Planning for Success

a do-it-yourself kit for developing your own business plan

New Zealand TRADE & ENTERPRISE

Planning for Success
a do-it-yourself kit for developing your own business plan

ISBN 0-478-25412-1

Revised edition

Production supervision:	New Zealand Trade and Enterprise
Cover and layout design:	Maxim, Auckland
Text and CD-ROM design:	The Small Business Company Ltd, Christchurch. www.tsbc.co.nz
Printing:	Griffin Press, Christchurch

Acknowledgments
The Small Business Company Ltd would like to thank the wide range of people who contributed to the text and to the editing of this publication.

PREFACE

More than ninety percent of businesses employ less than twenty staff. Small businesses are the very backbone of the New Zealand economy and the biggest employer in this country.

That is not surprising—New Zealanders are brimming with great business ideas and are not afraid to 'give it a go'. We have a real entrepreneurial spirit and the energy to work at our goals. But even the best business venture can fail without robust planning. What many of us lack is business training—and that can mean the difference between success and failure.

The government recognises the major contribution made by small and medium sized businesses and is providing increasing support to help turn great business ideas into economic reality. Much of this support is provided through New Zealand Trade and Enterprise's Enterprise Training programme with nationally-available training and information services.

The Enterprise Training programme adds value to businesses by providing free information and upskilling for owner/operators: it is an information bank for business knowledge and guidance. Visit the web site **www.biz.org.nz** for more details of the Enterprise Training workshops and seminars.

This publication is provided by the Enterprise Training programme and is designed to help businesses with planning for success. It is readable and practical, and encourages you to build your own business plan as you work through the text. Included with the kit is a set of do-it-yourself templates linked to the text. It may be a good idea to keep the originals of these forms safe and photocopy or download extra copies for your own plans.

The kit has been compiled by an experienced team of small business advisors, all of whom have had hands-on experience of managing small businesses. The many handy hints and survival tips reflect the collective business expertise of the writers. This publication is now in its third edition. All chapters have been rewritten, and new material on e-commerce, innovation, exporting and attracting investment has been added.

Further copies of this publication can be obtained in hard copy or on CD-ROM from New Zealand Trade and Enterprise or any Enterprise Training provider, or downloaded from the **www.biz.org.nz** web site.

Thought

"There is always room at the top."

Daniel Webster

Tax issues: a special note

It is beyond the scope of this publication to deal fully with such matters as GST, FBT, ACC, Provisional and Terminal Tax, etc., but in compiling your business plan it is important to remember your tax obligations.

Too many business owners get into difficulties because they have not budgeted effectively to meet their tax obligations. Please be aware when you are completing the financial section of your business plan (and the templates that accompany this section) that you must make realistic allowances for these tax commitments.

We recommend that you consult your accountant in this regard, particularly as tax legislation changes from time to time. You can also obtain much information and help from the Inland Revenue Department's web site (**www.ird.govt.nz/business-info/**) where you can browse through the topics and FAQs (Frequently Asked Questions) and print off booklets or information that might be useful to you. In addition, the **www.biz.org.nz** web site has relevant tax and compliance information that is kept up to date.

We hope your skills and your business success are enhanced by the information this business planning kit brings to you.

CONTENTS

INTRODUCTION

A road map for your business

A business plan is like a road map: as your business takes new pathways you need to recognise the milestones along the way and take a reliable route to the planned destination.

This map is especially important when you are in unfamiliar territory—when you take your business to new markets, develop new products or services, or your market changes. You may not need this help around your local area, but once you drive in unfamiliar territory your map is vital.

The business plan is the most important document you will ever prepare for your business. It describes all aspects of your business venture: from what services or products you intend to deliver, to financing and marketing strategies.

Your business plan represents the final product of all your reflection, market research and planning. In essence, it is your map for business success—it identifies clearly where you are now, where you are going, and how you plan to get there.

To succeed in small business you need more than money and dreams—your business also requires careful planning and committed follow-up. It is important that you plan carefully before launching or expanding a business. Once you are established in business it is important to update your business plan at least once a year.

A changing world

Your business success depends on your ability to supply a product or service to meet a demand. But the marketplace does not stand still—it is constantly evolving. It is therefore essential that you rethink your business plan regularly to ensure your business keeps pace with the competition and with the changing expectations of your customers.

This means that the business plan you prepare will never be complete, but it should be the **best current version** of how you perceive the reality of your business in the marketplace.

Advantages of a business plan

There are two main advantages to preparing a business plan. Firstly, it serves as a road map to guide you and your staff towards your business goals. Secondly, a well-presented and carefully considered plan will go a long way towards establishing your credibility with bankers or potential investors.

What preparation do you need?

Set aside some time when you will not be interrupted or distracted by other activities. Start by updating your existing records and organising your available material, as this will save you time and effort later. Be prepared to consider various alternative views as you work through the plan, ranging from optimistic expectations to 'worst case' scenarios. Such alternative viewpoints will help you to identify both the opportunities and the risks or unexpected crises that are an inevitable part of running a business.

Concerns about confidentiality

Remember that if you are worried that readers of your business plan might be in contact with your competition, you can protect your interests by requiring them to sign a non-disclosure or a confidentiality agreement.

Get help from other people

Make sure you get other people to help you in writing and analysing your business plan. This includes staff if you have any. You need this objectivity and the different way of looking at things that others bring. At least use your business mentor for this.

Developing your dreams and vision for the business

Remember that sketching out where your business may go, and finding out what you have to do to get there, is the fun part of being in business. This is where you can put on paper your dreams and vision for your business, and then plan the actions needed to achieve them.

Remember that your business plan should be a **call to action**, a living document, not simply an exercise you go through to satisfy bankers or investors and then file away to be forgotten. The time and effort you put in to your plan makes it a tool for you and your staff to keep your business on track for success. Use it.

Purpose of the business plan

You need to outline exactly what the business plan is for. There is no point in writing one unless you have a good reason. This will also assist when you come to write the plan. For example, if the business plan is being written to identify the direction of the business, then you do not need to add in information for investors. You are not after finance.

Business plans should be written for a specific purpose—you should not have one generic plan that you hand out to everyone. If you need to raise finance then write a business plan that focuses on return on investment. If you need to develop an overseas market then write a business plan that focuses on exporting and distribution methods.

As you work through your plan, imagine yourself presenting the information to others. Practise what you would say and how you might answer questions about the plan.

Here are some common reasons business plans are written:

- You are starting a new business
- You want to implement an e-commerce solution
- You are buying a business
- You need to raise investment to expand
- You want to sell your business
- You want to sell a part of your business
- You need to clarify the direction of your business
- You need written goals and objectives to be able to achieve them
- You are developing a new product or service and need to outline the opportunities
- You want to explore a new market
- You need a document for staff to understand and contribute to
- You need strategic direction in your business, and require a road map to guide you
- You require a formal planning tool that will help you to benchmark your performance each year.

Whatever the reason, state clearly why the business plan is being written. It needs to communicate what you intend to do.

Where do you see your business going?

The reason you are writing the business plan should coincide with what you want to do in your business. Outline the vision and dream that you have, or where you see your business going.

