

Caspian Woods

brilliant

Start-Up

How successful
entrepreneurs
set up and
run a brilliant
business

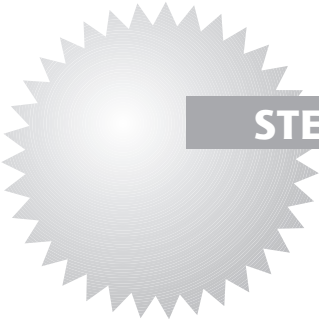


2nd Edition



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STEP 5

Your business plan

In this step:

- 1 We look at the simplest of business plans.
- 2 We check your figures are realistic.

The only business plan you'll ever need

You've got a team of experts, entrepreneurs and supporters to help you, now it's time to plan. I'm not a great fan of business plans. There are hundreds of books, websites and software packages you can buy on the subject. Later on, you might (and I stress *might*) need a *funding* plan to present to the bank. That's a different matter.

The most important person you need this plan for is yourself and it needn't be a complex document. This is why successful entrepreneurs talk about 'back of an envelope' plans.

think through your
financial projections
before you leap

But you do need to think through your financial projections before you leap.

Be pessimistic about your projected figures

While you want to be optimistic about most things in your business, when it comes to your figures, put on your miserable hat.



brilliant example

I interviewed a massively successful oil entrepreneur on his approach to risk. His theory is: 'We work out our odds of success in a particular exploration. Then we halve our assumptions of reward, and double our costs. If it still adds up, we go ahead.'

You could do worse than follow his formula.

There are two areas that entrepreneurs tend to miss out on when doing their costings.

Factor in all your indirect costs

Say you are making pottery mugs. There are the obvious costs of the clay and paint. But there are also hidden costs such as the gas to fire them or electricity to run the machines. You might think they are too small to factor in, but as you grow, they can take a big chunk out of your profits.

Cost your own time

One of the biggest oversights people make in start-ups is failing to cost their own time properly. I include myself in this camp. It's easy to do. You are eager and keen, and you don't 'cost' anything. However, this is a real problem when you grow.

Getting trapped

It takes you an hour to make each mug. It takes another hour to pack, deliver, and process payment for each one. You don't care because you are having fun, and you can keep your price down.

Orders flood in. You are suddenly working 60 hours a week. You could employ someone else to do the work, but their hourly rate will be at least £6. Suddenly you are making a loss on each mug. You are trapped.

You need to factor in:

- How much time realistically goes into each item. Include time to purchase your supplies, set-up time, packing and delivery time, and how long it takes to get paid.
- Put in an honest rate for how much you would have to pay *someone else* to do your job. If yours is a specialist skill, don't assume you can get someone for £6 an hour to replace you.

If you charge by the hour, factor in your 'down time'

A mistake service businesses make is to overestimate the number of hours they can work. Say yours is a consultancy business, you might think £20 an hour will give you a good standard of living. Working all day, all week – that's almost £40,000 a year. But you must build in your non-chargeable time. You need to include travel time between jobs, holidays, missed appointments and time off for admin and book-keeping. A more realistic capacity is probably around 65 per cent.

Mojo meter: avoid paralysis by analysis

It's very easy to get bogged down in your figures. You want to keep this step short and sweet. And there is a real risk of disappearing up your own fundament in a misguided attempt to 'plan' out any risk in your business. When you find yourself worrying about the supply source of teaspoons in your café, or you are colour coding the headlines in your plan – you've overdone it.