

# BIT-Entrepreneurship IV

Presented

By

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# Sources of Finance

- Finances are needed:
  - To get started - use your personal funds form savings
  - As busn grows need funds
    - To buy fixed assets and
    - To increase working capital
- Busn generates some or all the needed finances through profit retention
- Others resort to additional sources
- Principal sources are equity and debt

# Quantifying Needs

- Step 1 – Determine financial needs based on analysing:
  - Operating and Cash flow budgets and
  - Capital expenditure - all prepared during the planning process
  - how much and when finances will be needed
- Step 2 – determine long term financing strategy

# Financing Strategy

- Primary means is the profit retention
- Avoid loans from commercial banks
- Borrowed funds can be sourced:
  - For long-term loans from ZSIC, NAPSA etc.
  - For medium term loans through leasing ,bank loans
  - For short-term loans through trade credits, customer advance payments
- Factors to consider:
  - Cost of borrowing
  - Affordability
  - Executable plan
- When selecting source consider:
  - Cost, duration, accessibility
  - Gearing ratio of debt/equity rate
  - Terms of loan
  - Structure of interest rates

# Decision Levels

- First level decision:
  - bridging a gap through short term loans.
- Consider banks, lending institutions or shareholder funds.
- Consider family and friends
- Second level decision
  - Growth/expansion through long term loans.
- Raising funds from banks and lending institutions can be achieved through:
- Loan application accompanied by
  - financial statements
  - strategic and financial plans
  - curriculum vitae of management staff
  - articles of incorporation
  - contracts, leases and other legal obligations

# Application Success

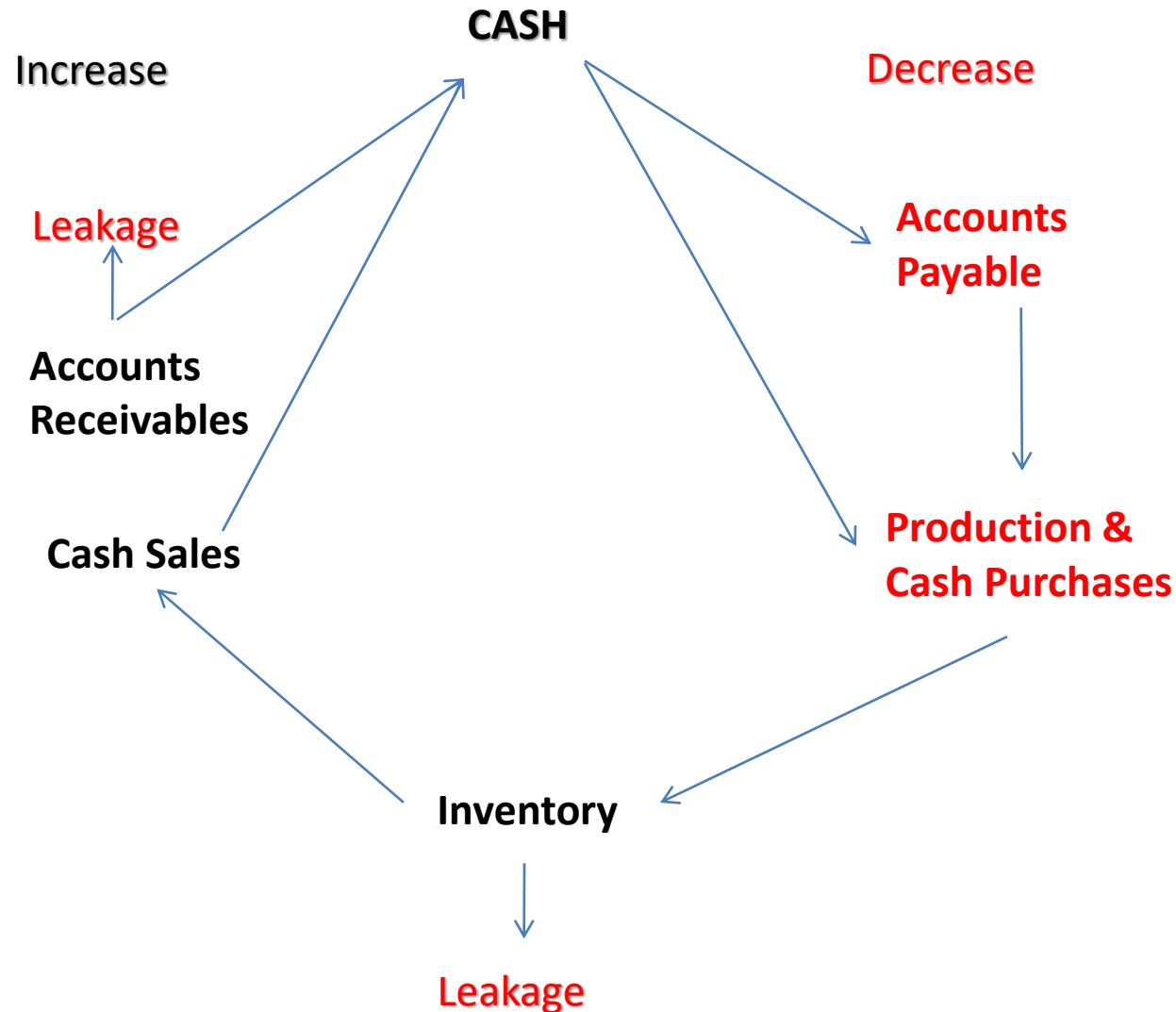
- Loan success depends on 5Cs:
  - Mgt capacity
  - Capital (enough owners' equity)
  - Collateral (secondary source of repayment)
  - Character of borrower (track record)
  - Conditions (impact of environmental factors)
- Loan rejection results from:
  - Insufficient cash flow
  - Lack of managerial experience
  - Poor track record
  - Lack of collateral
  - Ratio of debt to equity
  - Insufficient information
  - Inability to defend proposal

