Planning to succeed

Failure to plan is a sure fire way to jeopardise any business start up. Jason Holmes from Lumen Financial Planning talks through the key points to consider when embarking on a new business venture.

One of the main reasons businesses fail today is a lack of good planning, especially in the area of financial management. In starting a new business, there are many factors to consider and having finances properly thought through will be key to success. Here are a few for consideration:

A business plan - this will assist in articulating exactly what is being brought to the market and how it is going to happen. It should be set over three or five years and have detailed financial projections. It is essential that consideration has been given to the costs that will be incurred in setting up the business and in developing and/or producing the product or service and bringing it to market. Also, what profit is the business aiming for and, when all these are factored in, what price does the product or service need to be sold at and to how many people?

If the figures don't work out to give a competitive price which adds value to the customer and gives profit to the owners, then the business has little chance of succeeding.

When thinking about costs, in-depth research should be carried out to ensure projections are as accurate as possible. Even from watching a couple of episodes of 'Dragon's Den it's clear some would-be business owners have their heads in the clouds in regards to sales projections. Ensure costs and projections of sales are reasonable and reasoned.

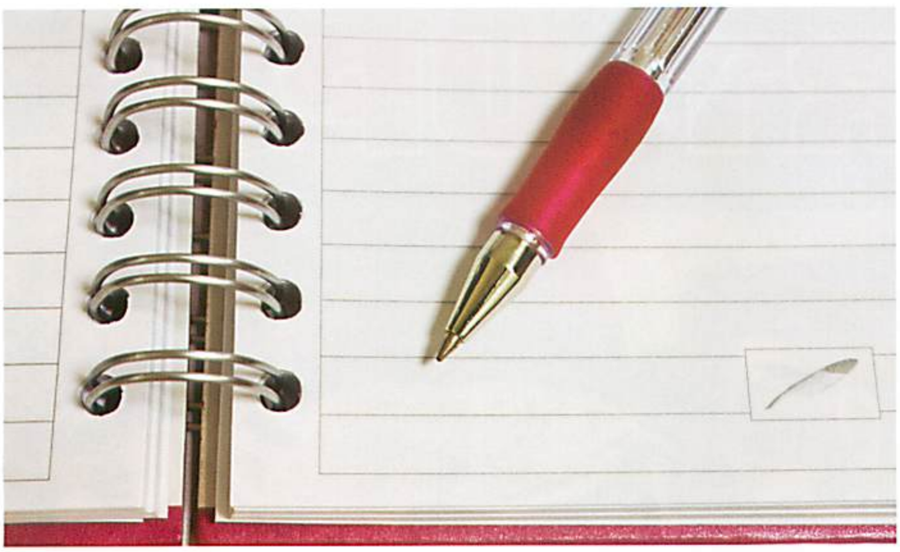
Jason Holmes, Lumen Financial Planning

Initial operating costs - an area which is often overlooked is the operating capital required for the first number of months of a business. At this stage there are numerous costs to be paid yet income may not be coming in and may not be for the first six or 12 months. How are the costs to be paid, including the owner's salary if they are planning to take one? Businesses can be over-optimistic in forecasting how quickly income will arrive and tend to underestimate the amount of initial operating capital required. A delay in income should be anticipated and extra capital held or funding sourced.

Cashflow management - cash is king. Many a profitable business has struggled due to not having sufficient cash to meet its regular expenditure. A business needs to keep a tight control on it's cashflow and if the owner does not have much experience with this they should go on a course and learn. There are many free or inexpensive courses run by government agencies and the knowledge learned will be invaluable.

In managing cashflow on an ongoing basis there are a number of key areas which should be thought through by anyone starting a business;

- What will the costs be month to month and will these be fixed or variable? Can they be fixed?
- Can some of the costs be lowered by going elsewhere or through negotiation? Such as free banking for a set period or initial rent free period?
- Are there costs that are quarterly that need to be planned for by setting money aside each month?
- What system will be put in place to ensure that customers pay the business within a set time period? How will this be managed?
- How much should be set aside for the various taxes that will have to be paid in the future if applicable such as VAT and income tax or corporation tax?
- Try to anticipate potential problems in being paid by knowing the business' customers and their business; what sectors are they relying on to be paid before they pay out?
- Be disciplined and have controls in place.



Starting and running your own business can be a rewarding and challenging experience, as well as being a profitable one. However, if it is not thought through and the necessary financial plans and controls put in place, it may not be a pleasant experience.