Running a small business

You've decided to set up your own business. But how do you ensure that you're one of the successes, not one of the 60% or more that fail in their first three years?

Most successful businesses agree that one of the things that helps them most is a strategic business plan. A strategic plan can help you to set up the business for success right from the beginning, and you can use it help monitor and adapt as your business develops.

A strategic plan can give your business structure and direction – that's why businesses with a strategic plan reach their goals 30% faster than those without.

A strategy doesn't ensure success, but it certainly makes it a lot more likely.

Building a plan needn't be daunting – here's our top tips for what you need to include.

Financial modelling.

Let's not mince words – if the numbers don't stack up, you don't have a business. The three must-haves that will help you plan for financial health are:

1. A break-even analysis – this will show you if your business is financially viable. In simple terms, break-even is the point where your sales revenue matches your total costs. Costs are:

- **Overheads** – the fixed costs that remain the same regardless of revenue. They include rent, utilities, insurance, computers, website and domain name, graphics, printing, advertising, and they'll be pretty constant from month to month.
- **Variable costs,** or 'cost of sales' – the items that are necessary for your product or service and which go up or down with sales volume. They include cost of materials, wages and commissions.

First calculate your contribution margin, which is sales revenue less the variable costs.

Then you can calculate your break-even point as:

Fixed costs ÷ contribution margin = sales revenue needed to break even

If numbers don't stack up first time around, it doesn't mean the end of your dream – the break-even analysis can help you rethink your pricing and your costs to get to a realistic break-even point.

2. Cash flow forecast – one of the biggest causes of business failure is not lack of revenue, but a poor cash flow. This means that they are paying cash out before it's coming in, leaving them in a cash 'black hole', unable to expand or even run the business. A cash flow forecast essentially looks at the timing and amount of cash coming in versus going out.

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To build a cash flow forecast, you start with an opening balance, then plot cash out, month by month, and cash in, month by month.

Outgoings will be the fixed and variable costs you used in your break-even analysis and income will include your sales revenue, plus additional sources of cash in, such as investments, loans, grants or sale of an asset.

For example:

Opening balance	= $100
Month 1 cash out	= $50
Month 1 cash in	= $20
Month 1 cash balance	**= $70**
Month 2 cash out	= $50
Month 2 cash in	= $30
Month 2 cash balance	**= $50**

As you can see, this analysis will very quickly show you if and when you'll run out of cash and allow you to plan to avoid nasty surprises.

3. Profit and loss forecast

A profit and loss (or P&L), forecast is a plan showing how much revenue your business will generate, and how much profit (or loss) you will make from that revenue.

You first calculate your gross profit, which is revenue less variable costs.

Then subtract your fixed costs, to give you the key figure – your net profit.

The P&L will show you whether your business will make a profit and if not, will give you the indicators of what needs to change to turn things around.

Market positioning.

Your strategic plan should articulate your market positioning. This means being very clear on who are your target customers, what is the issue or problem that they have and what you offer to help them and what the benefits are.

The more specific you can be about your target audience, the better you can communicate with them, and the more you will attract them. They'll know you are talking to them and understand their issues. Many small businesses make the mistake of trying to be everything to everyone, which ends up appealing to no-one.

It's a good idea to test the market, to check that the problem you solve really does exist, and to understand the help your target audience would like. You might also look at the competition and how they are positioning themselves, to see if you can find a different approach or niche.

A good way to think about your positioning is in terms of 'We help (target customer type) to (solve the problem) so that they can (benefit)'. Using this model, a broker business might position themselves as 'We help first time buyers to find the right mortgage, so that they can enjoy the excitement of their first home stress free.

Marketing and sales.

Once you've articulated your positioning, you need to share. Your marketing plan will consider the most appropriate ways of reaching your audience – which might include social media, advertising, word of mouth, business networking, social events or webinars. Your sales plan will look at how you engage with potential clients once you've found them – online, by phone or face to face. Directly, from your business, or through partners or agents.

People.

This part of your plan will outline the people and skills needed to make the business a success. It'll describe the ownership structure, as well as who works in the business, and whether they'll be employed or sub-contracted. It'll consider the partnerships you need and may also include the regular outside help from experts like lawyers, accountants, business coaches.

The money shot – Actions.

Plenty of business plans are written, filed away and never seen again. To be a truly useful business tool, your plan must include specific actions. This turns it from a doorstop into a living document which is regularly reviewed and updated, and which becomes invaluable in helping you to run a successful small business.

We're here to help.

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