Thought

"I don't want to achieve immortality through my work. I want to achieve it by not dying."

Woody Allen

See TEMPLATE 1

(Explains why the plan is being written)

CHAPTER 1 – YOUR BUSINESS PROFILE

Purpose of the business profile

The business profile is designed to be an overview of your business and the business plan. It should provide readers with a quick overview of your business, so they can get an immediate feel for what you're doing and where you're going. Ideally it should be no more than five pages. Comment only on sections relevant to your business.

The business profile should cover the following areas:

- **Executive summary**
- **Background**
- **Business management/advisers**
- **Business environment**
- **Relevant business achievements**

Let's examine each of these in turn:

Executive summary

The purpose of this section is to capture the interest of the reader by summing up in one or two brief paragraphs the nature of your business. Remember that if you have not started your business yet then some information may be impossible to get (like the market size for a new product or untested service). If this is the case, do not worry—just make sure you state where key information is missing.

Underneath this brief overview should be some simple information such as what type of legal structure has been chosen for the business (sole trader, partnership or company) and your contact details, such as name, address and current situation.

Background

This section discusses the following:

History

Offer a brief history of the business so far: how long you have been in business, major events that have shaped the enterprise. If you are not yet in business, then talk briefly about your own background.

Objectives

Here you state what you are hoping to achieve with the business short-term and long-term. Short-term objectives would be within a one to two-year time frame, with long-term planning ranging out to five years.

Products or services

Products or services that you are offering to the public must be described. Avoid technical jargon; instead describe the business for the average reader. You may know your business inside out, but potential readers will not. Get a friend who knows nothing about the business to read this section and comment on its clarity. If the reader of the business profile does not have a clear idea of what you are doing or intend to do, then the rest of the plan will not make the impression you are seeking.

Ask a friend to read the profile

Give the business profile to a friend to read, then get them to describe your business back to you. If they can do this successfully, then your profile is satisfactory.

Make the profile brief and interesting

Some people read just the business profile. If it fails to gain their attention, the whole business plan is in danger of getting filed or thrown away.

So make the profile brief and interesting, and try to capture the imagination of your reader.

Keep the business history section brief

Don't get carried away with the history of your business: it will be of limited interest to most people.

Include the history if it helps to shed some light on why the business is in its current position.

See TEMPLATE 2

(Executive summary, business history and objectives)

Patents and trademarks

Comment on any patents or trademarks that may be relevant. Most businesses will not have to bother with patents as the great majority of businesses are copies, alterations, or developments of existing business ideas. Check with your lawyer if you think your idea is special.

Also mention any contracts for work or any other legal obligations or protection that you may have.

Location

Talk about the location of the business if this factor is important. If you intend becoming a retailer, then the location is crucial (good foot traffic and parking is a must). A manufacturer may need to be near a major road, distribution centre, railway siding or port. If you can validate the logic of where you intend setting up (from the demographic information available from Statistics New Zealand) then this will greatly strengthen your case.

If you are already in business, then you should explain the impact of your location upon your business.

Business management/advisers

Networks and support

Describe the various personal, professional and business support networks to which you have access, as these will impact upon your business success. Accountants, lawyers, business advisers or friends who are in business can be invaluable in giving practical advice to you.

Likewise, join your local business organisations such as the Chamber of Commerce, the Employers' Association, the Economic Development Agencies, Manufacturers' Association or your industry sector's professional associations. Chatting to people in business is worth gold.

If you are working with other businesses (for example, you are subcontracting work out) then include their credentials.

Business environment

This is a very important part of the profile as it sets out the 'story' in which your business is the main character. Cover topics such as:

Market size

Include information on market size if you can find it. For example, if you are targeting the female market then you could probably guess that the population is roughly half female (no prizes for this!). However, what about professional career women aged 35 – 50, living in cities that you think might be your niche market? Based on the last census, Statistics New Zealand can tell you (based on the last census) where the greatest concentration of this type of person lives.

See TEMPLATE 3

(Key products, major requirements, business location and key contacts)

Location can be vital -especially if you are a retailer

Location is vital if you are a retailer, so make sure you include some reference to it.

Long-term objectives are difficult to envision or state

Don't spend too much time on long-term objectives. Often these can be difficult to state since it's pretty hard to think about what will be happening in five years time. Try to put some dates on these objectives: no specific timeline means that your chances of success start sliding towards zero.

"This is fine," you might say, "but will they buy from me?" That is where estimating the market size starts to have limitations. Who knows until you start exactly how many will buy from you? Some sampling of the market will help, but in the end you will never be wholly sure. So do not spend too much time worrying about market size if you cannot find the data. Concentrate instead on identifying your target market(s).

Target market

This should be the most common type of customer who is likely to buy from you. Attempt to describe them as accurately as possible. Never make blanket statements such as "the whole of New Zealand is my market"—this is simply not true unless you are selling air.

There are excellent reasons for targeting your market: unless you have a McDonalds or Coca Cola-sized advertising budget it is simply too expensive to target the whole country. So by describing carefully your target market and then designing promotional tactics aimed just at them, you are reducing wastage in the money you spend on advertising. This point is reinforced in more detail in the marketing section of this business plan.

Industry characteristics

Mention what makes the industry you are working in different, such as being labour intensive (if you are a market gardener) or the need for specialised skills or equipment.

Trends

Can you identify important trends in your business area? For example some businesses are rapidly becoming far more technology based (such as one-hour photos and copying, where the move is into digital photography) and some are finding international trends are affecting their industry (such as the deregulation of trade barriers allowing easier imports and exports).

Competition

Here again, do not fall into the trap of saying, "we have no competition". If you are indeed lucky enough not to have any direct competitors (very unlikely) then you will still be competing for the disposable dollar.

For example, let us say you are the only butcher in a small town. You will still be competing against all the other food suppliers, the local Lotto shop, picture theatre and bank (which wants customers to save their money). Any way in which that dollar could possibly be diverted away from your business is competition.

You should list the biggest threats and briefly mention how you intend to combat these competitors.

E-commerce

Outline how e-commerce will impact on your business, and what you have planned to take advantage of this change in doing business. This may not simply mean establishing a web site, as e-commerce is more about how you do business and communicate with others, such as suppliers and customers.

Business management and advisers

You must explain to the reader your ability to run the business. Regardless of how much money you have, or how brilliant your idea is, all is lost if you cannot manage the business properly. State both your experience and qualifications.

If you have neither then you would do better to postpone your plans while you gain some experience by working in the industry you want to enter, enrolling in some small business courses and attending the free Enterprise Training workshops for people starting a business.

List the organisations or people that will give you direct help. Include references from them if possible, stating their confidence in your ability.

See TEMPLATE 4

(Market size,major targets and major trends)

What is your e-commerce strategy?

You will have to address the issue of e-commerce in your business plan and discuss the impact technology will have on your business. If you do not adopt e-commerce then eventually your competition will—so delay at your peril.

Relevant business achievements

You need to list your specific business achievements and the achievements that relate specifically to the business plan you are writing.