# Managing Cash Flow

- Cash flow a major problem for SMEs
- Cash mgt involves:
  - forecasting, collecting, disbursing,
  - investing and planning for cash.
- Cash – the lifeblood of a busn, used to meet obligations
- Cash is an acute problem for rapidly growing busn
- Managing cash is a two step process:
- Step 1-understand the cash flow cycle,
  - the time lag between paying supplier and receiving payment from customer
- Step 2-analyse the cash flow cycle,
  - looking for ways to reduce its length



# Cash Flow Cycle



# Elements of Cash Mgt

- Accounts receivables -
  - Results from sales on credit to avoid losing customers
  - A common practice for busn houses
  - Essentially it is lending money and risk involved is high
  - Late payment or non payment of bills
  - Expensive practice
- Develop appropriate credit and collection policy
- Accounts payable –
  - Results from cash restriction
  - Results from delays in payment
  - May damage company's credit rating
- Inventory –
  - Represents significant investment for SMEs and
  - Creates a severe strain on cash flow

# Role of Entrepreneur

- Cash finder –
  - make sure there is enough cash to pay all bills; an ongoing job
- Cash planner –
  - make sure cash is used properly and efficiently
  - keeping track of cash, its availability and use
- Cash distributor –
  - control cash to pay the bills,
  - prioritising and timing of payments – essential to keeping busn solvent
- Cash collector –
  - ensure customer pay bills on time. Uncollected accounts drain busn cash pool
- Cash conserver –
  - make sure busn gets maximum value for money spent. Inventory purchases for resell should avoid unnecessary expenses.

# Cash

- Cash and profit not same
- Cash flow –
  - Method of tracking liquidity and busn ability to pay on time by tracking the flow of cash receipts and cash disbursements on a daily, weekly or monthly basis
- Preparing cash budget:
  - Determine adequate minimum cash balance
  - Forecast sales
  - Forecast cash sales
  - Forecast disbursements
  - Determine month end cash balance

# Cost Structure

- Costs can be
  - fixed,
  - variable or
  - mixed
- Income statements can be reported in two ways:
  - traditional or in
  - contribution format

# Income Statement – Traditional Format

- Sales \$12 000
- Less cost of sales (6 000)
- Gross Margin 6 000
- Less operating expenses
  - Selling 3 100
  - Admin 1 900
- Net Income 1 000
- The traditional format of income statement vaguely informs about the nature and magnitude of costs.

# Contribution Format

- Sales \$12 000
  - Less variables costs
    - Var Prod 2 000
    - Var Selling 600
    - Var admin 400 (3 000)
  - Contribution margin 9 000
  - Less fixed Expenses
    - Fixed prod 4 000
    - Fixed selling 2 500
    - Fixed admin 1 500 (8 000)
  - Net Income 1 000
- 
- The contribution format informs better on the nature and magnitude of costs involved.

# Mixed Costs

- Mixed costs are made up of fixed and variable components
- Regression analysis can assist in working out components
- Mixed costs = fixed costs + variable costs and can be presented generally as
- $Y = a + b X$  (the common straight line equation)
- Where  $a$  = fixed (constant)
- $b$  = degree of variability
- $Y$  = total cost (dependent variable)
- $X$  = variable cost (independent variable)
- Multiple regression can assist in working out mixed costs with more than two components such as
- $Y = a + b X + c W$  where  $a$ ,  $b$  as defined and  $c$  = 2nd variability factor,  $W$  = 2nd variable cost



# Determining Cost Components

- Can use three methods:
  - High-low method
  - Graphical method
  - Least squares method

- Data set:

– Month	DLH	Cost-\$
– Jan	5500	745
– Feb	7000	850
– Mar	5000	700
– Apr	6500	820
– May	7500	960
– Jun	8000	1000
– Jul	6000	825

