

## Will your business idea work?

The first thing you should do when starting a business is put together a business plan. But what's the use of spending hours and hours preparing your plan if you have no early indication of whether the idea will succeed. What you need to do at the outset is prepare a basic start-up plan to determine whether the idea has sufficient commercial potential.

1. Identify Your Potential Customers. Answer these questions: Why should this business exist? Who will be its customers, and how will it benefit them? How will your product or service solve your customer's problems or satisfy their needs?
2. Consider your keys to success. Name three or four critical factors that will be essential to this new business' survival. Be tough about it, because you will normally want the business to work, so don't underestimate the importance of critical elements. For example a restaurant will need to provide quality, value for money, service, ambience, cleanliness and consistency.
3. Determine your points of difference. If you aim to provide a product or service that no one else is providing, that's great. As long as you have established there is a demand for it. However if there are already similar products or services in the market place, you will need to have something that sets them apart from the competition. This must be something that your product or service does that is different or better than the competitor's. In other words, what makes your product or service unique?
4. Do a simple market analysis. Estimate how many potential customers the business will have. Define the traits that will make somebody a potential customer. You should divide customers with similar traits into different target markets. Where do those customers now purchase, if at all? Are there enough potential customers amongst all your target markets?
5. Consider the ease of entry. How easy is it going to be to set up business and how easy will it be for competitors to follow you? Answer the following questions:
  - How much will it cost to set yourself up?
  - How well developed is the market?
  - How many competitors will you have?
  - Are they direct or indirect competitors?
  - How difficult will it be for others to follow you into the market?
6. Do a simple break-even analysis. How many units of sales will you need to cover costs? Are you being realistic? Add up the costs you'll have for rent, overheads, wages, advertising, etc., then figure out how much money you'll make for each unit you sell, after it's specific costs, and calculate how many units you need to break even. For example, if your shoe store's regular running costs are \$6,000 per month and you make \$20 on average (after the cost of the shoes) on every pair of shoes, then you need 300 pairs of shoes in a month to break even.
7. Now think about it. Do you really have a potential business? If you do, then you need a real business plan. If you don't, then you've saved yourself the time and trouble.

If you have never started a business before you are probably wondering where you should start. What are all the things you are going to need to do to get the business up and running. To make it easy for you we've prepared a checklist which covers the main things you will need to take care of.

### Prepare a Business Plan

- do a SWOT analysis (assess your own strengths and weaknesses, and opportunities and threats in the marketplace)
- prepare personal goals and then those for your business
- identify your potential customers and do research to determine if there is a need for your product/ service
- identify your competitors and research them to determine how you will position your business in the market place
- develop a marketing plan
- choose your business location o determine the start-up costs
- prepare operating budgets and cashflow projections
- identify what, if any, funding you will require.

### Form Professional Relationships

- select a lawyer
- choose a legal entity (sole proprietorship, partnership, or company)
- create your business (register your name, incorporate the business, etc.)

- select an accountant
- select a banker
- get financing
- establish a line of credit
- select an insurance agent
- obtain business insurance

## Set the Business Up

- organise business cards and letterheads
- secure a lease over, or purchase, your premises
- acquire all necessary furniture and equipment
- obtain all necessary licenses, permits and resource consents
- register with the IRD
- join a professional organisation (your local chamber of commerce, your industry association)
- arrange suppliers
- hire staff
- set up accounting information system
- set a starting date

Many people underestimate start-up costs and start their business on the back foot financially. This can mean a long crawl up to your break even point and into profitability. Quite often it results in the business never making a profit at all!

What you need to do is prepare an estimate of capital costs you will incur on start up. These may include land, buildings, plant, machinery, general equipment, office equipment, furniture and signage. Do this conservatively (i.e. overstate rather than understate) At the end of the estimates, add 20% for costs you haven't thought of plus cost overruns. You will be surprised (and perhaps horrified) how quickly unforeseen costs can add up.

Next you or your accountant should prepare a cashflow projection for the first twelve months of trading. You will have to estimate sales based on the estimated demand for your product, and you will put in costs according to quotes you have received from your potential suppliers.

This cashflow projection will tell you how much working capital you will need in addition to the start up capital required to purchase the assets of the business.

Working capital is used to cover early expenses such as rent and insurance premiums paid in advance, electricity and telephone bonds, stationary, advertising and promotion, wages for staff helping you set up, legal, accountancy and consultants fees etc. Many of these expenses will be incurred before you open your doors for trading. There has to be enough money in the kitty to cover them before you start producing an income.

Your cashflow projection will tell you how much money will be in the bank at the end of each month. You use it to determine how much working capital you will need at the outset so that you don't go into a negative balance at the end of any month. If you find you are going to need more money, don't just continue regardless and hope it works out. Investigate how you can access more funds, or restructure your business so that it can operate with less funds. Lack of sufficient capital is one of the main reasons many small businesses fail. Preparing capital budgets and cashflow projections are established methods of making sure this doesn't happen to you!

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- This information is provided by The Small Business Company:

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