Topics that could be covered include:

- Competitors you have encountered
- Money invested
- Legal protection
- Markets you have researched
- Customer feedback and market research conducted
- Trials of new products or services
- Demonstrations
- Future products/services potential
- Technology advancements or innovations
- Management ability or qualifications
- The team you have gathered
- Evidence of persistence or the 'sweat equity' you have put in.

See TEMPLATE 5

(Your achievements to date)

Thought

"If you want something bad enough the whole world conspires to help you get it."

Madonna

Other topics that might impact on your business

For example, the types of legal regulations that may impact upon your business (the local council may have restrictions on the type of business you can conduct in your chosen location). Inland Revenue will certainly want to know that you are in business so they can collect any tax due to them.

Will you register for GST? Do you need insurance? Any special licences or permits required? Do you operate in an industry that has specific needs? For example, tourism, agricultural, technological and export businesses have different dynamics and circumstances.

Remember too that you'll be obliged to comply with environmental and health and safety legislation such as the Resource Management Act 1991 and the Health and Safety in Employment Act 1992. These requirements may involve compliance and/or monitoring costs, and you'll need to plan for ongoing compliance and any contingencies that may arise.

See TEMPLATE 6

(Competition, e-commerce and other topics likely to have an impact)

Many contractual situations will require you to demonstrate compliance with the relevant legislation, accreditation to particular standards, and/or to hold public liability insurance. For instance, your business may need to meet an international quality standard such as ISO 9000 in order to quote or tender for work. Likewise a contractor working on other people's property or in public spaces would certainly need public liability insurance.

Thinking ahead about your level of compliance and including it in your business profile will give you more time to deal better with individual business opportunities as they arise.

CHAPTER 2 – MARKETING

The marketing section of your business plan is made up of two separate components: one being a wide, long-term look at the business (strategic plan) and the other being an action plan for the next 12 months (tactical plan).

Strategic planning

Strategic planning is one of the most important aspects of your business. It ensures that you are still in business when your competitors may not be. Strategic planning sets up future profit streams and allows you to negotiate a fluctuating, unreliable and unstable market.

However, few small businesses plan strategically. Strategic planning is sometimes difficult to explain and hard to implement, which is why it is not often completed. Also, the marketplace changes so fast that what you thought was a good idea two years ago is now out of date. It is all too easy to say to yourself: "Long-term strategic thinking is not going to improve my profit next year, so why bother?"

But you must consider that ongoing change creates opportunities that can be used by you as a small business operator. The most successful business people are those that sense or foresee future trends and adapt their businesses to exploit these coming changes.

There are many definitions of strategic planning. Our definition is this: 'strategic planning is concerned with what to change in your business to survive the future market changes beyond your control'.

Taking advantage of the market

Being able to take advantage of the market when things change is the whole point of you being in a small business. Your advantage lies in being flexible, autonomous and catering to the customer. So your effort and time must be spent on altering what you can control, not worrying about what is changing outside your control.

Strategy versus tactics

People often ask: "What's the difference between a strategy and a tactic?"

Think of **strategy** as involving the long-term or wider issues that you need some time to think about before you can come up with a decision. For example, a marketing strategy might be to target travel agents, and develop a business package for them, which includes an e-commerce solution. It may have taken some time for you to consider this segment as a target, and you may not yet be able to offer them anything that represents a competitive advantage over other providers.

Tactics are the practical steps you need to take now to implement the strategy. For example, the tactics for the travel agents' strategy might be to:

- Build a list of local travel agents
- Prepare a business incentive scheme
- Outline how they can use your web site to order from you and keep up to date
- Personally visit the agents and follow up
- Monitor the response to determine if the sales target is met.

You can see from this that the strategy always comes first, then come the tactics. So strategy involves your future vision for your business and tactics involve the actual steps you need to take to achieve that vision.

Thought

"The absolute fundamental aim of marketing is to make money out of satisfying customers."

John Egan

How to complete a strategic plan

The strategic plan looks at the overall viability of the business. It answers questions like:

- Who will buy or use my products or services?
- What price should I charge?
- Is there any demand for my products or services?
- What may happen in the future that will affect my business?
- What should I sell or provide?
- What will change over time?
- What is the best way to distribute our products or services?
- Are we in the right location?
- Can we make and sell sufficient products to produce a profit?

If you are already in business these topics still need to be addressed to ensure you stay competitive. The biggest threat to existing business is 'change'. Luckily the biggest opportunity for existing businesses is also change!

Any business that does not think long term runs the risk of the market or the industry changing to such a degree that the business becomes no longer competitive. So it is advisable to revisit the strategic issues of your business at least once every year (more often if you are in a rapidly changing industry).

The first step is to collect customer feedback.

Get away to do your business planning

Try to get away from your business or house when you're planning. There are just too many interruptions.

Hire a room in a hotel, visit the library or go to the beach. After two hours of no interruptions you'll be amazed at how the brain solves your problems.

Customer feedback

You must get information from your current or potential customers. No amount of discussing with professionals, friends or colleagues will ever replace the information from a real customer. Market research using your customers is one of the most important aspects of being in a small business—and probably one of the least likely things ever to be completed!

What do they like, what do they dislike? How can things be improved? How much will they pay for something? Is convenience important? Should items be packaged together? Do you need EFTPOS? Is after-sales service critical? If you cannot answer any of these questions, then you will not be in business very long. The easiest methods to get this information are:

Thought

"In Japan the word customer translates into 'honoured guest in one's home.' Surely that is how we want all customers to feel?"

Catherine Devrye

Ask them

When you are dealing with existing or potential customers, strike up a conversation with them and informally ask them.

Focus groups

This involves you gathering a number of customers, sitting them down and discussing a range of issues relevant to your business. The advantage of using this method over a questionnaire is that you will get more in the way of gut responses and feelings from the customers, rather than 'tick the box' style responses from a questionnaire.

See TEMPLATE 7

(Getting customer feedback)

Telephone
Ring them and ask a couple of questions over the phone.

The point is, never assume anything—especially how your customers feel about your business.

Questionnaires
You could distribute one-page questionnaires that ask some key questions and encourage customers to fill them out.

Developing questionnaires
Questionnaires are used to survey customers and potential customers, and are the most common form of gathering business feedback. Because collecting market research is crucial but often overlooked by small businesses, we have included a section on how to design an effective questionnaire.

Questionnaires can be used to answer questions such as:

- Would your customers use a toll-free phone service?
- Do customers find it easy to park in your area?
- Would customers mind if you were closed on Mondays?
- How many times a year do your customers take a holiday?
- What do the customers like about your business?
- What do customers think could be improved?
- Would your customers shop on your Internet web site if you had one?

Questionnaire tips

Be as brief as possible
You are asking people to give up their free time. Tell them how long the questions will take to answer. You may have to offer them an incentive (for example, a prize draw).

Be sensitive when asking for personal details
For example, name, address, age range, income range. Only ask for these details if they are going to provide you useful information and make sure you store such information in a secure manner. You will need to assure the respondent regarding confidentiality.

Know exactly what you want to find out
So the answers people give can be used in a meaningful way.

Try a phone survey or an email questionnaire

Collecting information from questionnaires does not always mean the customer has to fill in or return a piece of paper. You can also design a questionnaire for a phone survey.

