working hard to eliminate these losses but there is no working capital left, and the bank and other creditors are unwilling to support you further. How did you get into this mess? What can you do to turnaround this situation?

Challenges:

Look for the following telltale symptoms:

Internally:

- Poor record-keeping and lack of attention to details in business?
- Lengthening payment time on receivables?
- You hired the wrong management?
- Expansion too rapid? Overheads too high?
- Were you a "one-man" operation too long?

Externally:

- Inadequate gross margins which became losses as competition reacted to your growth by lowering prices?
- Did your products reach the decline stage of their life cycle before you were aware of it?
- Is a poor economic cycle to blame?
- Tighter credit? Higher interest costs?
- Currency devaluation?

What to do:

- Be very critical of all your major cost items.
  Cut out the non-productive areas of the business. Instead, place your resources into those activities that would generate a profit.
- Manage for cash - generally liquidate inventory to produce cash.
  Generally sell for cash - or less than 30-day payment. Factor or use a collection agency.
- Sit down with your suppliers and banker. Explain what you are doing - they will most likely support your efforts.

Keys to Survival:

- Swallow your pride and learn from your mistakes.
- If you cannot handle it alone, bring in the best outsider you can find. If he produces, consider letting him buy equity, but never give it away.

It is said that a large proportion of all NEW businesses fail - the reason the others survive is not just luck. More often than not it's because the owners were able to plan effectively, a necessary ingredient for success in any business. They had a good idea where they wanted to be in two to five years time, and when they got knocked off course, they made sure they got back on - even if they slipped a little or had to modify their immediate goals.

Planning is one way to make sure that your business is working for you, rather than holding you captive.

EFFECTIVE BUSINESS
PLANNING
The Four (4) Steps

This section takes you through the FOUR steps to developing one and five-year business plans - it will work for your business, big or small.

STEP 1. Your Personal Goals
STEP 2. Your Business Goals
STEP 3. The Business Plan
STEP 4. Measuring Results

Avoid creating excuses for not planning like:

"I haven't got time." Sure you are busy, all good entrepreneurs are_but three or four hours spent in planning now will save you valuable time and money later - it may even save your business.

"Things never work according to plan."
At least you will have a fighting chance if you know where you want to go in the first place.

"Planning is for the big fellow_I'm too small." Business planning can be adjusted to any size firm. Would you take a long trip abroad without planning?

Step 1

Your Personal Goals

All of us have goals and aspirations_but we are now talking about realistic personal goals for yourself and your family_which you can make happen through your business. Goals may change during your life_adjust them to changing circumstances. Personal goals could be "salary"_ "being your own boss/doing your own thing." Later, they may be "community affairs"_"delegating more" and "spending more time at home"_even "selling the business."

Whatever they may be, it is important that you and your family know and understand these personal goals to avoid conflict and frustration. Review your goals from time to time_don't wait for major illness_or think about them at the time of someone else's crisis_simply ask yourself "do I want the next five years to be the same as the last five?" _If not, in what ways would they be different? Consider_

Financial & Benefits Security Goals	
ï Short-term income	ï Security for dependents
ï Long-term net worth	ï Minimising taxes
ï Short-term liquidity	ï Home and property

Quality of Life Goals Benefits

ï Job fulfillment ï Vacation and trips

ï Time with family ï Recreational activities

It's frequently the things you haven't done that are the worst regrets. Personal planning can help avoid regrets and allow you to accomplish more.

In the example that follows in Step 3 "The Business Plan," you will see the owner of a typical company breaking down personal goals into long-term (5 years or more) as well as shorter term. You will notice the implications for his business - going on holidays means he will need key staff he can delegate to; future value in his business means certain levels of earnings; liquidity in 5 years means people or businesses he can sell his shares to, etc.

Step 2

Your Business Goals

Before you can come up with a realistic business plan, you have to get together sound information on your business - some of this will be internal, some will require outside information - from a trade association, competitors, customers and so on.

What business am I in?

It may sound simple, but it can make a lot of difference how you define your business. A custom-welding shop is different from a shop providing a line of prefabricated tanks, etc. Methods of selling, scheduling, production runs, choice and maintenance of equipment, cash flow, profit-margins will all be different depending on the definition of your business. You alone can decide the business you are in. Remember, it is frequently easier to be successful on a narrow front (specialisation) than on a broad front. For most people, it's best to pick your area and then stick to what you know and do best.

Who are my major competitors?

List them by name, size and share of market, (or your best estimate).

What are my relative strengths and weaknesses?

Compare product/service with my competitors:

ï Price ï Delivery
ï Service ï Quality
ï Warranty ï Contracts

What are my internal capacities?

ï Production ï Finance
ï Personnel ï Product Development

Don't underestimate your competitors' ability to respond to any moves you make.

What is the size of my market?

Is it growing?
What are the major factors influencing it?
What is the expected life cycle?

Who are my customers/potential customers?

List by size and order of importance.
List potential new customers.

You are now in a position to write down your business goals. (See the example given in the section entitled "The Business Plan").

Step 3

The Business Plan

The first decision to be made is whether or not you wish to grow_and by how much. This should always be stated not just in units, but in dollars of sales and profit. Goals should also be broken down in periods of time_what you want to achieve over a longer span, say five years, by year. You can't do everything at once_set priorities!

Here are Helpful Tips you can follow:

1. Forecast sales, expenses, and profits by month for the first year and by year for the next four years.
2. List major activities or goals you want to accomplish over these periods under:
   (a) marketing
   (b) production
   (c) personnel
   (d) finance
   (e) new product or service development
   (f) other

In the example that follows, notice the type of entries made by this owner. Your major considerations may not be the same. For example, plant expansion may be important in year 2; the introduction of a new product or the opening of a new territory might be your major concerns under marketing, etc. Use the form for your own benefit. But remember that your Plan is based on where you want to go and what resources you can assemble to get there.

