Finance, Risk Management, & Business Planning





A CorNu Enterprise Educational Product

BIZBITE CONSULTING GROUP

Finance, Risk Management & Business Planning

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Table of Contents

How is this module organized?ii
Suggestions on how to use this
moduleiii
The six-pointed stariii
Acknowledgementiii
Financial, Risk Management, &
Business Planning1
Introduction1
A Guide to Finance3
Introduction3
Financing considerations5
Bank financing6
Other types of financing 10
Summary
Risk Management Strategies 13
Summary
·
Business Plan Format Sample 27
Other products & modules for
sale
Glossary of Terms 36

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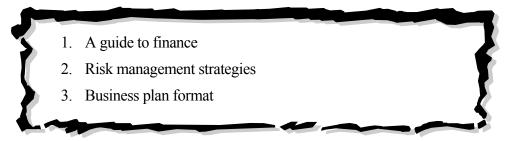
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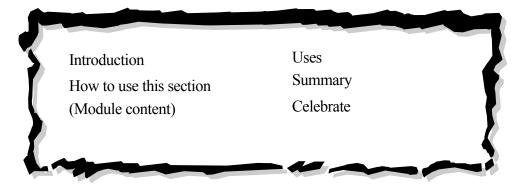


How is this module organized?

We divided the Finance, Risk Management, & Business Planning module into three major headings:



Within the module, the material is divided into these headings:



Celebrate!

It is important that you recognize your achievements and celebrate each small step. Phone some friends and celebrate it. We will offer you opportunities to celebrate at the end of each part of the module. Have fun with them. We had fun creating them for you.



Suggestions on how to use this module

This module is organized so that you decide:

- In what order you want to access the various titles
- What you want to ignore
- How many times you want to revisit the material

Just return to the Table of Contents and click on what you want to read or review again.

The six-pointed star

We have depicted business and a business plan as a six-pointed star. Each part of the star represents a major aspect of your business and an important element of a business plan. Together, they form a complete view of your business and your business plan.

We have carried this star throughout all the BizBite Consulting Group products and all the modules.

As each new section is begun or completed, the appropriate part of the star is colored and the rest of the star is colorless. This may help you to see how a specific topic relates to the whole business and to remind you that it is part of the whole.

Acknowledgement

All of the Universal Laws quoted at the end of each section of this module come from

Brain Tracy (1992). The Universal Laws of Success and Achievement. Chicago: Nightingale-Conant Corporation.

They are from the supplement to the eight-audiocassette program



Financial, Risk Management, & Business Planning



Introduction

In this module, we will be discussing common types of business financing and factors that the business manager should consider when arranging financing for the business.

A business will frequently require financing to implement the business plan. A section of the business plan should present how the financing will be used or how the funds will be applied in the implementation of the business plan.

As well, we will discuss the format of a business plan and provide a sample of the elements of a business plan. An important part of a good business plan is risk analysis. Therefore, one of the sub-sections will discuss typical risks that must be considered when a business manager prepares a business plan.

The intent of this material is to discuss important factors that a business manager must consider when putting together the business plan after the completed basic research and analysis.

Here is an overview of the module.



A guide to financing

In A Guide to Financing, we will discuss key issues that need to be addressed when a business seeks financing.

This material is divided into three major parts:

Financial considerations Banking finances Other types of finances

A Guide to Financing stresses the importance of determining the right type of financing for the business. As well, it stresses the importance of establishing good communication with your lender.

Risk management strategies

Risk management is an important part of business planning. In Risk Management Strategy, we detail many of the possible common risk management situations.

Many examples of risk situations are presented in detail and possible solutions are given.

Business plan format sample

The Business Plan Format Sample is included because interpreting financial statements and performance-monitoring methods are part of business planning. A business plan format is provided that can be used by many businesses.

The main areas covered are:

- 1. The key elements of the business plan
- 2. How the elements should be presented
- 3. The way the content of the material should be presented
- 4. The role of the financial statements and reports



A Guide to Finance

Introduction

If you have completed a detailed business plan and it indicates that financing will be required to successfully carry on the business and meet the objectives of the plan, then you will need to adapt your business plan for use as a financing proposal to your lender/s.

Consider a few things when you do this. The difference between the business plan and the financing proposal is:

- The intention of the business plan is to clarify understanding of the business. It also outlines the actions necessary to achieve the goals of the business
- The intention of the financing proposal is to show prospective lenders that you know what you are doing and are an attractive investment.

After A Guide to Finance, we will present a typical business plan format that most businesses use for either purpose.