In this case you would ring up a selection of customers or potential customers, ask the questions and record the answers yourself. Another option is to design an email for a quick response.

On-line training

For more assistance with marketing your business you may be able to access free on-line business training modules.

To access this on-line training you must go through one of the Enterprise Training Providers. To find your nearest Enterprise Training Provider visit the web site **www.nzte.govt.nz** or use freephone 0800 42 49 46.

Choose the correct type of question
According to what type of information you want (qualitative or quantitative). Be aware of the difference between:

1) **Open ended questions:** 'Write here your impressions of our after-hours service.'
2) **Closed questions:** 'How would you rate our after-hours service?'

   a) excellent b) very good c) good d) quite bad e) very bad

Use normal language
Avoid technical jargon or slang. Be careful to avoid ambiguity.

Do not use words that indicate bias
For example: 'What don't you like about this particular product?'

This automatically suggests there is something wrong with the product, which may influence the answer. Try to avoid words such as 'like' and 'dislike'. A better way to ask this question would be 'please write what you think about this particular product'.

Do not ask more than one question at a time
For example, 'Do you think the sales person was friendly and honest?' Split this into two questions.

Who to survey?
Ideally people in your target market. Try to screen them first.

How many people should you survey?
Generally speaking a sample of 100 people should be adequate for a small geographical area. Professional market research companies generally use samples of between 300 and 1,000 people. A sample size of 300 will give a maximum error range of about 5 percent.

Business analysis
You must know some of the fundamentals in your particular industry. If you are in business then this information comes from your existing records. If you are starting a new business then you need to find this information from Statistics New Zealand, an accountant, bank manager or business adviser who will provide some rules of thumb.

Information you need to collect includes:

1. Critical success factors
What must happen in your business to make it work? Get right down to the basics. For example, a business may have only four critical success factors:

- Customers are aware of your business and contact you
- Customers see your products or services as value for money
- Customers are happy to pay the price you are asking
- Customers remain happy after they have given you money to the extent that they are likely to repurchase.

See TEMPLATE 8

(Critical success factors)

List what you will do to make sure each of these happen.

Alternative critical success factors can take the form of specific actions, such as calculating what the average customer spends and then attempting to increase it. For example, if the average sum spent per person is $10, then an increase to $11 does not seem so hard, yet it has the same effect as increasing sales by 10%, which may seem more difficult.

2. Key ratios

What are the key financial ratios for your business area or industry, and what are the typical figures for these ratios? For example, you should know what the average net profit percentage and gross profit percentage are for your business.

If you do not know then you are not in a position to make good decisions. For example, let's say you want to spend $1,000 on advertising. How much do you need in sales to cover the cost of this $1,000? If you do not know your gross profit percentage then this exercise is impossible.

Let's assume you know your gross profit percentage is 40%. Now you can work out that $1,000 divided by 40% = $2,500. So you would need an extra $2,500 in sales just to recover the cost of the advert.

3. Who are your best customers?

The well-tested 80/20-rule will always apply. This states that 20% of your customers provide 80% of your sales. So make sure you concentrate on delighting this 20%, and then find more people like them. Can you describe this '20% customer'? Make sure you know who they are so you can target your promotions to them.

4. Other influences

There are many other influences on a business that should also be taken into account. For example, if your location, lease, staff turnover, prices, relationships, or morale are likely to impact seriously on the business then they must be identified and discussed.

Market analysis

What is happening in the market place that is beyond your control? There will always be activity and change in a small business; it is something that you must learn to live with and not waste too much time worrying about. People who constantly react to the competition are not really concentrating on their own business. You should, however, keep tabs on the following:

1. Threats

Try to identify potential threats early. For example, new technology that you cannot afford is changing the industry, or a large competitor is considering diversifying into your market, or the local council is introducing new regulations that might stop you from operating.

Key ratios: an early warning system

It's useful to know what your industry ratios are. For example, if your gross profit is 40%, but your industry average is 50%, then you're doing something wrong. Ratios help alert you to potential problems.

See TEMPLATE 8

(Key ratios in your business)

See TEMPLATE 9

(Your best customers and other influences on your business)

Constantly collect marketing information

Collect market information every day. Talk to your suppliers, customers, friends, competitors and business advisers.

To keep up with the latest trends, spend time reading the paper, watching the top five movies and reading industry publications (both local and international). Visit the library and read through some overseas newspapers.

Consider also travelling (both nationally and internationally) to see what is happening.

2. Opportunities

Identify the factors that keep enthusiasm, drive and excitement levels high in your business, like being able to sell in other markets, or realising you have the potential to export. Perhaps reading an overseas magazine gives you ideas for improvement, or contacts made with other business owners open up opportunities for joint ventures.

See TEMPLATE 10

(Threats, opportunities and trends)

3. Trends

You must be aware of what is happening locally and internationally in your business area. What is the latest trend? Will it last? Is the way people buy from your industry about to change? Will the Internet and other technology make a difference to buying habits?

A 'PEST' analysis can be useful can be useful when you're trying to identify what might possibly happen. There is where you analyse your external environment based on:

- Political
- Economic
- Social and
- Technological impacts.

How will any changes in these areas affect your business?

Funding for market research

If you need assistance to complete any market research, there is a range of financial help available. Search the web site **www.nzte.govt.nz** for more details.

4. Customer base

What is happening to your customers? People change over time: the population is aging, there is a more diverse ethnic mix, tastes and preferences alter, people are staying in education longer and people are mobile. Never assume your customers are the same as they were two years ago. You need regular market research to ensure you know your predominant type of customer.

See TEMPLATE 11

(Your customer base and your competitors)

5. Competitor action

The final, but probably most important, market analysis question to ask is what is the competition doing? You should not be spending too much time on the competition, as you should be flat out forging your own destiny and not worrying about what the business up the road might be doing.

However, a quick look over your shoulder can be beneficial. Are there any new entrants waiting to start up? If you start to compete more aggressively with the competition how will they react? What are they better at, and should you leave them to this or tackle them head on?

All customers will compare you and the competition at some stage, so as a minimum you should be aware of competitors' prices, positioning in the market, location and who owns the business.

Use key channel partners for market research

Do you have key channel partners? If so, they can be a great source of market research and information.

Many small businesses have larger companies either as customers or suppliers. Many of these will have the resources to conduct extensive research, or can offer useful information archives. Don't forget to use them or ask them for help.

Much of your competitor analysis can be completed by observation, so remember to:

- Read newspapers, watch the news and ads on TV, listen to news and ads on radio
- Read trade magazines
- Subscribe to business publications
- Attend trade shows
- Join industry associations
- Read other companies' annual reports
- Get on your competitors' mailing lists
- Visit competitors' businesses
- Listen to customers and suppliers
- Listen to business associates and friends
- Listen to your own sales people.

And lastly, remember the power of the Internet!
An increasingly important aspect of market research and collecting data can be completed over the Internet. For example, competitors tend to place much of their information on their web sites, including products and services offered and pricing. Additionally, by surfing the web sites of overseas companies and their products you can collect some great ideas that you can adapt for your own business, and be up to date with trends and new initiatives that may impact on your industry.