# High-low Method

- Using data set given:
  - Highest point DLH8000 \$1000
  - Lowest point DLH5000 \$700
  - Differences: DLH3000 \$300
  - Variability =  $\$/DLH = \$300/3000DLH = \$0.10/DLH$
  - Fixed element = Total Cost – Variable Cost
  - Using May statistics, Fixed Cost =  $1000 - 800 = 200$
  - Cost Formula is Tot Cost =  $200 + 0.10A(DLH)$

# Least Squares

- Based on linear equation  $Y = a + bX$  derive the following equations:

$$\sum XY = a \sum X + b \sum X^2$$

$$\sum Y = na + b \sum X$$

- Derive values
- Solve for a and b
- Substitute
- Write cost formula

Month	DLH(X)	Cost(Y)	XY	X <sup>2</sup>
Jan				
Feb				
Mar				
Apr				
May				
Jun				
Jul				
Total $\Sigma$	$\Sigma X$	$\Sigma Y$	$\Sigma XY$	$\Sigma X^2$

# Break – even Point

- Break-even point (BE) :
  - Point at which total costs and total revenue are equal
  - There is neither profit gained nor loss incurred.
  - BE point represents sales amount in units (quantity) or sales (\$) terms required to cover total costs.
  - Total profit at BE is zero.
  - Most commonly used concept of financial analysis
  - Used to identify required outputs and work towards meeting the output.

# BE point

- BE point depends on the individual bsn
- Each bsn should develop a BE point calculation
- Each sale will make a contribution to paying off fixed as well as variable costs
- To make a profit (beyond BE)
  - Reduce fixed costs: negotiate lower rentals or improve cost management
  - Reduce variable costs: find new source of supplies at lower prices
  - Increase quantity of sales