Most bankers deal every day with small business people who do not understand money and the various types of financing.

Your job is to convince the banker that you have completed your homework.

Furthermore, that you understand what the bank requires to support and approve your financing proposal. To do this is a matter of the emphasis that is placed on aspects of the business plan.



Knowing what you need is the key!

It will save you much trouble in the future and eliminate the two worst problems in this area encountered by small business:

- Getting the wrong type of loan for the right reasons
- Working with a banker who will say 'Yes' to your proposal but will approve inadequate financing for the business



This can be dynamite!



You need to know specifically why you are borrowing the money. You must know how to apply funding and how this funding will provide a payback that will enable the repayment of the loan. If you don't make this very clear to the banker, you may wind up getting the wrong type of financing or financing that is difficult for the business to sustain.

One of the reasons for including a detailed *pro-forma cash flow* is to show how much cash will currently be available at any time to meet expenses and loan payment obligations.

Be very sure that you do not commit to pay off a loan faster than the cash flow can handle.

First, fit the financing to the need.

How to use this information

A business will have the business history to show a lender. This can be both positive and negative.

An existing business only needs financing if it has to support current operations or needs financing for future projects or expansion.

In either case, the business needs to prepare a strong business plan with well thought out and detailed current and projected financial statements.

Again, it is important to understand and speak the language of the lender. The business will have to convince the lender that they have charge of the business and will be able to achieve the projected objectives.

A Guide to Finance will discuss key issues for an existing business seeking financing.

This material is divided into three major parts:

- 1. Financial considerations
 - 2. Banking finances
- 3. Other types of finances



Financing considerations

The chief consideration when considering financing for an enterprise is determining the debt vs. equity ratio that is right for the business.

- How much capital are the owners of the business contributing to the business?
- How much capital will be required from outside sources?

When you go to a banker for financing, you are going there for debt financing in the form of a loan that must be repaid over a predetermined period at a definite additional interest cost

The investment made in the business by the owner of the business is the equity *financing*. This is money that will not be repaid unless all or a portion of the ownership of the business is sold.

When you *debt finance* you don't give up any part of the ownership of the business as you do with equity financing, but you will give up some measure of control over the affairs of the business for a length of time.

It is good to remember that, with debt, you pay interest for a time, but equity can yield profits forever.

- The banker wants to know the existing debt vs. equity ratio and what it will be if the proposed financing is approved. A high debt vs. equity ratio indicates high risk.
- Debt money is rented money and must be repaid no matter how well the business does.

Do not commit to a more costly or wrongly structured loan.

The cash flow may not be sufficient to meet the payments. In this event, you could lose the business.

Highly leverage businesses, that is, businesses with a higher debt vs. equity ratio, must earn more money to survive.

Don't be fooled by get rich quick schemes that recommend the use of borrowed money.

Many small business people are taken in by loan sharks, and then find themselves on a treadmill that they can't get off.



❖ If you have insufficient capital and very long-term debt that is almost impossible to pay off, you will spin your wheels forever.

Call this problem over trading.

Consult your accountant for advice on typical debt vs. equity ratios for your type of business and as the old cliché says, "don't bite off more than you can chew. "

- ❖ If a short-term loan goes sour, the banker knows it will probably be detected quickly and perhaps remedial action can be taken.
- However, a long-term loan is often for much larger amounts, so the exposure is greater. The business may be sliding down hill over a long length of time and this is difficult to detect until it is too late to do anything about it.

When a *pro-forma cash flow* is prepared, you gain two essential pieces of information that help determine what kind of financing you need:

- 1. The sum of the negative cash flow gives an indication of the basic amount of money required (in some combination of debt and equity) to exactly offset the difference between revenue and expense.
- 2. The projected cash receipts show how much money will be generated to repay any debt that will be incurred.

It is very important to make sure to arrange sufficient financing to ensure that the venture will be successful and profitable, but not over-financed to the extent that the business cannot comfortably service the debt.

Bank financing

Banks typically divide their lending into three main categories. A bouquet of flowers can represent these categories. Place a single flower in a vase or place three flowers in a vase as a bouquet. It will depend on the business how many flowers are used at any one time.

- a. Short term financing—this usually takes the form of paying off the notes within one year, often in one lump sum. (Blue flower)
- b. *Intermediate term financing*—this is usually for one to five years and is normally repaid on a monthly basis. (Red flower)



c. Long term financing—this is for periods of five or more years and probably the best examples of this are financing real estate or major pieces of capital equipment where the expected useful life of the asset is many years. Therefore, the repayment schedule is over many years to fit the life of the asset. (Yellow flower)

All of these loans may be secured or unsecured.

