

BUSINESS PLANNING GUIDE

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BUSINESS ADVISOR CONTACTS

It is wise to start a business in close cooperation with business advisors. With this guide you can logically plan your business and the necessary details will be considered so that everything is in order for a profitable and continuing business.



1. GOING THROUGH THE BUSINESS REQUIREMENTS WITH A BUSINESS ADVISOR

It is good to discuss with a business advisor when starting to plan your own business. You will get valuable information and as an outsider, the advisor has a good possibility to contact public investors and help with financial applications and other documents.

1.1 SKILLS

An entrepreneur's most important resource is his skill. Good skill requires education and working experience. If you don't have good skills, it is risky to start a business. Lack of education it is not an obstacle, you can educate yourself in courses funded by the Ministry of Employment.

1.2 EDUCATION

As an entrepreneur, you should know about the laws of your field, book keeping and closing of the books, industrial relations, taxation and budgeting. You should be committed to continuously educate yourself and follow the business environment. You will find information about all of this in the Yritystulkki guides.

1.3 IS THERE DEMAND FOR YOUR PRODUCT OR SERVICE?

A foundation for all businesses is the demand for products or services. On the other hand, good skill combined with a well prepared and competitive business idea always enables a new company and helps it to succeed. It is easiest to start a new business when markets are growing and it is hardest when markets are falling. When markets fall, the newest businesses will have more challenges than those who have been in the market longer.

1.4 BUYING A COMPANY AS AN ALTERNATIVE

Buying an already functional company can be a better alternative than starting a company from the very beginning. This enables an entrepreneur to focus on developing the business, instead of using money and time to develop products and services and develop customer relationships. It is common that the process of changing ownership takes from three to five years including different phases. This means that the seller has made the decision to sell a long time before the sales process begins. Usually the company for sale has been organized to offer an attractive business solution to the buyer. The idea is to sell a functioning business but not necessarily to purchase i.e. commercial property.

A buyer's question and task list

1. Is there a future for the business?

- explore the business idea, competition situation, future prospects and plans
- pay attention to how much the success of the company is based on the current owner, the less the better

2. Is the whole business opportunity right for the needs of the buyer or is there something that is not worth buying?

- often there are actions or assets which are not a part of the actual business and are economically profitless

3. Is the selling price reasonable?

- Buying a business is an investment for the buyer. How much profit is expected from the investment? The profit should exceed the profit of the common investments, unless the reason for buying is to secure a job.
- usually there is a so called goodwill-value, which is more than the market value. The goodwill – value must be paid back in five years.

- the business must pay the invested capital back to the investor (salary higher than employees, annuities, tax free, capital income). A reasonable payment time is from 5 to 10 years depending on the business.
- the top limit is not more than sales per year or three times the gross margin when buying a business (no properties)

4. Evaluation of inventory and machines.

- The true value of the inventory and machinery is an essential part of the selling price.
- there can be dated or unsellable products which have been estimated at full price
- the situation of maintenance and /or updating machines or programmes
- productive equipment can include expensive moulds, machines, tools or programmes and so on, which don't have current value
- there can be such raw materials and materials which are unusable, for example, in package markings and recycling

5. Product liability and risks

- guarantee risks, which can be massive
- possible unfinished trials and reclamations
- upcoming changes in legislation
- personnel risks, will the key persons stay in the company
- over 6 month old sales invoices which have not been paid, and the payment is unlikely

It is important to check all property and financial accounts before purchase with the help of experts. Business contracts should be drawn up with the help of professionals.

1.5 FRANCHISING: AN ALTERNATIVE TO BUYING A BUSINESS CONCEPT

Franchising can be a better alternative compared to a starting an own business. Franchising is typically divided into two main forms, the product delivery and brand franchising, and also the business model franchising. Because it is about doing business with the help of another party who has developed the business idea, the compensation is charged by the franchising giver. Compensations are usually an admission fee (e.g. 20 000 €), co-operation fee (e.g. 7 % of sales) and a marketing fee (e.g. 5 % of sales). Take a look www.franchising.fi and find out more about companies offering franchising and compensations collected.

2. BUSINESS PLANNING



Please take the workbook business plan and fill it according to the advice given in this guide. after filling the work book, you will have a completed plan to go and show investors. It is not necessary to find all the answers to the questions in the work book.

Business Plan includes

- | | |
|---|--|
| 2.1 Personal goals | 2.2 Business environment analysis |
| 2.3 Visions and goals | 2.4 Mission and Business idea |
| 2.5 Marketing and sales strategy | 2.6 Production strategy |
| 2.7 Personnel strategy | 2.8 Product development strategy |
| 3.0 Economical calculations | 4.0 Risk evaluation |

In the beginning, a new entrepreneur must show investors that his/her business is profitable in a certain period of time. The most important phase when starting a business is business planning. There is always an economical risk and that is why you should take a careful look at business planning. A Business Plan is a written plan organising different parts of a business. A business must adjust to changes in the environment and that is why the Business Plan must be updated every few years.