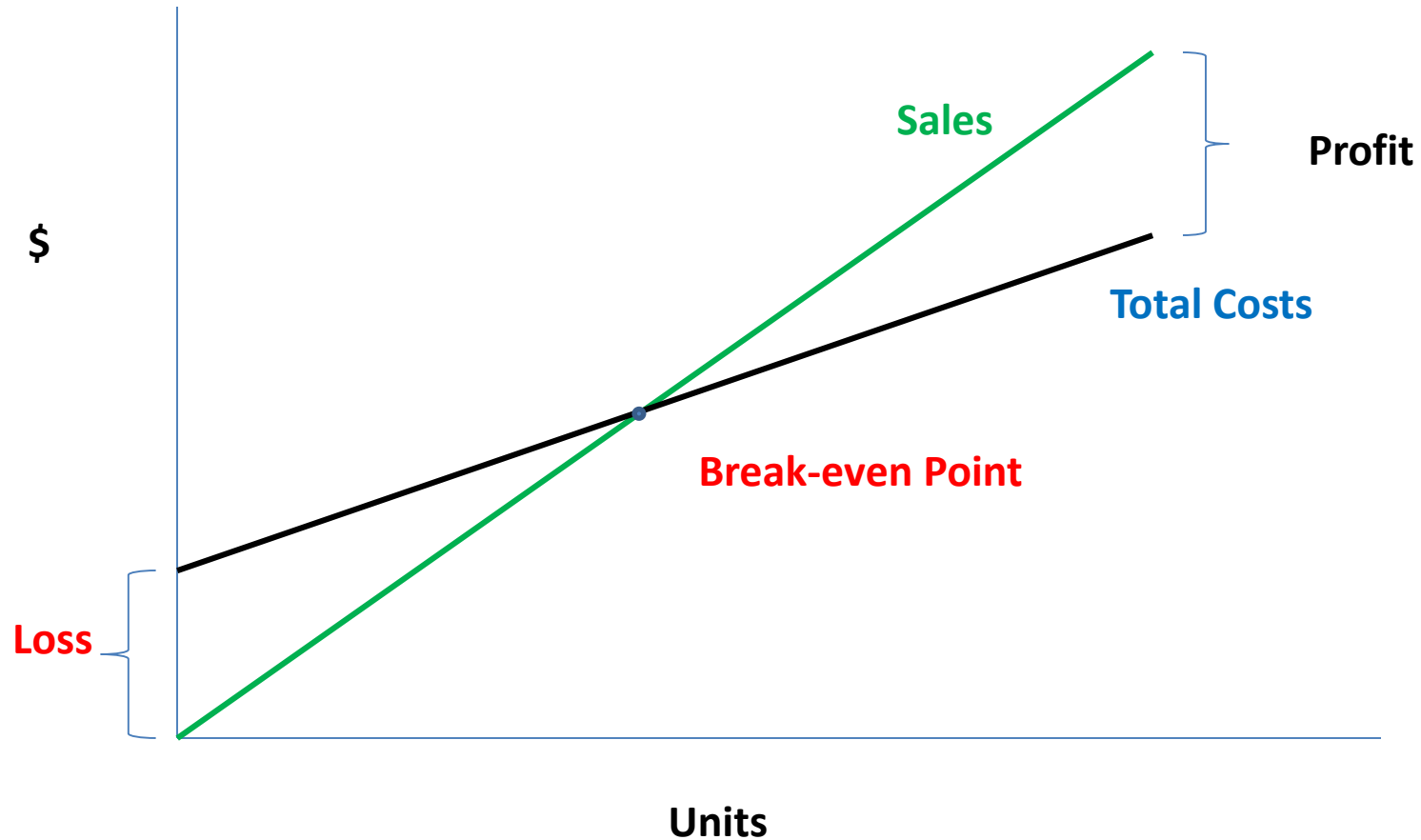
# Purpose of BE Analysis

- To determine minimum output that must be exceeded for a bsn to make a profit.
- It is an indicator of the earnings impact of a marketing activity.
- It helps provide a dynamic view of the interrelationships between sales, costs and profits
- It provides data useful to marketing
- It helps bsn see where to restructure or cut costs.

# CVP Analysis Model

- Marginal costs and marginal revenues are assumed constant in the model.
- The BE is computed in terms of Total Revenue (TR) and Total Costs (TC)..
  - »  $TR = TC$
  - »  $P * X = TFC + V * X$
  - »  $P * X - V * X = TFC$
  - »  $(P - V) * X = TFC$
  - »  $X = TFC / (P - V)$
- Where TFC is Total Fixed Costs, P is Unit Sales Price and V is Unit Variable Cost

# Graphical Illustration of BE Point





# BE Calculations

- $P - V$  is the Unit Contribution Margin (C) it is
  - the marginal profit per unit
  - Portion of sale that contributes to Fixed Costs
- Thus BE is the point where
  - Total Contribution = Total Fixed Cost
  - Unit Contribution  $\times$  Number of Units = Total Costs
  - Number of Units = Total Fixed Costs / Unit Contribution
- Ultimately, BE in Sales = Fixed Costs / (C/P)

# Next Lecture

## The Budget

# The Budget

- Budget:-
- It is a quantitative expression of a financial plan for a defined period of time.
- It may include planned sales volume and revenues resource quantities, costs and expenses, assets, liabilities and cash flows.
- It expresses strategic plans of business units, and of an organization, activities or events in measurable terms.
- It is the sum of money allocated for a particular purpose and the summary of intended expenditures along with proposals of how to meet them
- It is SMART

# Purpose

- Budget
  - aids the planning of actual operations by
  - considering how the conditions might change and
  - steps to be taken then
  - encourages entrepreneurs to consider problems before they arise.
  - helps co-ordination of bsn activities by compelling bsn mgrs to examine relationships between their operation and those of other departments.

# Essentials of Budgets

- Main essentials of budgets are:
  - To control bsn resources
  - To communicate plans to various responsibility centers.
  - To motivate workers to strive to achieve budget goals.
  - To evaluate the performance of workers and mgrs
  - To provide visibility into bsn's performance
  - For accountability

# Budgeting Tools

- Tools provide a forecast of revenues and expenditures
- Tools help to construct a model of how a bsn might perform financially if certain strategies, events and plans are carried out.
- Tools enable the actual financial operation of the business to be measured against the forecast.
- Lastly, tools establish the cost constraint for a project, program, or operation.

# Business Budget

- The bsn budget compiled annually requires considerable effort.
- It is a plan for the short-term future
- It typically allows workers in various departments to list their expected revenues and expenses in the final budget.
- If the actual figures delivered through the budget period come close to the budget, this suggests that workers understand their business and have been successfully driving it in the intended direction.
- On the other hand, if the figures diverge wildly from the budget, this sends an 'out of control' signal.

# Approaches to Budgeting

- A budget is a tool for predicting whether an event will result in a profit, a loss or will break-even.
- In such a case a budget can be used as a pricing tool
- There are two basic approaches to budgeting:
  - One approach is mathematical and
  - The other is based on people.
- The first school of thought believes that financial models can be used to predict the future:
  - The focus is on variables, inputs and outputs, drivers and the like.
  - Investments of time and money are devoted to perfecting these models, which are typically held in some type of financial spreadsheet application.



# Approach

- The second school of thought holds that it is about people.
  - No matter how sophisticated models can get, the best information comes from the people in the business.
  - The focus is therefore in engaging bsn managers and workers in the budget process, and building accountability for the results.
  - Bsns that adhere to this approach have their managers develop their own budgets.
- The investment of time and money falls squarely in one approach or the other.