Once you have gathered all this information, you can then see which direction you should be taking. Questions you should be able to answer include:

- How can you sell more to your existing customers?
- Should you be aiming at new markets?
- Who else can you sell your products or services to?
- Are there any other products or services that you can provide to complement what you already do?
- Are there any other businesses you should be getting into?

To conclude

Once these three steps have been taken (**customer feedback**, **business analysis** and **market analysis**) you will have an excellent idea of how you are strategically placed in the market. The information you have collected will help you to complete the tactical plan, especially in the selection of your targets.

As you gather strategic information you can meet the challenge of positioning.

Defined simply, positioning is where your business fits into the market compared to the competition. Positioning is very important because the message you give out to consumers will impact on their decision to use your business rather than another.

Register for local and international newsletters

Make sure you register for as many informative newsletters as possible—especially from your industry organisations.

Plus, consider registering for your competitors' newsletters (both nationally and internationally) so they tell you what they are up to!

Remember to investigate what potential overseas competitors are doing. Who produces or delivers similar products or services overseas? What is their price, strategy, distribution channel and competitive advantage? You need to be aware of the international competition.

See TEMPLATE 11

(Possible strategic changes)

It is the customer (not you) who usually decides your position in the marketplace. Further, it is extremely difficult to change the perception people have of your products or services.

How customers position you

Once a customer has the perception that you are expensive, then this is the position you have, regardless of any other evidence you have to defend yourself.

It is likely that this customer will now believe that everything you provide and sell is over the average price. Hence the danger of positioning: a certain position on one product can spread to other products and services that may, in fact, be cheaper than the competition.

Every consumer 'positions' a business without even thinking about it. So once you have decided where you want to be positioned in comparison to the competition, you must:

1. If necessary, change any aspect of the business so that you fulfil the promise of your positioning statements.
2. Constantly remind staff and customers about each of your competitive advantages and publicise each differentiation point so there is no chance they might get it wrong.

Remember that your brand will also convey a sense of market position. A piece of jewellery from Tiffany's will carry a premium for the brand, where a similar piece from your local jewellery store will not (and will probably be just a fraction of the price). Be careful you protect your brand position.

Make sure your marketing is targeted

If you don't create a marketing plan that targets groups of customers, you not only waste a lot of advertising money, you also run the risk of losing the customer to a competitor who does.

How to complete a tactical plan

The tactical plan answers questions like:

- Do you need a direct mail campaign?
- How do you get existing customers to come back?
- Which is the best type of advertising?
- How do you approach people for referrals?

Consequently the tactical plan covers **only 12 months** and it focuses on what you are actually going to do in your business during that period. It usually concentrates on promotional tactics, and is a short-term action plan aimed at providing specific results. The first step to take is:

Select targets for the coming year

The most important task is to select the right targets. The first target is **always** existing customers. You should split existing customers into a number of subgroups, for example:

- 'Gold' customers: your best customers, or those who could potentially grow into best customers
- Key people who create word-of-mouth business for you
- People who refer business to you.

To focus your resources limit the number of targets

Don't try to select 50 targets for the next six months. Pick only the five best instead as an absolute maximum. You'll then be able to focus your resources and promotional dollars on the most likely targets.

Then other targets such as potential or new customers. For example:

- Potential customers you have not yet approached in your region that are similar to the above list of existing customers
- Potential customers of a similar profile in other regions
- New targets such as hospitals, kindergartens
- New targets such as the retired section of the population, or teenagers.

The idea is to split your market into subgroups because it is more cost effective to target these with specific promotional activities than broad coverage. For example, if your main target is large companies in your local region, then broad newspaper or radio advertising would probably be irrelevant. The best tactic would be to obtain a list of such companies and personally visit them.

Target only the biggest or most viable groups first, and remember your business limitations. Do not target large corporates and then find you cannot deliver what you promised. You only get one chance.

Once you have selected your targets (you could have between three and five groups) the idea is to develop specific tactics for each.

The key point to note is that you should not approach your promotional planning by thinking vaguely: “we must do some promotion, so how about some newspaper and radio adverts, a couple of flyers, a few visits, and business card circulation?”

You need to be a lot more specific. A better approach is to say: “right, we want to target existing customers, so we’ll start a newsletter, post them all a discount card, and run a special sales evening just for them.”

There are a number of steps to take before you launch into your promotional brainstorming.

1. Select one target from your list

For example, let us assume you want to target students as a specific group.

2. Consider adjustments

Do you need to adjust any parts of your business for this target market? Namely:

- The price? In this example you might want to give a student discount.
- The product or service? In this example you might want to repackage.
- How you deliver or distribute? In this example you might want to offer free delivery.

Adjust these three variables of price, product and place (distribution or location) only if appropriate.

3. Promotions

Create promotional tactics especially for this target.

In our example, promotional tactics for the student target market might include:

- Contacting clubs the target group might belong to (such as rugby or netball clubs) and offering their members a discount.

The two reasons to plan your marketing tactics

Remember there are two main reasons why planning your marketing tactics is vital to your business:

1. If you do not target your customer, someone else surely will.
2. If you always do what you have always done, then you will get what you have always got.

See TEMPLATE 12

(Target selection and promotional activity)

- Mailing out promotional material with their club newsletter by offering to contribute towards postage costs.
- Advertising in magazines or newspapers they are most likely to read, or on radio stations they are most likely to listen to.
- Sponsoring a charity and getting some coverage in their mailouts.
- Finding a database of students and mailing to them (for example another business that has student customers, where you can jointly mail, without breaching the Privacy Act).
- Promoting your business on a web site that students are interested in (such as music or travel).

You get the idea. The point is the promotional tactics developed are relevant only to the target you are aiming at. By reducing promotional wastage you are saving considerable marketing money.

And remember, there is no such thing as 'everyone is my market' as it simply is not true—unless you are selling air.

4. Repeat the steps for other targets

Select another target (Step 1) and repeat Steps 2 and 3. This means that if you start with five targets, you will end up with five promotional plans, one tailored specifically for each of the targets.

When you have completed this exercise you may end up with a total promotional cost larger than your planned budget. In this case you will have to set priorities from the 'must do's' to the 'would be nice' and 'not crucial to success' ideas.

Did the tactical plan work?

Did the plan work, or did only certain parts of it work? To answer this question we have to monitor what happened (without spending all our lives collecting data).

Continually measure and fine-tune your marketing tactics, deleting any idea that performs poorly. Some ideas you may keep for other reasons, for example, the web page. Although the page may not yet be providing new customers it might be fundamental in keeping the ones you have and be necessary to your future plans.

Break-even calculation

Another way of deciding if the tactic worked is to calculate a simple break-even point. Let us take advertising as an example:

If you spend $1,000 on an advert and your gross profit is around 50%, you will need $2,000 in sales just to cover the cost of the advert.

The gross profit may be lower, however, because advertising often promotes a sale or special, reducing the margin. So if the $1,000 advert promotes products where the gross profit is only 35%, for example, suddenly you now need $2,858 in sales to cover the cost.

Technology is changing promotional methods

As e-commerce becomes more widely adopted by businesses, promotional methods will change. Technology will increasingly be used to replace some of the more traditional advertising and marketing methods.