2.1 PERSONAL GOALS

There are different kinds of reasons for starting your own business. Externalization might be one. An employer might offer his/her employees a chance to sell their services directly rather than working for him. A bad atmosphere or bad products might inspire one to do things differently. Or sometimes dreaming of a successful family business might be the reason. Increasing appreciation towards entrepreneurship and successful entrepreneurs also encourages people to start a business.

2.2 BUSINESS ENVIRONMENT AND COMPETITOR ANALYSIS

Before business planning, you must know the business environment and competitors. Customers and their changing needs, laws, changes in the environment and in the set of values create the business environment. One of the most important changes in customer behaviour is purchasing co-operation. Customers purchase their products in a big amount and decisions are made from a long distance. Rapidly changing EU legislation and data systems of the major customers complicates the marketing of new products.

Business environment analysis determines

1. Customer type, quantity of customer types and the criteria when purchasing

There are separate recognisable customer types in every branch. These types make their buying decisions according to their own needs. E.g. in the restaurant business there are 7 different kinds of customer types from a heavy eater to a culinarian. On the other hand, in the spare part shop business, quick service is central when buying.

2. Why, from where and how customers buy products and services?

A need to buy appears when something breaks, a man needs a present or he builds something, etc. A man gets his products e.g. from retail shops, wholesale, mail-order business or directly from the manufacturer. The purchase might be based on competitive bidding or an annual contract, and then there might be just a single purchase per year.

3. Are the customers loyal and who decides what to buy?

It might be a certain family member, an administrative organ, a certain supplier, etc. How many purchases are there per week or year?

4. Is the customer buying behaviour changing?

Buying behaviour changes along with fashion and trends. It is common in a clothing branch that top fashion companies get new clothes even twice a week. When purchase loyalty weakens, there are different kinds of bonus programs to speed up selling. Public administrations take a lot competitive offers from suppliers and they are well monitored. New co-operative purchasers and rings are continually established.

Competitors are an important part of a business environment

Competitors must be well known. Remember that there might be competitors who have not yet started their business yet. It might be difficult to recognise these competitors.

Competitor analysis determines

Competitors respond somehow to a new arrival. It is certain that they will try to disturb your success. Think how they will try to do it? The competitive situation and risks are clarified in the Swot analysis (2.10).

1. Who are your competitors

- find out other companies in the field
- find out all the information about them such as brochures, product samples, customer opinions
- order final accounts from the last few years from the National Board for Patents

2. What are the weaknesses and strengths of your competitors?

3. What are the prices of your competitors?

4. Are our competitor's business growing, remaining the same or reducing?

2.3 VISIONS AND GOALS

Long term planning is common in business. However, this doesn't mean that the same person will practise the same business forever. There should be a vision, an approximately 5 year plan. The given goals help you to achieve them.

A business without a goal or goals is much more difficult.

A vision is a view, like an illusion of how your business is doing five years from now.

- **A vision is usually a measurable achievement like a figure or a time limit**
- **To set a vision, it must be based on the starting level according to the situation at the moment**

At the starting point of the business, it is good to define goals as an entrepreneur. Goals should not be only economical but there should be also other goals.

Economical goals change depending on the entrepreneur and the business. Sometimes business is a way of life without bigger goals. Sometimes it is hoped to grow strongly and expand, then goals are e. g. attached to sales, amount of debts and profitability measured more than personal goals.

It is necessary to define the goals according to the customers, because the customer is actually the salary payer. The care of customers must be genuine, because it is much more difficult to get a new client than keep the old customer.

Goals attached to products and manufacturing show you how to manage in the competition. It is important to remember that products are sold at the price defined by the market and competitors, but the profit is made of purchases and with manufacturing efficiency. This goes for every field, because services are also manufactured. The product itself has a significant influence on the price which the customer is ready to pay. In the retail shop, manufacturing means also the shop milieu, the quality of furniture, display and so on.

Personnel is also one of the most important resources. According to statistics, the availability of personnel is decreasing, therefore a good personnel strategy is important.

2.4 Mission and Business idea

Mission

A mission is a foundation for the company, to which all actions are created. The mission tells you at once

- what company?
- what is the company's purpose?
- what kind of business does the company operate?
- what needs are satisfied by the company?
- what does the company do to accomplish its purpose?

EXAMPLE OF MISSION

Producer

Our mission is to produce sports and fitness products that enable everyone from the enthusiastic beginner to the professional athlete to achieve the best results and most enjoyment from their sports.

Every entrepreneur has a mission, but not all have written it down on paper. It is important that the mission is written and is constantly on display. Your customers and employees should also know the company's mission. A good mission is short, concrete and unambiguous. The best written mission is only one sentence long. You can write down your mission to the Business Plan formula.

Business idea

The business idea tells concretely how the mission is put into practise. Like a mission, also a business idea is recognised, but rarely written. Write also the business idea down on paper. It is checked annually when budgeting and thinking about business plans.

CONTEXT OF THE BUSINESS IDEA

Need / demand of the customer

Services and products must give benefits to customers. It must be a solution to a problem. The advantage must be real so that marketing is possible.

Customer Groups

Customer groups must be segmented carefully. Wide marketing to everyone costs too much and doesn't bring about a profitable result.