A *secured loan* is a backed up loan with collateral such as liens against the property, savings accounts, investments; or a co-signer with a better credit rating.

If you default on the loan, the bank will take the assets and the proceeds applied against the amount outstanding on the loan.

On the other hand, no bank wants to be a second hand dealer and they will usually try to help the borrower to overcome short-term problems. However, a lien does add weight to the loan contract and makes it very hard for the borrower to consider even defaulting on the loan.

An *unsecured loan* is a loan not backed by any sort of collateral.

These are virtually all short-term loans and only individuals with a solid record of accomplishment of credit worthiness receive them.

The bank backs the loan because of its confidence in the individual's reputation and capability of repaying the loan. Long-term loans are never unsecured.

Now, let us look at how and under what circumstances these three basic forms of banking financing are used by the small business.

- a. Short-term financing
- b. Intermediate term financing
- c. Long-term financing



(1) Short term financing

Short-term needs use short term financing.

Examples of this might be seasonal inventory loans or short run production loans where paying out the loans out of the proceeds comes from the specific transactions involved.

Financing them over a longer period could have a serious effect on the business.

If the practice continued, it would gradually weaken the business by negatively affecting the debt vs. equity ratio and eroding the assets of the company.

A prime rule of financing is never pay for an exhausted asset, a service, or a benefit.

A typical example of doing this would be borrowing money to pay suppliers for sold inventory.

Banks are usually reluctant to do this because it clearly indicates mismanaged finances.

However, in some businesses accounts receivable (A/R) days outstanding (RDO) may normally run 60 to 90 days, in which case either appropriate terms should be arranged with suppliers or a *line of credit* established at the bank.

This can be a very useful tool if used properly. It allows you to bridge the fluctuations that may occur in sales and/or the payment of receivables and allows you to keep suppliers current and take advantage of all early payment discounts that trade suppliers may offer.

The main thing to avoid, as a small businessperson, being caught paying for last year's short term borrowing next year. The accumulative affect of this can be devastating.



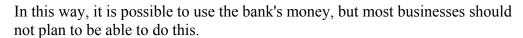
(2) Intermediate term financing

Use intermediate term financing to finance needs of three to five years in duration.

Typical examples are loans for equipment that has a short life span or perhaps will be obsolete or upgraded within five years.

In addition, use intermediate financing for companies needing additional working capital during periods of rapid expansion.

In this case, convert the debt constantly from a portion of the earnings on sales or services.



For one thing, it requires a banker with vision who will be willing to accept the additional risk of gambling on the long-term success of the enterprise and it requires a business with high enough profit margins to handle the additional interest cost on top of operational expense.

(3) Long term financing

Long term financing is for long-term needs such as land, buildings, and major pieces of capital equipment like manufacturing machinery.

These fixed assets have very long useable lives and Pay these over a long period because these are fixed assets have a long useable life.

It is usually unwise to pay off this kind of debt too fast unless you are extremely well capitalized or unexpectedly benefit from a windfall profit.

In any event, paying it off may not be the best use of additional funding.

There may be tax implications to consider or perhaps better investments for that capital that would generate more profits.

Before paying off any long-term debt, consult your accountant and your banker and think through the ramifications of all the options available to you.



Other types of financing

The intention of this discussion is not to be a complete treatment of debt financing, but rather is an overview or guide to the types of financing normally available to businesses. We will make a brief mention of other types of financing.

For many businesses credit with their suppliers, or *trade credit*, is the biggest source of credit and the bank is the most important single financing source.

Small businesses do not often use several other sources of credit but used by intermediate and large businesses are factoring, discounting receivable, stocks, and bonds.

There are other debt instruments but we will not deal with them here. If you want more information on these other options, you should discuss the matter with your banker and accountant.

Summary

Properly financing your business is one of the most important considerations of the businessperson. Prepare your business plan and carefully analyze what the cost of accomplishing each and every stage of that plan will be. Then, based upon the cash flow of the business, determine the proportions of debt vs. equity funding that will be required to make the business viable.

Know exactly what the borrowed funds will be used for, how they will be applied, and in each instance for what time

Break this down in terms of short term, intermediate term, and long term financing.

When you go to the banker, make sure that:

You get the money that you know that you need to run the business successfully and profitably.

Listen to advice on modifying the amount of money needed, but think it through and if you don't feel the arguments are sound, see another banker.

Remember that you're the one that knows your business best and ultimately must make it successful.



Take your time. Do your homework. Consider all of your options before making a decision. Don't be rushed into making a decision on financing that you will regret later.