For example, direct marketing material is likely to become more and more email based rather than posted. This means you can send catalogues and flyers direct to your customers' computers, saving you the cost of conventional postage.

See TEMPLATE 13

(Tactical marketing plan timeline)

Thought

"Half the money I spend on advertising is wasted; the trouble is I don't know which half."

Lord Leverhulme

Marketing budgets

Marketing budgets are like shopping in a duty free store at the airport: there can never be enough money to cover all that you want. The biggest problem is over-capitalising. In other words, spending $5,000 on marketing might bring in the same amount of business as spending $20,000.

Most businesses spend from 0 to 6% on marketing. Zero percent may apply if you are clever enough and word of mouth has built to such an extent that you have the luxury of not needing to promote (the ideal situation). Six percent is likely to apply if you have just started your business and need some awareness, or you are in a very competitive industry.

How should the promotional budget be split among the different methods of promotion? Here's our guideline for a retailer in a good location:

Promotional budget split %	
Personal selling	5
Direct mail/e-commerce	20
Publicity	5
Public relations	5
Word of mouth	10
Sales promotions/merchandising	40
Advertising	5
Contingency	10
TOTAL	100%

Always have some contingency funds available as there will be times when even the best planning will not foresee events that you can take advantage of (a competitor going bust, or some event like your local sports team winning the competition).

Building your credibility

It is much more difficult to convince people to do business with you when you have *little* credibility. This does not mean that you have *poor* credibility, but rather that those customers who have never heard of or dealt with you will perceive you as having limited credibility. This is likely for new businesses.

The whole point is this: new customers will always be suspicious of you. They currently use some other company and the only way they will use you is if you convince them to switch, or they get upset with their current provider and then choose you. Comparatively few customers will try you simply because they are bored and looking for a change.

So assuming this, you must be prepared to convince them or be the next best choice.

People are naturally apprehensive about switching to any new company. They perceive that there is a risk associated with the change: for example, the risk of being overcharged, of encountering rudeness or of experiencing poor work habits.

Thought

"It is often said advertising can be used to persuade people to buy inferior products. So it can be—once. But the consumer never buys it again. Profits come from repeat purchases."

David Ogilvy"

Lowering the risk for the customer

To offset the risks that customers might perceive, you could, for example:

- offer customers a money-back guarantee
- provide staff training to ensure consistency
- wear uniforms and name badges to project your professionalism
- show testimonials from your satisfied customers, and so on.

The need for a credibility strategy

A credibility strategy attempts to offset all of these fears, answering as many of the possible apprehensions before the customer has time to think of them. If this strategy is implemented properly, it will be much easier for you to gain new customers. It is the proactive step before new customers are sought, and gives the customer **confidence** when dealing with you.

Remember that customers will do business with a company or person who is:

CREDIBLE EXPERT TRUSTWORTHY

You want customers (both existing and new) to believe these qualities about you. Instead of hoping they do, you must have a strategy to increase the chances that they really do believe.

Your aim is always to:

- Increase your credibility
- Decrease the risk the customer feels.

Get these elements right and you will find it much easier to promote to new customers and retain the ones you already have.

Your competitive advantage

Finally, you need to remind people constantly of your competitive advantage. This is often the 'essence' of why you remain in business, and it needs to be communicated at an early stage to the readers of your business plan. This way they will understand the concept of your enterprise as they continue to work through your information.

A competitive advantage is what you are better at doing than anyone else, or, in other words, how you manage to stay in business against the competition.

Could you list your key advantages?

Could your staff?

Could your customers?

A competitive advantage is only relevant when a customer (not you) thinks it is an advantage.

Remember that your competitors include other businesses competing for the consumer's discretionary spending dollar, not just those in your industry. So to survive you need as many of the following as possible. If you are lacking some, then go and get them.

Competitive advantages include:

Unique or exclusive product

You can gain an advantage if you are able to source product or deliver services that the competition cannot. From your strategic thinking you will have highlighted services that customers may need, yet for which no one is currently offering a cost-effective solution.

Something you offer that others don't

A competitive advantage is something that you offer or have that the competitor does not.

No business succeeds long term without some type of advantage over the nearest competitor.

The importance of competitive advantages

Developing and sustaining true competitive advantages is what keeps us in business. Without true competitive advantages long-term failure is inevitable.

Customer service
How you and your team deliver your product or service is a key factor in customer satisfaction. Never underestimate the value of excellent service, starting with the first point of contact – how does your phone get answered? Regularly phone (or ask a friend to call) your business to get a reality check on the telephone welcome.

You and your image
Yes, believe it or not, you are also a competitive advantage. No one else has your particular mix of skills.

Knowledge
You must have better knowledge than the other businesses around you. Today information is power and you need to gain the advantage over your competition in this regard.

Better supplier relationships
Being on good terms with your suppliers is an overlooked competitive advantage. Perhaps you have a strategic alliance or contract with them that the competition cannot match.

Large supplier backup
Being linked to a large well-known supplier will help. They conduct all of the market research, develop new products and services, undertake customer analysis and provide nationwide branding and advertising that all helps to enhance your credibility. A contract where you have exclusivity of supply is even better.

See TEMPLATE 14
(Your competitive advantages)

Speed
The quicker you can deliver the product or service at a consistent quality the better.

Price
Being the cheapest is the easiest tactic to implement, but be careful as long-term survival in business often requires high margins. Generally businesses that compete on low price do so because they have a cost advantage: they can get stock or materials cheaper. They still might have high margins!

But being cheapest is the hardest point of difference to defend, even with a lower buying price advantage.

Strategic alliances
Building a strategic alliance with a customer, a supplier, a business that sells complementary products or services, or even with a competitor, preferably through a formal contract or agreement that locks in work for a period of time.

Technology
Owning unique technology that no one can access, or will have difficulty copying, can be a great advantage.

E-commerce

E-commerce is becoming more and more of a competitive advantage for many small businesses. You must mention how you intend to use e-commerce within your business. For example, e-commerce has enabled you to lower costs, improve customer relations, speed up delivery, communicate more easily with customers—or maybe even provided you with a new business model which has created new income streams.

Quality

Quality means conforming to customer requirements: the right product at the right time at the right price. Meeting the competitive advantages above will give you a quality product and a quality service.

It is important to briefly outline key achievements to date—you may be pleasantly surprised! This exercise provides you with an indication of the momentum you currently have.

CHAPTER 3 – CHOOSING YOUR TEAM

This section is about planning what kind of staff you want and how you will **recruit** them. Once they have joined your business, the plan also requires you to think about how you will **motivate** them and **retain** their services.

Deciding to employ staff is one of the most important decisions that a small business owner can face because:

- A full-time employee represents a significant business investment
- Recruiting and selecting an employee can take considerable time and effort
- Once chosen, a staff member becomes an integral part of your business. Therefore hiring the right person for the job is critical. If you select the wrong person, rectifying the mistake can be time consuming and expensive.