Image

How does your business look from outside? Your actions and working methods constantly create your image. The image has a big significance to defining your business actions.

Mode of Action

Solutions made in the competition are more often choices of mode of action. Products are often similar, so how you act plays a big role.

Resources

Even though all the elements mentioned above are well considered, the central part is resources. A company can't maintain eg. modern machinery, if there are not enough economical resources. Mental resources are also good to know, and admit the possible lack of resources.

Test a business idea

If you are planning a new business in your area, it is a good idea to test it. A good and reliable way to do it is to contact an entrepreneur in the same branch outside your area. Choose him so that he won't think you are a competitor. He will guide you, when you tell your plans openly. You will certainly get a lot of good advice.



2.5 MARKETING AND SALES STRATEGY

First of all, it is good to remember that marketing and sales are two different things. Marketing is the basis for sales, even though those are done by the same people. Marketing is not only creating ideas but more or less doing. Good ideas don't profit unless they are put into practise. Sales must be persistent and demanding. You never pay too much for a good sales person. The biggest problem in sales is getting a proper price. It is easily said that a customer won't buy due to high prices. The price is never an obstacle, maybe it slows the sales.

Take advantage of free marketing

Free marketing is usually done by the investors, municipality, suppliers, neighbours, relatives, own employees and of course customers. Good relationships to these interest groups are important. Local and free newspapers are happy to make an article about your business for free.

Use a professional to help when advertising

Along with free marketing, it is important to remember to use professional help when advertising and producing marketing material. Do nothing if you can't do the same as experts do. It is difficult to change images. If you don't have enough money to use professionals, use neutral solutions if you must.

Opening new business always interests

When opening a new business, the interest of local newspapers must be taken advantage of. When you plan the opening day, take into consideration the day when the newspaper appears, it is usually on a Thursday. The best day for press conferences and opening a retail shop is Thursday then the journalists have time to write an article. If there is local radio station, contact them also. If you produce industrial products or non-consumer services, it is better to keep a press conference when everything is in order to give an introduction. Write a press release to the press conference and explain the main issues, strengths and sales arguments of your business.

Creating a business image starts right from the beginning

The first impression is the most important. It is said that an opinion from a person forms in 30 seconds after the first meeting. That impression stays a long time and is usually correct. Customers and audience make also an opinion decision according to how the business and its representatives look like and how they perform.

Important apparent business signs are in this order of importance; business logo, business cards, clothing of the personnel, condition of vehicles and advertising taping, accompanying letter, packing note, billheads, stampers and envelopes. Also websites and e-mail domain are important when creating a business image.

Printed brochures

Printed brochures will always be important even when websites have passed them in many business areas. Use a professional when making brochures. 1 to 2 years need of brochures is a proper amount when thinking of the circulation of brochures.

Formula for sales target

Population of the target area/ amount of customers X average consumption/ person or customer
= total demand of target area, from which
 - **cut transition of demand to elsewhere (e.g. mail order)**
 - **add transition of demand from outside**
= reachable demand

When wanting a certain market share from the demand, you will get your sales target of your own business.

2.6 PRODUCTION STRATEGY

On a general level, entrepreneurship is producing and it doesn't matter if it is an industrial company or a company producing services.

Ways of manufacturing

Manufacturing can be done

1. **By yourself from beginning to end**
2. **Using subcontractors as a part of manufacturing**
3. **Buying a finished product, when refining can be sales, installation and maintenance and their combinations**



It is rare that the entire manufacturing process is in the company's own hands. Reasons for this are the lack of expertise, labour expenses and commitment of capital. Adjustable regulation of the amount of employees by manufacturing and demand can be difficult and changes must be predicted well. That makes hiring employees challenging. Using subcontractors is easier with industrial companies than companies producing services. Relationships between a main supplier and a subcontractor must be reliable because partnership often means revealing professional knowledge and customer relationships to a potential competitor. Therefore cooperation must be based on contracts, including restriction claims for competition and considerable financial contract penalty.

2.6.1 Business premises

First business premises are usually hired, because it is not good to bind capital to an expensive business premises. Free premises in your area can be asked about from a business advisor or real estate companies. More info about this is explained in 2.9.9.

2.6.2 Investments

For investments, you need funding which can be done by capital investments by the owners or borrowed capital. With certain requirements, it is possible to have financial assistance from the state (local ELY Centre). These are paid after accomplishing the investments and after paying the bills. Useful funding can be leasing, partial payments or hiring. An advantage of partial payment compared to leasing is that VAT can be applied back for, if VAT is over 2000 €.

2.7 PERSONNEL STRATEGY

Along with the employer, employees are the most important resource. When hiring employees, always make a written contract of employment.

Written Contract of Employment

When making a contract of employment, it is reasonable to set a trial period and to ensure that the employee is a part of a labour union. It is important in case of possible lay offs. Details of contracts are found at the www.tyosuojelu.fi website.

Apprenticeship Contract

The possibility to make an apprenticeship contract is worth finding out about because the community and state financially support the hiring of employees. It is possible to have an apprenticeship contract to almost every branch even if the hired person already has professional training. Financial aid for apprenticeship contracts varies based on the age of the trainee, but is at its lowest approximately 400 €.