Fit the financing to the need. The loan period should always fit the expected use and application of the funds.

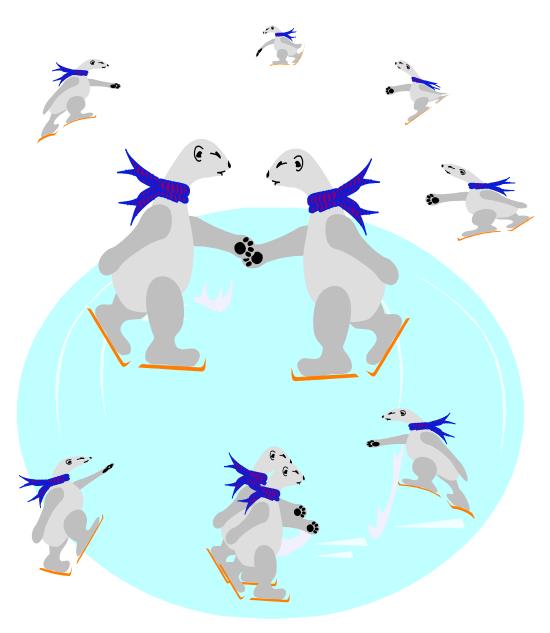
Never commit to a loan with payments that will be difficult for the cash flow to handle after paying all current expenses.

Laws of Money—of attraction

As you accumulate money, you begin attracting more money to yourself. Thinking about money as you save makes you a magnet; you attract more money into your life.



Celebrate!



Join us for a skate



Risk Management Strategies

It is very important for the business owner or manager to think through as thoroughly as possible the potential risks that the business may encounter. Then, the company needs to develop preventative strategies and contingency plans to deal with these problems if they occur.

This is an important part of the business plan. It is impossible, in this discussion, to identify all of the risks a business may encounter, as some risks will vary with the business. However, many risks are common to every business.

We will deal with some of these and put forth some suggested solutions.

When you review the business plan, give special attention to this area of the plan to make sure that conditions have not changed and the business takes all of the variables into account that it can.



Risk management strategy is divided into five major headings:

Personnel

Assets

Administration

Business fluctuations

Competitive activity

Each heading is divided into two smaller parts:

- 1. Risks
- 2. Suggested solutions



Personnel

 \mathbf{W} hat if a key employee leaves the company?

Risks

- Impact on workload and office efficiency
- Loss of proprietary knowledge
- Loss of client and project knowledge
- Loss of continuity of relationship with a client or project
- * Expense of replacing and training a new employee

Suggested solutions

- Cross training of staff to build more depth and flexibility.
- Develop a staff training and development program for the company.
- Use of staff contracts (Non-Disclosure, Employment Contract, or Commission Sales Agreements) to protect against theft of knowledge, customers, etc.
- ❖ Involve the staff in their colleagues' projects for the protection of project knowledge and client relationships.
- ❖ Develop an incentive program strategy to further involve and retain good staff.
- Develop a roster of professionals available to do contract work.
 - This can provide more flexibility of staffing, provide back up in case of emergency and have the effect of lowering overall annual salary expense.



What safety policy and procedures program is in place?

Risks

- ❖ WCB (Workmen's Compensation Board) requires that every company have a safety policy and procedure program.
- Failing to do this can result in fines of \$2,500 or more for first offences.
- Exposing the company to legal liability by not having a safety policy and procedures program in place

Suggested solutions

- * WCB puts out a booklet on how to start and maintain a safety program.
- They also put out a number of other booklets on safety in the workplace that can be helpful in putting the program together.
- Form a safety committee even in a small company. It should consist of one person from management and one from each area of the company.

Field or grass roots personnel must be involved in the safety process.

Regular, documented meetings are required.

For some companies the establishing and running of a safety program is too time consuming and they do contract out most of the process. However, the company must participate in the running of the program.



Assets

How often is the company insurance policies reviewed?

Risks

- Property and equipment evaluations change and the existing insurance may not cover current replacement cost.
- Changing legislation or claim awards may make present insurance coverage inadequate.

Suggested solution

Regularly review the company's insurance policies with your agent to ensure that any new personnel, site conditions, equipment, requirements of legislation, etc., are covered.

What measures are in place to protect the Intellectual Property and administrative records of the company?

Risks

- ❖ A fire or other disaster could wipe out or severely damage key business records.
- ❖ Inefficient or inadequate protection of computer data could lead to significant losses to the company due to damage to the relationship with a client or perhaps even a lawsuit.

In the extreme, at some point you may even have a disgruntled employee that sabotages your data.