The recruiting stage

Creating a job description

Ideally the job description should only be written after the needs analysis has been completed. A comprehensive job description should cover the following:

- The title of the job.
- The name of the employee's immediate superior. This will typically be the owner of the business but it is an important point to clarify. For example, if you have a partner, to whom does the staff member report?
- The employee's subordinates (if any).
- A brief description of the job and its major objectives. For example, if it is a sales position, what sales targets are required?
- The key tasks and activities of the job.
- What physical resources are required for the employee to complete their tasks? For example, will a desk and phone be required?
- The results and the standards required for each task. For example, what degree of accuracy do you require from a person responsible for generating invoices? This information will help you later when you come to establish the degree of experience and skill you require of the candidates for the job.
- How much authority will the employee have? For example, if they are in charge of purchasing, what is the largest value they can order without consulting you? Or if they are negotiating discounts with customers, how much are they allowed to discount before they have to consult with you?

Analyse these activities in detail. How much time will they actually require to do their job? Does the answer really amount to a full-time job? Or could the tasks be split into two part-time jobs? Will your business improve through creating this job, or would it be better to halve the number of activities and take on a part-time person instead? (Or should you out-source the work to another company?)

Answering these questions might seem laborious, but in fact this exercise is one of the best single methods for testing the feasibility of your plans and is well worth the effort.

View your staff as an asset

You will notice the term 'investment' being used in this section to refer to the cost of your employee(s).

Technically employee costs are an expense, but we would encourage you to view staff as an asset to be invested in.

Thought

Start with good people, lay out the rules, communicate with your employees, motivate them, and reward them if they perform.

Understanding the basic employment legislation

The Employment Relations Act covers the important legislation regarding staff employment. Joining your local employers' association can be invaluable because they can help you meet all your legal requirements as an employer.

To create an effective working environment you must also understand the rights of your employees, how unions work and the employment framework.

The Department of Labour's web site **www.ers.dol.govt.nz** offers you much useful information to help you build an employment agreement.

Conditions of employment

Having completed your needs analysis and job specifications, you are now in a position to complete the following details:

- Employment agreements and hours of work for all staff
- Basic wage or salary rate and when payable
- Fringe benefits, holidays, bonus and overtime rates
- Time off, sick leave, superannuation
- Training, promotion and performance appraisals
- Dismissal and grievance procedures
- Retirement policies
- Employment Relations Act rights, such as the role of unions
- Health and safety information and conditions.

Establishing what to pay staff is always difficult, though there are minimum wage guidelines. We would encourage you, however, to pay as much as you can afford. Local employers' associations carry out an annual salary and wages survey and make this information available to members. This information will help you to arrive at appropriate wage or salary levels for particular jobs.

Detailing the person specification

You are now in a position to move onto the next stage. A person specification lists the qualities you require for a specific position in your business. The person specification speeds up the selection process by helping you to match applicants to the position.

The following five headings will assist you to select potential employees:

1. **Physical requirements:** the person must physically be able to complete the work.
2. **Qualifications:** the job (such as computer programming or electrical wiring) might require a person who is properly qualified for the tasks.
3. **Special aptitudes or skills:** these might include numeracy, literacy and computer skills.
4. **Personal characteristics:** people and relationships skills. These may be important if the employee is to deal with customers or be part of a work group.
5. **Specific circumstances:** for example, willingness to travel away from home frequently.

Get professional advice before you hire staff

We recommend that you get professional advice when you employ staff for the first time.

In particular, do not rely simply on an informal written or verbal agreement with the new staff member.

See TEMPLATE 15

(Creating a job description)

See TEMPLATE 16

(Creating a person specification)

Recruiting the right person

Now comes the stage where you choose the person for the job. This can be a critical stage, especially if you have never hired someone before. Because hiring an employee can be a major investment, it is well worth your while spending some time and research on the selection process. This will include detailing how you intend to recruit staff.

There are various ways of spreading the word that you are looking for a new staff member, such as contacting:

- Staff, friends and family
- People working in the same field
- Educational institutes (students about to graduate)
- Work and Income
- Employment agencies and recruitment consultants or Internet recruitment sites.

You can also advertise the position in:

- National newspapers
- Community newspapers
- Trade journals.

If you intend to advertise, make sure the advertisement accurately reflects what you are looking for. If you have not written a job advert before, get help—because it is not an easy task! Find someone who has experience or ask a consultant for help.

Get advice from friends or experts

If you've never employed someone before, get advice. Talk to friends who have employees or you can hire a consultant to do the interview for you. You can also ask your local employers' association for advice, or use the various professional employment agencies.

Employment incentives

Several Government programmes and some local councils offer incentives to employers. Make full use of these benefits where you can, but do not let the immediate dollar rewards blind you to the job you have described or the skills you want. **Poorly chosen staff will cost you more in the long run.**

Avoid discriminatory questions

Remember that when you select an employee you're not allowed to ask questions about age, gender, race, religion or sexual orientation.

Selecting the right person for the job

You should now plan **how** you will select the right person. What techniques will you use to ensure that you choose the right staff member?

Remember it is important at this stage that you adopt a professional approach. All people who come in contact with your business will form an opinion. Even if an applicant is unsuccessful they should feel that they have been treated in a fair and professional manner because this will reflect well on your business.

Application form and Curriculum Vitae (CV)

Ask all applicants to fill in a basic application form and supply a CV. A photo is also useful in helping you to remember each applicant. You need information from four basic areas:

a) Personal details

b) Education and training

c) Employment history

d) References.

See TEMPLATE 17

(Job application form)

Armed with the completed application form and CV you should now have enough basic information to screen out unsuitable applicants before you grant interviews.

The job interview

Before the interview it is a good idea to write down the questions you will ask each applicant. Review the person description and the specification to make sure you have covered all areas. Your aim is to know by the end of the interview how well the applicant meets the person description.

Applicants seem to enjoy an interview more when they are told at the beginning what they will be asked and given time to ask their own questions. This also gives your business a professional image. Remember, though, to jot down the applicant's name and answers. Nothing can be more infuriating than trying later to remember which applicant said what!

The motivating stage

Leadership

Your ability to manage and lead your staff will dictate the success of your team plan. Following the previous steps will help you to hire able, qualified and motivated staff, but the process does not stop there. It is your ongoing role to ensure that a high level of motivation and enthusiasm is maintained so that staff perform at the highest level.

If you lack experience as a manager, having to lead and manage staff for the first time can be stressful. It is important that you assess your own management skills. Do you require more training? Be honest with yourself and if necessary take advantage of the management courses that are available to you.

Let us assume that the people you select do not have the particular skills you require, or perhaps not to the standards you need. You must therefore decide how they will be trained. Your options might include:

- Choosing a 'buddy' from existing staff to help train them on the job
- Sending them on a course (carefully checked first to ensure it will teach the skills you require)
- Hiring an expert for in-house training
- Teaching them yourself.

Training is critical to the future success of your business. When you employ a person for the first time there is always a trade-off between paying a lot of money for someone who is well trained or paying less for someone who needs to be trained. Another consideration is that if you decide to train someone you have a better opportunity to train them in the culture of your business.

Business is a co-operative endeavour

A business does not own its employees. Instead a business is a collection of individuals who spend time together to achieve common goals.

Make this time enjoyable and the goals are easier to achieve.

Keeping staff trained

In business, keeping up with change requires constant re-training. While easy to understand in the case of a mechanic who might need regular skills upgrading, it is more difficult to accept the need to re-train a shop assistant.