2.8 PRODUCT DEVELOPMENT STRATEGY

Continuing tightening competition forces companies to develop their products all the time.

Ways of Product Development:

1. Product Development is active

With active product development, a company always tries to be a little bit ahead of others. Product development and marketing expenses are high which means higher prices. In the long run, continuous active product development will bring a marketing advantage when customers learn to know the company's product policy.

With new products there is a high risk of reclamation. Due to reclamation repairs, compensations and withdrawals can be too expensive or end up in bankruptcy. With careful protection of designs and possible patents, the life cycle of a new product can continue.

2. Product Development is based on quick copying

When copying, high product development expenses are avoided. On the other hand, then you lose an advantage of price setting.

3. Product Development is based on slow copying

When copying slowly, the advantages are to avoid faults of new products and reclamation, and also savings in product development. The disadvantage is the lowest price. When copying, you must consider possible protection of designs and patents.

When thinking of product development it is good to remember risks which grow by the pattern showed under

**OLD PRODUCT
OLD CUSTOMERS
Risk 5 %**

The old product is started to manufacture higher quantities to the old customer groups. The quantity of customers will rise, but the buyer group will stay the same. The risk of failure is 5 %, so the only risk is that the customers of the old customer group won't buy.

**OLD PRODUCT
NEW CUSTOMERS
Risk 50 %**

The old product is started to market to new customer groups. This product development strategy doesn't need anything else than that the old product must be some altered so it sells better. Instead market research and marketing requires a lot of work. Risk to failure is 50 %, so it is not high risk.

**NEW PRODUCT
OLD CUSTOMERS
Risk 80 %**

A whole new product is developed to old customers. This strategy requires an access to new technical innovations, or there is a possibility to create them. Innovations must also be altered by the way marketing research shows, and considering the company's present or improving capacity of manufacture.

**NEW PRODUCT
NEW CUSTOMERS
Risk 95 %**

A new product to new customers. This needs a lot of work, because it requires an equal amount of research and planning than strategies A and B together because the risk to fail is 95 %.

2.8.1 Product Protection

Protecting the product is very important in the present competition situation. The least you can do is apply for a trademark.

Trademark TM

Trademark is a symbol which separates products and services manufactured by your company from other equal companies. The National Board for Patents and Registration gives exclusive right to use the symbol. Only the holder of this certain registration can use the symbol in his business, and also forbidden others to use it also if there is a possibility to mix symbols. Applying for trademark costs 215 € and it is valid for 10 years.

Copyright of Design ©

This means a form of protection and it gives a protection against e.g. a copying. Practically it is quite easy to avoid. The charge is 185 €.

a Utility model

A utility model (small patent) is a right of veto like a patent. A person who has a right of veto can deny others to use his discovery in their professional use. A right of veto is restricted regionally and it is valid in countries where it is applied for and it is given. It is also a valid for a certain time, often a maximum 10 years. The registration fee is 135 €. It can be done with the help of the National Board for Patents and Registration. But mostly it is applied for from the Patent office and then the cost is at least 1000 €.

A Patent

A patent is an exclusive right admitted by the society. This means that the inventor must give permission to publish the invention itself. Patents are granted to inventions which can be industrially manufactured, is new and different from earlier similar products. It is country orientated. Applying for a patent and having it needs a lot work. It is useful to use a professional patent agency. Fees for patent are minimum 2000 €. Aid can be applied for from the Foundation for inventions.

The CE marking



The new directives of the EU include, already now and especially in the future, an order attaching the CE marking. Therefore nearly all products must have the marking. It is an insurance by the producer that a product satisfy all demands required by directives. The CE marking of construction products departs from the other products' CE marking. CE marking in the construction products don't guarantee automatically that directives are fulfilled. Therefore users must check that CE markings shows that the product fulfils the minimum requirements settled by authorities where the product is used.

The following website gives more information: www.prh.fi/en.html



3. FINANCIAL CALCULATIONS

Accurate economical calculations are an important phase when evaluating one's own possibilities to succeed. Calculations must be realistic and preferably estimate expenses to be too high rather than too low. This guide is associated with the Excel calculation programme Financial calculation. You can fill the Financial calculation with the help of this guide. On the left side of the calculation programme, there is a reference to the point in this guide. You will find advice, figures or calculation formulas to base your calculations on. With the help of the Financial calculation, you can calculate the profitability of your business.



The calculation gives you answers to following questions

- 1) Where do you need money and how much, and where will you get the funding?
- 2) What are the costs of entrepreneurship?
- 3) How will sales be formed?
- 4) How will the money cover annual costs?
- 5) How much will the entrepreneur earn per year?



Act 1. Calculation of the needed money, and planning funding

Economical planning starts with the evaluation of financial needs.

Companies can have support from Centres for Economic Development, Transport and the Environment. (ELY-Centres).