Our owner wants his business to be worth $1.5 million in 5 years, so he has to work to the level of profits which will achieve that - he sets a future value, probably with the help of his accountant. Your own objectives might be more modest or more ambitious depending on the size and type of business. Always date your plans. They will change from time to time. Under each heading, it's useful to include the initials of the key person responsible.

Step 4

Measuring Results

It is important in measuring results to have a schedule of review. While some concerns like receivables and payables position may need to be monitored weekly, circumstances dictate the frequency. But it is important to measure results regularly. It is an on-going function of a manager_a necessary key to survival and success. Here again, you need information to measure results. Some or all of the following should be included_

ï Monthly profit and loss statement
ï Monthly aged payables and receivables
ï Accurate inventory data
ï Monthly analysis of overhead costs
ï Monthly bank reconciliations
ï Backlog reports
ï Analysis of customer complaints

"Hot Buttons"

Watch for dramatic changes in key areas. Every business has its special hot buttons and early-warning system. You must know yours_back orders, warranty claims, customer complaints, level of receivables/payables, changes in buying by major customers, absenteeism, staff turnover. The purpose is to help you keep on top of any changes which could hurt you.

Changing Plans and Communications

You may have to change your plans - or even your objectives. One of the key purposes of planning is to help you realise when changes are necessary - and allow you time to make them. Make sure your key employees know of any changes - on a regular basis, perhaps at monthly meetings. Also, get them involved in making the plans - it helps them understand the problems of other parts of the business and keeps them committed.

Documenting your Goals

The following were developed by a typical business owner. The principles can be applied to any business.

Personal Goals
Long-Term

The value of my holdings in the company should be approaching $1.5 million within 5 years. By that time my children are in university, want time and money to travel - therefore I must be able to cash in some or all of my holdings.

Short-Term

We will try to go on three-week family holidays. If something happens to me, my wife must have financial security. By the end of next year, I want the same salary I would have to pay a manager to run the company (or the after-tax equivalent in dividends).

Business Goals
Short and Long-Term

Profit before taxes should be not less than $450,000 within 5 years. Despite increasing labour costs, I will not let my gross profit fall below 33%. If necessary, I will subcontract the lower gross items or drop them.

I will increase inventory turnover from 3.2 times to 4 or 5 times within 5 years by a better inventory control system while increasing sales. I will aim for pre-tax profit on sales above the industry average of 17%.

I will reduce our dependence on Product X from 40% of total sales, to less than 25% within 3 years. (This will be achieved by the introduction of two (2) new products). I will groom someone to be able to take over from me within 5 years.

The Limitations of Business Planning

There are things that a business plan cannot do.

- Planning is not the only strategy for running a successful business. It does not allow management to escape from taking decisions; indeed it should help by clearly identifying the problem and the possible solutions.
- Planning should not be seen as a rigid unbending answer to all the problems of the business.

  External and internal conditions will change, and require an alteration in direction. To accommodate such factors larger businesses organise reviews during this plan period. This may be feasible for some smaller businesses but less relevant to the one-man show. Yet even here, the discipline of noting down alterations helps to secure a degree of continuity and relevance within the plan.
- Planning is only as good as the people who carry it out and the use to which the plan is put.

Many businesses go through the planning process as an annual ritual in form-filling, without any particular relevance to reality.

There is little point in planning if it is not realistic - larger businesses may have time to play such games but the small ones cannot afford the luxury. A plan, once completed, should be the best possible solution to the conflicting problems that are facing the business. Time and effort were involved in preparation and it should be used and not discarded at the earliest opportunity.

Management Control and Monitoring

The business plan, as has been stressed, is a working document. It is not designed to be filed away in some drawer and forgotten, but rather to be used as a measure of management control against which the business can monitor actual levels of achievement.

If possible every business should try to hold a monthly meeting away from telephones and interruptions:-

- To discuss the achievement of the month's action plan: what has been achieved and what problems need to be overcome?
- To review quickly the key assumptions on which the plan is based - have they significantly changed and what effect will this have on the business?
- To monitor actual sales levels achieved and, most importantly, the level of gross profit - what implications does this have for the planned level of turnover and profitability? Or product levels? Stock holding?
- To review the cash-flow projection. Is the business achieving the level of cash-flow forecast in the business plan?

These control measures conducted on a monthly basis will ensure that management keeps a close watch on all aspects of the business that are most likely to cause failure: cash flow, profitability, and the failure to meet deadlines on the development of new projects. In addition, on a quarterly basis, a more detailed investigation of the profit and loss account will be a further valuable control method.

The Plan and External Funding

Though the plan is a document which is most useful internally to make the business work more profitably and efficiently, the majority of occasions that a small business will formally complete and collate a plan will be when some external finance is required for future development. For the majority of businesses, this will involve contact with the local bank, or an organisation such as the Small Business Development Company Ltd. (SBDC).

Central to any consideration of the proposal is the need for the funding institution to be SURE that the plan is workable and that investing in the proposal has a high level of likely return. The key issues will be:

- S is the business soundly based. Is it likely to meet a long-term demand in the market?

- U does the business understand what it is doing?

- R is the plan realistic? All plans by their nature tend to be optimistic, but does the plan stretch the limits of credibility?

- E are the members of the business sufficiently experienced to carry out the demands of the operation? Do they have the necessary skills and expertise for the next enterprise?

The business plan prepared for outside bodies will therefore have to take these factors into account and highlight the crucial factors and problems that the plan addresses.