# Personal/Family Budget

- In a personal or family budget
  - all sources of income (inflows) are identified and
  - expenses (outflows) are planned with the intent of matching outflows to inflows (making ends meet).
- In consumer theory, the equation restricting an individual or household to spend no more than its total resources is called the budget constraint.
- Elements of a personal or family budget include:
  - Fixed expenses
  - Monthly payments
  - Insurance
  - Entertainment
  - Savings

# Types of Budgets

- Sales budget – estimates future sales in units and currency and it is used to create bsn sales goals.
- Production budget – estimates number of units to be manufactured to meet sales goals. It estimates the various costs involved in manufacturing the units, including labor and material.
- Capital budget - used to determine whether a bsn's long-term investments in new machinery, replacement machinery, new plants, new products, and research development projects are worth pursuing.
- Cash flow/cash budget – predicts future cash receipts and expenditures for a particular time period. It covers a period in the short-term future. It helps bsn to determine when income will be sufficient to cover expenses and when bsn will need to seek outside financing.
- Marketing budget – estimates funds needed for promotion, advertising, and public relations to market the product or service.

# Budget Types

- Project budget – a prediction of the costs associated with a particular bsn project. The costs include labour, materials, and other related expenses. The project budget is broken down into specific tasks, with task budgets assigned to each. A cost estimate is used to establish a project budget.
- Revenue budget – consists of revenue receipts of government and the expenditure met from these revenues. Tax revenues are made up of taxes and other duties that the government levies.
- Expenditure budget – includes spending on all data items..
- "Flexibility" budget - it is established for fixed cost and variable rate is determined per activity measure for variable cost.
- Performance budget - used by bsn involved in the development activities.
- Zero based budget - It has clear advantage when the limited resources are to be allocated carefully and objectively

# Setting up a Budget

- Budgeting is a plan for your future income and expenditures that can be used as a guideline for spending and saving.
- When starting a budget, assess future goals.
  - Set financial goals for short term, mid-term, and long term.
  - Make sure all goals are S.M.A.R.T. Goals.
- Using this mindset, you will be setting attainable goals.
- Second, allocate where income is coming from.
  - Is it a consistent income or is it sporadic and can not be included in a normal budget?
- Decide if income is sporadic or normal - decreases the chances for overspending.

# Setting up a Budget

- Next, figure out where money is going.
  - How much is going toward rent, groceries, etc?
- With this, keep in mind the 50-20-30 Rule.
  - Fifty percent should go toward living expenses and essentials - the necessities in life.
  - Twenty percent must go to savings for your future financial goals. This can also go toward debt-reduction to pay off credit card statements and loans
  - Then the remainder can be allocated as flexible spending.

# Financial Discipline

## Saving, Use And Borrowing

# The Right Life Mentality

- Learn to prioritize your financial needs
- Priorities are of three types:
  - Critical – priority A – relates to “must do” activity which cannot be postponed or delayed without adverse consequences
  - Important – priority B – relates to “should do” activity which can be postponed delayed to a convenient time
  - Supportive – priority C – relates to “nice to do” activity which can be postponed or ignored completely without any consequences
- Develop a mentality of prioritizing in planning, implementation and control in your personal and business activity.



# Saving Discipline

- You should have a workable plan for each amount of money that comes your way.
- You should know what to do with K100, K1000, K10 000, K100 000 etc.
- Do not lend money anyhow. There are people with the habit of extracting money from you with no intention of paying back. Deal with them.
- Do not lend more than you can afford and ensure you get it back.
- Assist only in genuine cases and lend when there is more than 50% chance of getting your money back.

# The Best Way To Save

- The best way to save is to put your money in a business activity which multiplies your money.
- However, such saving requires that you pay attention to business to ensure your money is not lost.
- Business activity should be developed from own idea not copied from another.
- Business is good for always – it becomes an occupation

# The Second Way To Save

- The second best way to save money is to buy shares in a company listed on the Stock Exchange.
- Learn how the Stock Exchange works to safeguard your money
- Invest in companies with a profit making track record
- Good if saving for long term plans

# The Third Way To Save

- In this case, look for a bank that will give a good interest rate for Fixed Deposit of money.
- Understand the terms clearly: when you can have access to your funds
- This way of saving is not that reliable as you will be tempted to access the funds easily and suffer penalties or losses.
- Good for short term saving only

# An Exciting Way To Save

- Group saving long practiced by groups of individuals has re-emerged to an exciting level.
- It requires that you join or form a group of 5 to 10 people
- Agree on how much to save regularly or borrow
- Meet regularly and monitor the borrowing levels, payback, interest gains etc.
- Good way to save as finances are readily available to meet your regular business needs.