FUND USE AND FUNDING RESOURCES					
FINANCIAL REQUIREMENTS (inc. VAT)		EUROS	FUNDING		EUROS
1. PREMISES altogether	Aid-%		6. LONG-TERM LOANS	IN ALL	27 000
- Land area			Loan given by	Interest-%	Term (year)
- Buildings (duty free)			Finnvera	5,0 %	4
- Buildings			Bank	5,0 %	4
2. EQUIPMENTS altogether	Aid-%	27 000	7. Leasing		
- Machinery	10,0 %	20 000	8. Part payment		
- Shelving	10,0 %	5 000	9. BUSINESS ALLOWANCES		2 033
			- ELY-Centres Investments allowances/aids		2 033
- advanced purchased storage		2 000	- Other allowances		
- Duty free purchases			10. VAT RETURN		5 329
3. MARKETING INVESTMENTS		2 362	11. OWN FUNDING IN ALL		5 000
- logo, website		1 500	- Capital investments by owner		5 000
- neon sign		862			
-					
4. DEVELOPING INVESTMENTS					
5. OTHER WORKING CAPITAL		10 000			
IN ALL		39 362	IN ALL		39 362
Financial requirements - Funding =		0	Allowances and VAT -returns in all		7 362

Budget for a working capital is about 10000 Euros/person in the beginning. The both sides of the calculation are leveled to same with this sum.

FUNDING			EUROS
6. LONG-TERM LOANS			IN ALL 27 000
Loan given by	Interest-%	Term (year)	Capital
Finnvera	5,0 %	4	15 000
Bank	5,0 %	4	12 000
7. Leasing			
8. Part payment			
9. BUSINESS ALLOWANCES			2 033
- ELY-Centres Investments allowances/aids			2 033
- Other allowances			
10. VAT RETURN			5 329
11. OWN FUNDING IN ALL			5 000
- Capital investments by owner			5 000
IN ALL			39 362
Allowances and VAT -returns in all			7 362

After defining the financial needs, the funding will be planned. Remember that all loan funders require always collateral.

A new company can improve its liquidity by taking a free year from the installments of a loan.

Finnvera offers funding to new companies.

Leasing and partial payment financing doesn't require collateral, and one's own capital is needed only 30%.

Returning of VAT is regained quite quickly. Payments from ELY-Centre can take a long time. Estimate if you need temporary funding.

Act 2. Turnover forecast

Select the right VAT.

Lunch	14,0 %	SALE	65 789	100 000	117 807
- sales price/piece inclusive VAT			7,50	7,60	7,90
- sales amount (pieces, quantity))			10 000	15 000	17 000
- purchase/cost price per pieces incl. VAT			3,45	3,65	3,75
- purchase/cost price per pieces VAT 0%			3,03	3,20	3,29
- Gross margin %			54,0 %	52,0 %	52,5 %
- gross margin €			35 526	51 974	61 886

Into yellow cells the product price, sales amount, purchase price.

Act 3. Business costs

3.11	19	Operation costs of the business premises	1 232	1 294	1 358
		- Electricity, water and heat consumption costs	800	840	882
		- Cleaning, guarding, garbage	432	454	476
3.12	20	Tools and work clothes cost per year	250	250	250
3.13	21	Telecommunication and bank connection fees			

Pointing to the this Business planning guide.

Act 4. Profit review

- Bottom lines show how well the gross margin can cover the costs

	29	GROSS MARGIN IN INCOME ESTIMATION	97 561	146 341	170 732
3.21	30	MINUS BUSINESS COSTS	-81 600	-108 800	-136 000
	31	Needed working capital per one month	6 800	9 067	11 333
	32	= GROSS INCOMES OF THE BUSINESS WITHOUT DEPRECIATIONS	15 961	37 541	34 732
	33	- depreciations			
	34	ENTREPRENEUR'S EARNINGS without personal taxes	15 961	37 541	34 732
	35	TURNOVER	97 561	146 341	170 732
3.23	36	VAT	22 439	33 659	39 268
3.24	37	TOTAL SALES	120 000	219 268	210 000
		BUSINESS WEEKS PER YEAR	50	50	50
		BUSINESS DAYS PER WEEK	6	6	6
		SALES PER DAY	400	731	700

Necessary costs of the month are shown in this line.

Finally define opening days and hours.

3.2 INSTALMENT OF A LOAN AND INTERESTS

In Act 1, we calculated the needed financing. In this item, the programme calculates automatically the expenses of the financing.

3.5 ENTREPRENEUR'S PENSION INSURANCE

Finnish entrepreneurs (= has decision-making power in the firm) have to take the YEL (Entrepreneur's Pension Insurance) according to your profession and wage, which you would receive for the same work as an employee. If you have worked before as an employee and now as an employer, you must calculate the pension expenses by multiplying 1,5 times the gross wage. If you work in an accident-prone branch (e.g. construction) choose the multiplier 1,7. If your wage income has been e.g. 25 000 Euros, the basis for the entrepreneur's pension would be 31 000 Euros, because the pension is added to your wage. Remember the customers will finance your pension payments – you just pay it. A person starting a business for the first time has a 25 percent discount for four years time, but don't take it into account in your calculation. An entrepreneur's pension can be paid flexibly according to incomes and how much you want to pay.