Suggested solutions

- ❖ A hard copy, microfilm, computer disk, or some form of back-up record must be made of all business records. These should then be stored in a fireproof vault, preferably at a remote location.
- ❖ All computer data on Intellectual Property, back up current projects and past projects daily and a copy kept in a secure, fireproof location.
- Regularly maintain the computer network system and periodically perform an assessment of the integrity of the system.



What has the company done to protect itself against the financial impact of having to replace worn-out equipment or suddenly needing new equipment?

Risks

- Existing capital equipment will eventually wear out or become obsolete.
- ❖ The replacement of these assets may put a strain on the financial resources of the company.
- Remaining competitive may demand that the acquisition of certain equipment.
- Maintaining security, efficiency and reducing potential liability of the operation may demand acquisition of new equipment.

Suggested solutions

- All capital assets should be tracked in a register that records the initial cost, expected useful life of the asset, the annual rate of depreciation, any maintenance or repairs that are done and the recovered value in the event that it is sold.
- A three- to five-year projection should be made of the total value of assets that will reach the end of their useful life each year.
 - Of course, completing a yearly review and making adjustments to the next year that account for inflation.
- ❖ A reserve or contingency fund for the replacement of capital equipment should be set up.
 - Each month credit an amount equal to the accumulated depreciation on capital assets to this reserve.
 - Depending on the value of the assets projected to need replacing, estimated new equipment needs and the rate of inflation, you may wish to increase the contributions to the reserve.
- Taking this approach protects the business against unbudgeted capital costs and ensures that the business has the resources it needs when it needs them.
 - As well, these reserves build financial strength into the business and increase the options when a need arises.





For example:

The contingency fund for replacement of capital equipment may or may not actually be depleted to satisfy the need. Rather, leveraging the money may depend on the asset, its expected useful life, and the borrowing rate at the time.

Depending on the situation, it may be better for the liquidity of the company to lease the resource rather than buy it. In addition, tax consideration can affect the decision on when and how to acquire an asset. The small business owner or manager should discuss with their accountant or business consultant these questions.

Administration

What if there are new government taxes or regulations that make it more costly to do business?

Risks

- ❖ Additional taxes may be required that have not been included in estimates.
- New requirements for bonding or liability insurance could be brought in and have to be accounted for in pricing.
- Professional associations could make new demands on members that will add to the cost of doing business.
- ❖ Additional employee benefit legislation could increase costs.



Suggested solutions

- Client contracts must include clauses that allow for the addition of charges for unforeseen government imposed charges or costly compliances.
- Quotations should always be time limited and include a disclaimer that allows for the adding of charges not included in the quote.
- Pricing reviews should include a factoring in of the projected rate of inflation in salary and benefit expense.
- ❖ It is a good idea to have a policy of undertaking salary reviews effective on employee anniversary dates rather than performing this for everyone at the same time. This tends to spread the impact of salary and benefit expense over the whole year.

Business fluctuations

How would you handle a dramatic increase in your business?

Risks

- Existing staff may not be able to cope with the workload.
- Efficiency suffers and the potential for costly errors increases.
- ❖ Demands on financial resources may greatly exceed budget projections.
- New or additional equipment may be required to meet the growing demands of the business—equipment for which there is no budgeted funds.

Suggested solutions

Cross training, career development programs, involving employees in a number of projects and using contractors can alleviate the problem if the expected surge in business is temporary.

Having a roster of contractors to draw on is a good way to deal with the expected problem if it is to last six months to two years.

You buy the expertise you need without making a long-term commitment. The downside is that contract employees don't have the same commitment to the organization as that of full-time employees.

Older or semi-retired professionals are often a good source of contract employees.



- ❖ It may be a good idea to hire a new graduate to do junior work.
 - Even a 3rd year student (post-secondary) may take some of the pressure off for a few months if you can arrange for this option between semesters.
 - This approach may free the hands of more experienced employees for more important work.
- Establishing and maintaining a good relationship with your bank manager is essential if any business is going to weather the periodic *ups and downs*.
 - A key part of this is preparing a cash flow projection and arranging for an operating line of credit.
 - If you communicate your monthly results to the bank, usually there is no problem adjusting the line of credit if circumstances warrant it.
- Building in proper capital equipment reserves into the business for a sudden demand upon the business for additional resources will not usually have a severe financial impact.
- To maintain greater liquidity in the business, in certain circumstances it may be advisable to lease rather than buy equipment.
 - For short-term needs, renting may be an option but rates are usually much higher than leasing.

How would you handle a dramatic decrease in your business?