# Control and Use of Finances

- Pay your tithes regularly. It is an investment in God's kingdom to which we all belong.
- It is imperative that you develop strong control over your finances.
- Develop *akaso* (no close English equivalent)
- Invest your money in productive ventures
- Possible ventures include:
  - Buying or selling activity
  - Productive areas such as chicken rearing or vegetable growing
  - Small business venture – product or service

# Borrowing

- Borrow for a good justifiable reason – not out of being broke.
  - We are all broke on payday.
  - We all experience high blood pressure on payday.
  - Money is not enough to cover all our desires. So bite the bullet.
- Do not borrow money from your relatives for whatever reason.
  - You are inviting untold problems.
  - If you do, payback as quickly as possible.
- Do not borrow from loan sharks (kaloba).
  - You are enslaving yourself and
  - You are being an idiot (chipuba).
- Friends (real) are a good source to borrow from.
  - Do not abuse friendship.
  - Pay back with a little extra to show appreciation.
  - Friends could later become your business partners.
- Do not borrow from Banks or Financial institutions unless you are sure you can afford to do so.
  - Banks are in the business of making money. Banks offer help but also exploit customers.
  - Avoid borrowing from Banks and avoid financial misery

Next Lecture



# Marketing Issues

- **Marketing plays a major role in small bsn strategy:**
  - key to survival of small bsn
  - essential ingredient in developing sustainable bsn
- Five (5) inherent SB characteristics giving rise to distinctive marketing issues:
  - **Customer base-**
    - limited to geographical location,
    - **limited customers,**
    - serving local customers
    - **small share of wider market**
  - **Resource constraints**
    - Less money spent on marketing – large overheads for big bsn
    - **Lack of finances restricts employment of experts**

# Marketing Issues

## – Personalised mgt style

- Owner manager involved in all aspects of marketing
- Developing and implementing strategy – success depends on competence of owner/manager

## – Uncertainty and evolution

- Uncertain environment- adapt to survive
- Lack of control over market gives rise to uncertainty and planning problems
- Some owner/managers have developed 4 strategies for marketing:
  - Initial marketing activity of bsn
  - Reactive selling in response to enquiries
  - DIY marketing: developing a positive appropriate marketing approach
  - Integrated proactive marketing – emergent sophisticated marketing planning

## – Innovation,

- Identify niches and dominate
- Identify gaps and fill them

# Guerrilla Marketing Strategies

- **Guerrilla marketing:**
  - Unconventional, low cost, creative techniques
  - Requires creativity and ingenuity
  - Requires understanding customer as foundation of bsn and
  - Building bsn from customer's perspective by creating and keeping a customer
- **Guerrilla strategy should accomplish:**
  - Specific target market to serve
  - Determine customer needs and wants through market research
  - Analyse competitive advantages and build guerrilla marketing strategy
  - Create a marketing mix to meet market demands

# Target Markets

- **Target markets are identified through:**
  - SWOT analysis - results in identifying market niche and provides bsn's capability profile
  - **Buying habits**
- **Strategies to use in in target markets include:**
  - shot-gun tactics – **a sales oriented tactic** (call boy approach) easy to use, requires no plans or resources
  - Rifle approach – **driven by customer orientation**

# Market Research

- **Market research** is performed to :
  - Determine needs and wants
  - Understand demographics – shifting patterns of age, income, education etc. in a given population
  - Be aware of changing trends in population if friendly or hostile to bsn
- **Conducting market research** involves four steps:
  - Define objective e.g. gauge competition or customer tastes
  - Collect data
    - Primary techniques:
      - Customer surveys
      - Focus groups
      - Daily transactions
      - Suggestion schemes
    - Secondary techniques:
      - Demographic data, direct mail lists
      - Census data, bsn directories
      - Market research
      - Articles, periodicals
      - Data mining, www
  - Analyse and interpret data
  - Draw conclusions and take action

# Building Competitive Advantage

- **Build advantage through:**
  - Customer relationship marketing – CRM and
  - **Guerrilla marketing principles**
    - Identify niche and fill it
    - Don't just sell but entertain
    - Strive to be unique
    - Create an identity for your bsn
    - Connect with customer on an emotional level
    - Devotion to quality
    - Attention to 'convenience' – flexible payment etc
    - Concentrate on innovation
    - Emphasis on speed

# Bldg Competitive Advantage

## – Focus on customer

- 67% stop patronising because of poor treatment
- 96% complain about rude service
- 91% will not buy there anymore
- 100% will tell others about 'horror' stories
- 13% will tell at least 20 others

## – Dedication to service and customer satisfaction

- Listen to the customer
- Define superior service
- set standards of performance
- Hire the right people
- Empower employees
- Use latest technology to improve service
- Reward superior service
- View customer as an investment

# Marketing on the World Wide Web

- **Use of the web is revolutionary tool in marketing:**
  - Goes beyond physical location into cyberspace marketing
  - Uses all facilities of computer technology to market goods and services
  - Access to millions of people around world wide
  - Provision for enquiry and instant response by email
  - Sale by Internet
  - Strategize SB's selling