3.6 OTHER INSURANCE

You need at least liability and legal expenses insurance. If you need fire insurance, it is approximately 0,3 % of the replacement value of the fixed assets. There are not obligatory personal insurance for the entrepreneur except YEL-insurance (Entrepreneur's Pension Insurance). But it is highly recommended to take the following insurances due to financial safety

1. Working and leisure time accident insurance and occupational diseases due to work
- insurance fee 1,7 % of annual wage which is the basis for the YEL payment
2. Permanent disability insurance
3. Life insurance whose amount is the same as the company loan

Payments for items 2 and 3 are determined by the sex and age of the person. Below are a few examples of life insurance fees which are calculated for a 100 000 € insurance sum. If the insurance sum is 150 000 €, the insurance fee is 1,5 times that given below.

AGE	LIFE INSURANCE	INSURANCE FOR PERMANENT DISABILITY FOR WORK
30 y	216 €	170 €
36 y	263 €	325 €
40 y	321 €	501 €
46 y	488 €	958 €

Almost all insurance fees can be deducted as a business expense, when the beneficiary of the insurance is someone else than the company itself.

3.7 WAGES AND SALARIES

In Finland, wage is paid for 2150 hours of work to the employee (8 work hours per day), although the real period of employment is approx. 1750 hours. Similarly, a person working 7,5 hours per day gets a wage of 2015 hours. In a month hours are 179 and 168. Remember to include the wage paid to owners. It is wise to pay it due to a capital transaction tax in all company forms except companies with a corporate name, where wage payment is not possible.

3.8 EXTRA PAYMENTS OF WAGES

Social security payments are 30 % of an employee's gross wage with natural benefits, and in the accident-prone branch even 35 %. In case of illness, KELA (National Pensions Institute) does not cover all expenses and therefore it is recommended to calculate the social security payment at 50%. An entrepreneur in a corporation (Ltd., owns over 30 % of the company) pays an entrepreneur's pension from his wage income, so extra payments of personnel will be 3 %. On behalf of other co-owners, the company will pay payments of its wages as they are employees. In a Commandite Company and in a company with general partnership, all responsible business partners belong to YEL (Entrepreneur's Pension Insurance). To be safe, calculate all wages according to 50 % of extra payments.

3.9 RENT OF BUSINESS PREMISES

Generally speaking, the best way to start a business is to acquire rental premises, unless you already have a suitable place. Location is important, therefore owning a premise in the wrong place doesn't guarantee success. In the retail business, rental premises are common. Entrepreneurs want to keep a possibility to change place when necessary. Budget also for a 1-3 month deposit which the landlord requires. The deposit will be paid back at the end of the rental period. If a municipality is the landlord, ask if it is possible to have a compensation e.g. in connection with a purchase.



AVERAGE PRICES FOR RENTS (€/m ² VAT 0 %)			
	RETAIL SHOP	INDUSTRIAL FACILITIES	OFFICES
CITY OF OULU	12 - 30	5 - 10	10 - 20
OULU REGION	8 - 18	4 - 8	8 - 16

3.10 RENTAL OF EQUIPMENT, LEASING AND PARTIAL PAYMENT INSTALLMENTS

There are different ways to rent equipment:

- 1) Can be rented traditionally without obligation to buy for a short time
- 2) Leasing rents 2-5 years period (you don't own the purchased equipment after the payment period)
- 3) Partial payment financing, financing period max. 60 months (you own the purchased equipment from the beginning)

In cases 2) and 3) additional collateral is not needed.

Leasing financing means that you have to pay by cash 0 - 30 percent of the value of the purchase and the rest you pay in monthly instalments. The maximum pay-back period is 60 months. You can choose the amount of the final installment as a percentage of the total financing, max. 40 %. Usually after the payment period, the equipment is not yours, but you can also purchase the equipment from the leasing company. In leasing, the overall interest is approx. 5 %. Each month you can deduct the VAT included in the purchase.

Partial payment financing means that you have to pay by cash 20 - 40 percent of the value of the purchase and the rest you pay in monthly instalments (max. pay-back period is 60 months). You will get a return of the VAT you pay within 2 months.

Benefits of Leasing Rental

- Expenses are easy to budget and also maintenance and repair are often included in the leasing agreement.
- VAT can be deducted every month.
- In a final accounts analysis, a company's invested capital Interest is higher because invested capital is replaced with leasing.
- Money is not committed to purchasing equipment, capital is available to use in the business.

3.11 OPERATING COSTS OF THE BUSINESS PREMISES

Depending on the premise, you might have to take an electrical connection. The fee depends on the size and location of the connection. In the zoned areas, the connection fee is 40 - 90 Euros/Ampere and in normal sparsely populated area the joint fee is 50 - 100 Euros/A. There will be also a connection fee of approx. 200 €. There are great differences in the prices depending on the supplier and the municipality you live in. In this item, we estimate fixed expenses, meaning expenses which occur regardless of the manufacturer. These are ventilation, lighting and heating of premises.