Risks

- ❖ Key, terminating long-term employees may be a danger. It may have taken years to build this team of people. These key employees, who may take proprietary knowledge with them, may wind up working for a competitor.
- Valuable, hard-to-replace, knowledge, and expertise could be lost to the business
- Possible disruption of client relationships with key employees
- The company may have recently depleted cash reserves by making major investments in facilities or equipment. The lack of liquidity created by this move could now threaten the business.
- The company may be committed to long-term financing agreements that are now very difficult for the business to handle



Suggested solutions

- Again, the solution to the personnel problem is similar to the previous situations described.
 - Maintaining flexibility in the workforce is crucial to the success of the small business
- ❖ Incentive programs and career development programs can help to retain key employees.
- ❖ Involving the staff in the decision-making process builds their commitment to the business. Their employment becomes more than a job to them.
- Use employment contracts as a way of controlling the loss of proprietary knowledge.
- Reviewing semi-annually the business plan, preparing annual cash flow projections, and completing a detailed analysis of operations every month, can identify most problems before they reach crisis proportions.
- Properly structuring financing to fit the current and future needs of the business is an important way of avoiding a negative impact on the business if business declines.
 - Maintaining the flexibility and liquidity of the business is very important when structuring the financing of the business.
- ❖ Before making a major capital investment or committing to financing arrangements for facilities or equipment, a manager should review the business plan and prepare a detailed analysis of current and projected business results

Discuss the results of this analysis with the accountant or business manager to determine the best course of action.



What if there is a drastic change in client demands or the general needs of the marketplace for your services?

Risks

- The business may suddenly find that it does not have the properly qualified or trained staff to cope with new market demands.
- Changing technology may dictate the acquiring of new staff or new equipment in order to remain competitive.

Suggested solutions

Ongoing career development programs for employees are a good way of minimizing the effects of changing technology or changing market demands on the business.

If the older staff is not supported in their efforts to broaden their knowledge and upgrade their skills, the value of their expertise may deteriorate.

Rather than an expense to the business, this support is really an investment that will be returned to the business tenfold.

This support also builds loyalty among staff by demonstrating your belief that they are valuable members of the team.

- Hiring a contractor may temporarily best satisfy a sudden requirement for new technological skills.
- Depending on the skills required, sometimes acquiring a new graduate trained in the latest skills is the best and cheapest approach.



Competitive activity

How will your competitors react to a new or aggressive marketing strategy?

Risks

- Competitors may feel that their market share is threatened and take retaliatory action through various strategies; for example, sharp pricing, providing additional services at no extra cost, or aggressive advertising.
 - They may even purposely target some of your best clients with special deals in order to get back at you.
- ❖ It is not unusual with a initial new marketing strategy to have a decline in business as the marketplace adjusts and becomes aware of the new direction of the business
 - During this time, a few customers, particularly those that don't fit the new approach of the business, may be lost, or perhaps picked-off by a competitor.
- ❖ Whenever there is a change in strategy there may be misinformation or rumors circulated as to the dependability or viability of the business.

Suggested solutions

- ❖ Make sure before embarking on a new marketing strategy to complete t a detailed market analysis.
- * Know what your return on investment or ROI is on all of the current market segments of your business.
- ❖ Analyze what your market share is in each market segment; what market share is realistically available to you; and how much it will cost the business to achieve that level of performance.
- Now do the same analysis for the new markets you intend to exploit.
 - Now you have a better idea of what you may be leaving behind, the potential for growth of the new marketing approach and the cost of the program to the business.



Make sure that your marketing strategy includes an effective media plan to get the message out on your new approach to existing customers, potential customers and your competitors.

Take charge; don't allow rumors in the marketplace to affect adversely your strategy.

This also can defuse potential problems with competitors.

Occasionally, you can even build goodwill with competitors and customers by referring some existing clients to them not best served by the new business approach.

This is all part of a well-thought-out marketing strategy.

What if new competitors enter the market and dilute the potential market share available?

Risks

- The problems that arise in this situation are the same as explained previously when there is a decline or even a dramatic downturn in business.
- Current completed projects may affect significantly the cash flow of the business.
- * Key personnel may be at risk.
- There may be an effect of the ability of the business to sustain its financial commitments

Suggested solutions

❖ A detailed marketing analysis is necessary.

Before making any changes to the approach of the business, it needs to be determined if the affect on the market of the new competitors is temporary or long term.

Is the total market potential static or extremely slow growing is it likely to resume a steady growth pattern in the near future, or will it perhaps be rapidly expanding in a few months?