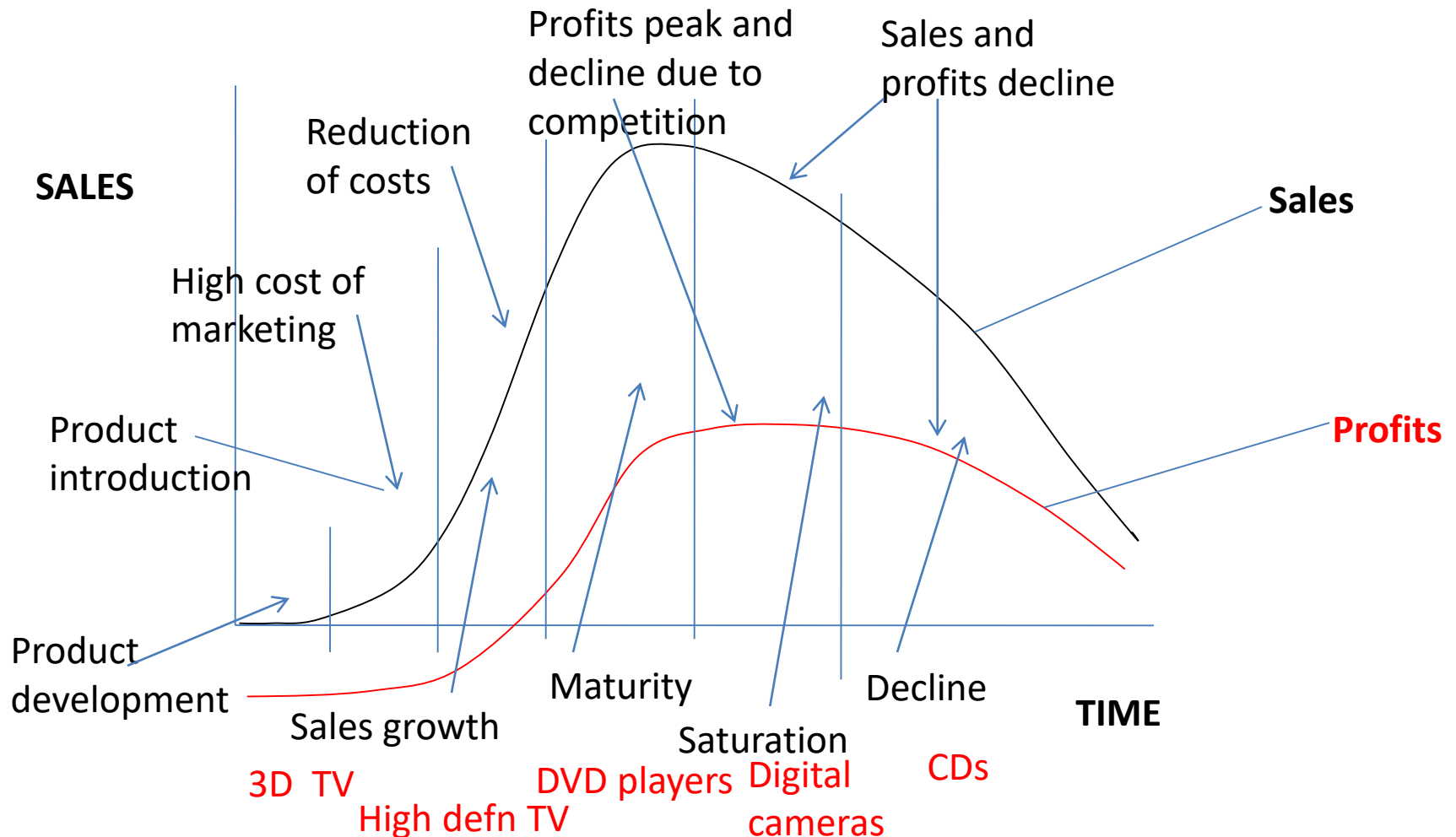
# Benefits of WWW Selling

- **Opportunity to increase revenue**
- **Ability to expand in global markets**
- **Ability to remain open 24/7**
- **Capacity to use web's interactive nature to enhance customer service**
- **Power to educate and inform**
- **Ability to lower costs of doing bsn**
- **Ability to sport new bsn opportunities and capitalise on them**
- **Ability to grow faster**
- **Power to track sales results**

# Marketing Mix

- **Uses 4Ps; product, place, price, promotion (and people for services)**
- Product: see product life cycle next slide
- **Place - method of distribution enhanced by web use**
  - Place utility affected by marketing channels of distribution - the path of product to consumer
- Price - depends on
  - **cost structure**,
  - assessment of market what it will bear,
  - desired image in the eyes of the customer
- **Non-price competition** – focusing on factors other than pricing is more effective strategy:
  - Trial offers, free delivery, length warranties, money-back guarantees
  - **Stress durability, quality, reputation**
- Promotion includes advertising and selling
  - communicating to potential customers

# Product Life Cycle



Next Lecture

# Planning a New Business

- **Step 1 –**
  - Know yourself; do you have what it takes?
- Failure in entrepreneurship depends on a combination of factors:
  - Too much is left to chance
  - Decisions made by hunch/intuition
  - Crucial bsn obstacles not noticed
  - Time and effort demanded not recognised
  - Capital required not properly determined
- **Failure is essentially is lack of planning**