Costs of electricity, heating, water, costs and waste management (VAT. 0 %)

- The total price of general electric costs inclusive energy- and transfer payments is app. 0,12 Euros/kWh. You can calculate the electric consumption with the following formula; power of electric devices (kWh) x useable hours x 0,12 Euros. The electric costs of an ordinary office are approx. 6 Euros/m² a year.
- The annual cost of heating is app. 10 - 13 €/m²/year. High ceilings raise heating expenses by 20 - 30 %.
- In light industry, offices and shops water consumption is app. 25 litres /person/day, that is 19 €/person/year, but in nursing home 150 - 200 litres/day that is 175 Euros/person/year.
- Collection mixed waste costs app. 8 €/collection/600-660 litre container and app. 6 €/collection/300-360 litre container. Collection bio waste costs app. 9 €/collection/140-240 litre container.

Examples how to calculate the electricity consumption costs:

- Welding machine 3000 W, use 5 h/day and 210 days: 3 kW x 0, 12 €/kWh x 5 h x 210 days= 378 €/year
- Lightning in a shop or office 100 m²: lamp 36 W x 10 bulbs use 10 h/day, 6 days/week and 12 months = 0,036 kW x 0,12 €/kWh x 10 bulbs x 10 h x 6 days x 52 weeks = 135 €/year

3.12 TOOLS AND WORK CLOTHES

The tools discussed here mean tools whose operating life is under 3 years, like hand tools, office work equipment and so on. The tax authority approves deductions once also machinery purchases 850 Euros/piece VAT 0 %, which total amount won't exceed 2 500 € per year. Tools and work clothes are a part of a company's image and must be updated.

3.13 TELECOMMUNICATIONS AND BANK CONNECTION FEES

A challenge when starting a business is the lack of credit information, so e.g. telephone connections can't be opened.

- Internet connection fee is approx. 40 €/month VAT 0 %.
- Payment terminals cost from 400 € or app. 15,90 €/month. Use of a payment terminal costs approx. 4 €/month, the annual fee is approx. 85 €, and there is a fee of 0,031 % per payment, however the minimum payment is 0,04 € and max. 0,75 €/payment.
- Counting cash in the bank costs approx. 3 - 7€. Fees vary between banks.

3.14 BOOKKEEPING

Bookkeeping offices collect from 700 - 800 €/year. If there is a folder full of bookkeeping receipts fees each month, the fee may be 400 - 500 €/month. If your company is commandite company, general partnership or corporation company (Ltd), it is good to add costs of auditing accounts 200 - 500 €/year.

3.15 OFFICE COSTS

Office costs include office supplies and equipment. Office machines can be deducted as a small-scale acquisition. The highest sum for these is 2500 € VAT 0 %. In this way, a single purchase can be at most 850 € VAT 0 %. Also personal computers etc. are included in this category in spite of the price.

3.16 TRAVELLING EXPENSES

Travelling expenses connected to business travel can be deducted, i.e. expenses due to visiting an exhibition. It is good to remember tax free kilometre allowance when using your own car and also daily expense allowances. Practitioners and entrepreneurs are not allowed to pay kilometre and daily expense allowances to themselves in cash. Those must be marked as a travelling expense allowance on a personal tax declaration.

Owners of commandite companies, general partnerships or corporation companies (Ltd) travelling expenses are paid in cash. Because the tax authority is interested in tax free payments to owners of companies, travelling-expenses accounts or a driver's log must be carefully documented and delivered to a bookkeeper. There are also other expenses due to travelling; accommodation, bus tickets, plane tickets, etc.

Refund for Transportation costs in year 2015:

- kilometre allowance when **using own car is 0,44 €/km**
- **the daily allowance is 40 €**, with the following terms: the trip lasts over 10 hours and is over 15 km from the starting point and also over 5 km from home

- **half-day allowance is 18 €**, with following the terms: the trip lasts over 6 hours and is over 15 km from the starting point and also over 5 km from home

3.17 MARKETING

The costs of marketing depend on the business. At the lower end, marketing costs consist of business cards and logo costs.

- Printing a business card costs app. 50 - 300 € + VAT.
- Designing a business logo and forms costs app. 300 - 400 € + VAT.
- Websites costs 300 - 2000 €.
- Neon lights. It is possible to buy them used although you need to add new text. The minimum cost is 500 € + VAT. A new large neon light (5 m²) costs 1500-2000 € + VAT.
- Decals (for van, window) costs app. 50 €/m² + assembly costs are 45 - 50 €/h. Planning may also cost.
- Remember to budget also for printed advertisements in different media.

Advertising in newspapers (+ VAT)

- Subscription **local newspaper** and free regularly published newspaper: app. 1,0 - 2,5 €/column millimeter.
- **Provincial newspaper**: app. 1,8 - 6,0 €/column millimeter. Higher prices on Sundays.
- When advertising it is useful to repeat the advert more than once. If you repeat the advert 2-4 times discount is 20 % and more than 10 times the discount is 30-50 %. It is profitable to have a negotiation with prices.

Advertising on radio (+ VAT)

- **National commercial radios**: Radio Nova app. 390 - 470 €/30 seconds, Iskelmä (local) app. 28 - 90 €/30 sec, The Voice app. 150 €/30 sec. Advertisement is separately ordered and costs start at 200 €.
- **Small local radios**: price app. 16 - 60 €/30 seconds and usually advertisement is done at the same price.