- Decide whether the pie is shrinking, growing, or staying the same.
 - Decide whether you should go after a larger share of the pie, try to make the Pie expand, or go after a new pie.
- Obviously, it is essential again to know what the ROI is on existing market segments and analyze the expected ROI for any potential market segments. (ROI—return on investment)



❖ At least temporarily, the same remedial steps apply regarding personnel, assets, and financing (previously discussed).

It is important to position the business and to have the maximum number of options in a given situation to realize the best possible ROI on the people and resources in the company.

Summary

In Risk Management Strategies, we have discussed a number of common problems that can suddenly confront the businessperson. We have discussed some of the risks that might be associated with the problems and present possible solutions.

Planning for risk management is an important part of business planning. Anticipating potential risks and planning, and budgeting for the handling of the problems will minimize the impact on the business.

- Think about how you do your business planning now.
- ❖ Ask yourself:
- Do you do a good job of risk management and planning for contingencies?
- * What have you learned from this section that you can use to improve your business now?
- * How would you change your business plan to protect better your business?

Laws of Business—of purpose

The purpose of a business is to create and keep a customer. This takes precedence over making a profit. Profits will follow when customers are created and kept.



Celebrate!!





Business Plan Format Sample

Business plans will vary in format and approach depending on the type of company, its stage of development and what you are trying to accomplish with the plan; e.g., attract investors, approaching a lending institution or as a blueprint for planned growth.

The following sample business plan format is one that could be useful for many businesses:

Introductory page

- Company name, address, phone number, fax, email, and URL
- * Key contact people and their phone numbers
- ❖ A brief paragraph or two about the nature of the *market* area

For example:

Geographical location, major economic factors, general demographical information, style of doing business in the area and any significant factors that you think affect your region differently in the way you approach the marketplace



Executive summary

Highlights of a business plan

- Summarize in point form your key results or outcomes over the next three years for each of the key segments of your business
- **State for each segment:**
 - What part it plays in your business now
 - Where you expect it to be in each of the next three years

The *profit*/loss you expect over the next three years

- ❖ Note the additional resources (in general) that will be required to achieve these goals and the **ROI** (*return on investment*) that you project
- State the competitive position and advantages to be gained by your plans.

Table of contents page

List section titles and page numbers

Detailed business plan

A detailed business plan has five subheadings:





(1) Industry descriptions

Industry outlook in your region and the potential for growth in each of the key business segments

Note apparent industry trends or new products, competitive activity you see developing in your area.

State your sources.

Describe the potential size of the market over the next three years, rate of growth and changing customer needs or trends.

Try to assess competitive activity, for example:

Who are the *big players* in each business segment?

What competitive strengths/weaknesses do they have?

Relative market share (state yours also)

Estimate of profitability, if known

Note if there are:

- Population shifts
- Changes in consumer trends
- Business prospects of key industries
- Other major economic factors that will affect your key business segments



(2) Major market activity planned in each business segment

State major objectives for each segment in point form.

Describe the target markets for each segment and state the reason chosen, developing needs and trends,

and other relative information.

Outline your competitive advantage

Are your premises adequate to handle the projected growth in each business segment?

> Are they physically located in the best place to serve your target markets?

For example of an advantage:

What niche will you fill in the market?

How will you exploit these opportunities?

Why will you achieve success?

By what means and what do you estimate your share of the market will be over the next three years?

Detail the projected staff and equipment requirements to support the growth in each business segment over the next three years.

Note any current market action in any of the business segments and the results.



(3) Business goals 1 year actual-3 year forecast

Prepare a detailed spreadsheet income and expense budget for each business segment reflecting the already stated changes expected in each segment.

For the first year only, a monthly forecast of income and expense is useful in projecting cash flow and the timing support of needed marketing support funds.

It is important to know exactly what it is costing to do business in each segment.

It helps keep priorities straight, to be aware of the drain on resources of less profitable segments and to estimate the funding necessary to bring less profitable segments up to speed.

State your assumptions and the basis for those assumptions in making the forecast for each business.

(4) Market strategy

In detail, describe the action plan in each business segment to accomplish the goals and activities that you wrote based on your market research and analysis.

How will you prioritize your efforts in each business segment to reflect the needs and potential of your region in the first year and over the next three vears?

For the next three years, will your pricing strategy as it exists now meet the economic needs of each business?

If not, why and what changes do you anticipate being necessary due to the cost of doing business, competition, and other changes.

Prepare a 12-month advertising plan, for the first year only, in spreadsheet form.

It is pointless to do it in detail beyond 12 months but add comments separately to detail the expected changes to the plan to back up your budget figures for the business.