# Planning a New Business

- **Step 2 –**
  - Environmental scanning using SWOT, STEEP analyses
- **Step 3 –**
  - Create bsn idea or examine several bsn ideas:
  - **Develop time table**
  - Establish bsn objectives
  - Establish organisational structure (legal, capital, admin)
  - Human resource requirements
  - **Physical facilities – location**
  - Plan your market – build image, channel of distribution, pricing policies  
budget preparations
  - **Sources of funding**
- **Step 4 –**
  - Feasibility study – putting idea into practice
- **Only select bsn idea which fits all and presents better profits**

# Developing Bsn Idea

- **Use creativity and innovativeness**
  - to develop bsn idea
  - Bsn idea should address need in society
  - Bsn idea should give a competitive advantage to entrepreneur
- Sources of ideas can come from:
  - Customers (to add a new product)
  - Suppliers (can tell you what other users do)
  - Bsn problems ( providing solutions to existing problem can lead to developing new ideas)

# Creativity

- **Creativity:**
  - Challenges held beliefs and goes beyond underpinning assumptions:
  - **Imagination is part of creativity**
  - Techniques include:
    - **Brainstorming as a group technique for developing creative ideas.**
    - **The expectation is one's expressed idea will encourage another to come up with an idea that will be modified and refined to a satisfactory outcome**
- **Brainstorming has four rules to follow:**
  - **No criticism of idea**
  - The wilder the idea the better
  - **Generate a large quantity of ideas and**
  - Encourages combination of ideas
- **Checklist method**
  - **uses active verbs to give idea or product a new meaning**
- **Value analysis –**
  - Used to re-examine a product or service with the purpose of reducing its cost without reducing its utility to customers.
  - **It is a group technique**



# Other Sources of Bsn Ideas

- **Other sources** include:
  - Licences offered by authorities,
  - Patents, franchising
  - Import substitution
  - Agency for foreign based companies
  - Contractual arrangement to produce product
  - Disinvestment areas by big companies
- **Mental practice**
  - looking for inconsistencies in the way systems are supposed to operate such as:
    - Long queues (suggest an opportunity to exploit)
    - Time to process an order

# Bsn Planning

- **Prior to turning a bsn idea into reality you need to develop a thorough bsn plan:**
  - Clear vision of goal to achieve
  - Clear definition of mission to follow
  - Clear definition of value system
  - Establishment of objectives/milestones
  - Strategy formulation
- **Overall purpose of plan is to**
  - Source for funds
  - Document ideas and detail steps to follow

# Bsn Plan Outline

- **Executive Summary**
- **Product Description**
  - Description of product/service
  - Make-or-buy decision
  - Costing of producing
- **Market and Competition**
  - Pricing strategy
  - Promotional plans
  - Location
  - Distribution channels
  - Selling methods
- **Production Methods**
  - Plant and equipment
  - Sources of raw material

# Outline

- **Fixed Asset Requirements**
  - Premises
  - Plant and machinery
  - Furniture and fittings
  - IT requirements
- **Financing Plans**
  - Long-term funding
  - Short-term funding
  - Equity
  - Cash flow projections
- **Financial Statements**
  - Forecast profit
  - Forecast balance sheet

# The Bsn Plan

- The Business Plan
  - Is a written summary of proposed venture giving details on operations, financials, marketing strategy and managers' skills and abilities
  - Serves as roadmap to building successful bsn
  - Describes direction bsn is taking – goals, where bsn wants to be and how to get there
  - Is written proof that entrepreneur has done all the necessary research
  - Is an insurance against launching a bsn destined to fail

# Purpose

- **To guide bsn's operations by charting future course and devising a strategy for success.**
- Tools used include:
  - mission statement, goals, objectives,
  - market analysis, budgets etc.
- **To attract lenders and investors –**
  - a bsn financing-marketing tool
  - support loan application
  - show ability to repay loan and produce attractive returns
- **To force entrepreneur to look at bsn in light of reality**
  - objectively assess chances of success
  - prove that bsn idea can be successful
  - prove bsn idea must pass reality test - prove that market for product really exists
  - prove bsn idea must pass competitive test – evaluating bsn's relative position to its competitors
  - prove bsn idea must pass value bsn

# Value Testing

- **Value test –**
  - bsn plan must prove it offers a high probability of repayment of loan and an attractive rate of return.
  - **used to evaluate financial potential of a new venture**
  - shows entrepreneur's knowledge of four things:
    - **Supplies and all related costs**
    - Unit labour costs
    - Market-determined selling price and gross profit margin
    - Break-even point
- **The value of a bsn plan**
- is experienced through preparation process:
  - **Demonstrates entrepreneur's thorough thoughts**
  - Reflects the passion for the venture

End