Advertising on television and internet(+ VAT)

- **TV – advertising**: Price varies greatly depending on time, region and number of showings. Regional prices are app. 60 - 5 500 €/show and national prices are app. 800 - 12 500 €/show. Production costs are from 1 500 €.
- Search word advertising in **internet** (e.g. Google): based on "click pricing" (CPC) in other words you pay only when your link is clicked. The price varies from 0,10 - 10 €/click. You can limit the costs by settling a boundary how many clicks can be connected to your link.
- Web -**Banner** advertising (CPI): Cost per impression, term used in online advertising and marketing related to web traffic. **Example of the costs**: "Tower 200 x 900px" in the one of the popular web pages Iltalehti costs are 6,5 €/impression.



3.18 EDUCATION

A new entrepreneur should increase his/her expertise and knowledge of entrepreneurship. The Employment and Economic Development Centre organises many different kinds of trainings each year. Attendance fees are reasonable due to public financial aid.

3.19 PAPERS AND PROFESSIONAL LITERATURE

In order to keep up your expertise in your field, you should order professional journals. You might also need to order newspapers and magazines for your customers or your own knowledge acquisition. However, your daily newspaper is worth changing to company's expense.

3.20 OTHER EXPENSES

- Employees' health care is compulsory in Finland and costs are approx. 250 €/worker.
- Parking fees, representation expenses, meeting costs and cost of establishing a business.
- There is a fee for playing music in business premises in Finland. According to law, if you play recorded music in your premises or in your switchboard (e.g. from radio, television, computer, etc.), you must pay a royalty fee via Gramex (record company) and Teosto (artists). Example copyright organisations Gramex charges app. 93 € copyright fees and Teosto 134 € for a hairdresser premises of 30 square meter. More info: www.gramex.fi and www.teosto.fi
- Federation of Finnish Enterprises membership fee is approx. 145 €/single membership

- Unemployment Funds for Entrepreneurs example annual income 25000 €, annual fee 330 €/year.

Unemployment Fund for Entrepreneurs: Suomen Yrittäjien Työttömyyskassa SYT www.syt.fi

3.21 BUSINESS COSTS (Total Fixed Expenses)

These expenses don't depend on sales, but it is possible to change them when sales grow.

"Needed working capital per month" reveals the sum which must be considered when calculating the need for money. It is better to be prepared to double the sum.

4. RISK EVALUATION

From an entrepreneur's perspective, the greatest risk is ending the business so that collaterals given for the company's loans will be taken away. There can be a lot reasons for ending a business. Risk management means recognition of risks and being prepared for them. The goal is to recognize and evaluate risks while also choosing the most appropriate ways to minimize them.

Ways of Risk management are:

1. Avoiding risk
2. Decreasing risk
3. Transferring risk e.g. by insurance
4. Keeping the risk on one's own account

After risk survey likelihood of risks and their affects if they appear are evaluated. If you discover risks that could be fatal to your business, you must avoid them and find security via insurance. The next chart will help to analyse effects of known risks and their influences to avoid the worst. Risk analysis shows that personal risks are greater than known and manageable risks. This is due to a lack of entrepreneur skills.

4.1 PROPERTY RISKS

Property risks are destruction of buildings, machinery and equipments. There are different ways to minimize damages. You will consider these ways during analysis.

4.2 PERSONAL RISKS

Personal risks are problems considering the supply of labour and labour stability. Due to a lack of labour, committing to too big of an order has destroyed successful companies. Other personal risks are occupational safety, employment security and stand-by crew arrangements. In this case, also the entrepreneur is the biggest risk him/herself. He/She should be careful and take good care of his work and leisure time safety issues.



4.3 RESPONSIBLE RISK OF THE PRODUCT

Nowadays, due to consumer protection law, consumers have an excellent and safe position compared to the manufacturer and seller. Pay special attention to safety issues because recalling products off of the market is expensive and might lead to bankruptcy. There can be big economical risks between companies, especially if the buyer, due to his size, has a better negotiating position compared to the seller. Problems accumulate fast when the buyer refuses to pay bills and contests works already done. Some of these problems can be avoided right from the beginning by choosing the right form of business or spreading the business to more than just one company.

4.4 OTHER RISKS

Other risks are

- **Risks of operation interruptions** due to fire, production machinery breakdowns and difficulties with raw materials. Insurance may only compensate fixed expenses partially during interruptions, but not damages in customer relationships.
- **Risks of data security** in business concerning information technology and the change of personnel to competitors or to starting a business in the same branch.
- **Responsibility risks due to contracts.**
- **Risks of logistic, strikes, unique product breakage** during transportation and ignorance of delivery clauses in foreign trade.

4.5 RISKS IN FAMILY CIRCUMSTANCES

Health and circumstances in one's family life can be a significant risk. E.g. divorce can end the business. According to Finnish legislation both parties have a matrimonial right to property. This right can be erased with a prenuptial agreement before and during a marriage. A prenuptial agreement does not give a right to donate property. With a prenuptial agreement, an entrepreneur can limit business assets outside the matrimonial right to property so that a business will be secured after a divorce.

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