Note how you will measure the results of your strategy.

What methods are in place now or that will be in place to measure customer responses (logging of jobs received, ad responses, phone inquires, and other customer responses).



(5) Assessment of risks

You always have to take a step back after you prepare a business plan and give some thought to the following:

- ❖ How will the competition react to the new approach?
- ❖ What if there is a sudden downturn in the economy?
- ❖ What if some new form of legislation adversely affects the business?
- * What if there is some unforeseen competitive activity?
- ❖ What if there are drastic shifts in client demands that you, for which, are not prepared?

Try to foresee any pitfalls, problems, and possible reaction **after** you have committed resources to your new business plan and marketing strategy.

Examine also, things like:

- If sales doubled or tripled, could you handle it?
- ❖ What if sales suddenly dropped by 50 %, what would you do?
- ❖ What if your key person, who accounts for a major portion of your revenue, quits, what would you do?

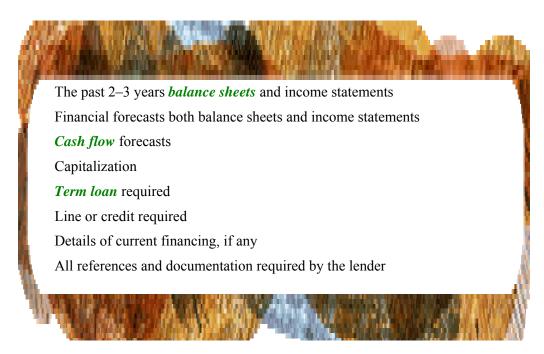
For many small businesses, particularly service businesses, they can stop now.



It is wise to prepare contingency plans.



However, for larger businesses an organizational plan in graphic form would usually be included and if the business is applying to a lender for an operating loan, include a detailed financial plan:



Take your business plan and design it as a spreadsheet so it is visual. It could be complete with months and specific dates, activities/tasks, and those who are responsible for each of them.

You could have one set of spreadsheets that include your marketing plan or have two spreadsheets.

Post the spreadsheets on the wall of the office for easy viewing and monitoring.

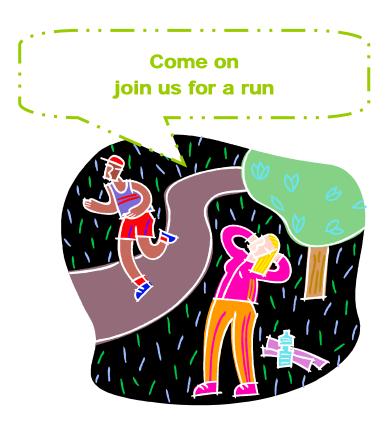
As the year progresses, you might cross off the completed outcomes, tasks, or deadlines. It is always good to know when something is completed and how much remains.

The Law of Money—of accelerating acceleration

The faster you move toward financial freedom, the faster it moves toward you. It's an offshoot of the Law of Attraction: what you want wants you.



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Other products & modules for sale

Other modules available on this site deal specifically with aspects of business planning research and analysis. For a complete in depth treatment of operational financial management, the BizBite Consulting Group product Financial Management also is available. For detailed information on the content of these products, please go to 'Product' on the menu bar on the web site.



Glossary of Terms

Accounts receivable (A/R)—Accounts receivables (A/R) are accounts with customers that the business has sold goods or services to on credit terms.

Debt financing—is financing for defined period of time at a specified rate of interest. Debt financing does not affect ownership of the business but it may influence business decisions

Equity financing—is financing obtained from investors who for the period of their investment will have a degree of ownership (equity) in the business

Line of credit—is a financing method whereby a lender, usually a bank, will allow the person or business to overextend their account by an agreed amount. In other words if a person or business had a \$50,000 line of credit on their bank account they would be allowed to exceed the balance of their account by up to \$50,000. There would be an interest charge for the amount that the account was in a negative position.

Profit—A business' earnings after paying all expenses. The excess of the selling price over all costs and expenses incurred making the sale.

Profit formulae—P = S - (FC + VC)

Pro-forma cash flow statement—is sometimes called a cash flow projection or simply a cash flow statement. We will use the term pro-forma cash flow statement here

Pro-forma—is a term meaning a projection or estimate of what may result in the future from actions in the present. A pro-forma financial statement is one that shows how the actual operations of the business will turn out if certain assumptions are realized.

Return on investment (ROI)—is how much profit is generated by the business in relation to the investment in the business. (See Profitability Ratios)

Trade credit—is the amount of purchases on account with suppliers