Why train staff?

There are excellent reasons for training staff and considerable research exists to show that successful businesses invest more in training than their less successful competitors.

In particular, training:

- Ensures staff can perform their jobs
- Keeps staff interested in the job
- Keeps them focused on the needs of the customer
- Stops bad habits developing
- Prevents failures, accidents and injuries
- Keeps staff in touch with new technologies
- Earns the business more profits.

Plan your training for the next year. It is essential that the training be 'locked in', so budget time and money for staff to leave work and attend courses.

Establish what learning objectives you want the staff to achieve. Outline these to the training provider and plan to use the new skills in the job. Many training programmes are unsuccessful because the new skills learned are not immediately used in the job and repeated over time. Therefore follow up all training to ensure that skills learnt are actually applied in the workplace.

Time invested in training pays off

A good leader leads by example. This is a simple statement, but it's more difficult to implement.

"I never seem to have enough time" is a standard lament heard from small business managers. Some small business owners feel that in the time it takes to tell an employee what to do they might as well have done it themselves. Keep calm and take the time to explain. While this may take time initially, it will save time in the long run.

Performance appraisal

Regular feedback is essential

A regular performance appraisal is a useful tool for keeping your staff motivated. Staff **always** want to be told when they are doing a good job. Plan regular interviews where you discuss with each employee the performance objectives set out in the job description.

If during this interview you discover the staff member is carrying out duties that are not in their job description find out why. The job description may need revising.

It is important that you keep up regular performance appraisals because this planned approach is a far more effective way of addressing issues than trying to sort out problems that have been allowed to develop over time.

See TEMPLATE 18

(Performance appraisals)

Motivation

The loss of a key staff member can have a dramatic effect on your business. It is difficult for a small business to retain staff because it is not always possible to offer someone a career path. Simply increasing someone's salary does not always mean you will retain the services of that person. Simple things, such as giving employees more control over their own work, can have an enormous impact.

Another technique is to involve staff in the planning of the business. This will increase their interest and commitment.

Employees like using a variety of skills and like to know that their work is important and meaningful. **The more you can design their jobs to allow this to happen the greater your chances of retaining them.**

And finally...

Dismissal

If you do have to dismiss staff, or make anyone redundant, you should be aware that there is a right way and a wrong way to go about the process. The right way involves following certain definite steps. **Instant dismissals are particularly dangerous** even in cases such as theft that might seem clear cut. A lawyer could put a quite different interpretation on such actions in court. If you make mistakes, you could end up fighting a personal grievance case that could cost your business much wasted time and money. So **always** get expert advice before you consider action to dismiss staff.

Get advice from an employment specialist

If you do need to consult a lawyer about employment issues, make sure you consult an employment lawyer who is familiar with the complexities of employment legislation.

Retirement

This is unlikely to be an issue in new businesses, but managers of existing businesses should be aware of changes in this regard. Seek expert advice if you are in doubt.

Summary

Employing staff is often the most satisfying part of being in business. Giving meaningful employment and seeing people achieve their true potential is one of the best aspects of operating a business. Staff are important assets and should be treated as such. They are the means through which you will achieve success.

Some familiarity with the Employment Relations Act will be of great benefit to you in your relations with staff. For basic questions about the Employment Relations Act, visit the Department of Labour's web site **www.ers.govt.nz** or phone the Employment Relations Infoline on 0800 800 863. This service doesn't replace expert advice, but is a useful adjunct to it. There are some good articles and FAQ (Frequently Asked Questions) sections. Also check the government's business portal **www.biz.org.nz** for details of Enterprise Training workshops on employment topics in your area.

CHAPTER 4 – FINANCE

The financial part of your business plan is where you pull together all of the various elements of your business and express them in a common denominator: dollars. It is the part of the exercise where you see whether all your efforts and plans will result in you making a profit or not.

It should particularly highlight the timing of any required cash injections (borrowings or investment), by answering questions such as: How much money is needed? When is it needed? What for? Where is the money to come from?

Three key documents

A good finance section should include three key interrelated documents:

- The **profit and loss forecast** (sometimes called the income and expenditure statement)
- The **cashflow forecast**
- The **balance sheet forecast**.

These three documents collectively and separately depict the impacts of profitability, liquidity and growth on your business over the planning horizon you have chosen.

These financial statements are essential. Not only do potential lenders and investors want to see them, but research shows that small business owners with a good grasp of the financial side of their business are much more likely to succeed.

Managing your finances

In order to keep your finger on the pulse of your business you should try to gain a working understanding of these financial management tools and the way they interact. However, you should also recognise that in many cases you will need the advice and support of your accountant or business adviser to compile and interpret the information these statements contain.

You will use the financial forecasts as an important yardstick for measuring the performance of your business over the life of your business plan. In addition, your financial section is a key component of your business plan when you present a case to investors or lenders.

Such people will be keen to gain an understanding of your business from your description of the market, your competition, products and services, the skills and experience of you and your staff and the various productive resources you have assembled, or intend to assemble, to achieve your production targets.

They will ultimately, however, be most interested to see clear statements of the projected financial health of the business. They will also hope to draw comfort from the soundness and sustainability of the assumptions behind the numbers.

Keeping a close eye on your finances

Good financial management is all about continually balancing the demands of growth with making a profit and keeping sufficient cash on hand to be able to pay your bills.

You will need longer-term forecasts

If you're looking to raise capital, then you will need to prepare five-year forecasts. Two main reasons:

1) Often software needs replacing or equipment wears out (becomes obsolete) after five years.
2) The process forces you to think long term and confront the question: "What if this business becomes really successful?" Are you prepared to manage the consequences?

Specific points of interest to lenders or investors

In particular, they will be looking to see that:

- The profitability of the business reflects a sound relationship between market-driven sales projections and accurately based costs of production and overhead costs
- You have planned to have enough cash to meet both your regular bills and also non-regular items (such as once-yearly insurance payments)
- The financial position of the business continues to remain sound as growth takes place
- You maintain a sensible balance of debt and equity finance
- Your short and long-term obligations are matched with relevant finance options
- The key business ratios (see Glossary) remain within sensible bounds.

Goods and Services Tax (GST)

Financial accounts for all businesses are prepared exclusive of GST (because the GST isn't retained by the business). So your Profit and Loss Statement and Balance Sheet always show the net amounts (GST exclusive).

Your cashflow projections should be prepared GST inclusive, however, as this document projects what happens to your cash each month.

Preparing your financial forecasts

So how do you go about preparing your financial forecasts?

Clearly it will be easier for you to forecast the future performance of your business if it is already up and running. You will have your past trading results to act as a guide in terms of sales and the relationship of sales to costs. In the case of a new business you will to some degree be flying blind, but this should not be used as an excuse to skimp on your planning.

The profit and loss forecast

The profit and loss forecast is the starting point for your financial planning exercise. It is the document that pulls together key elements of information from your business plan.

Because it is impossible to accurately predict the future, it is a good idea to prepare three variations of your profit and loss forecast:

- An **optimistic option:** what would eventuate if everything goes right?
- A **pessimistic option:** what would the results look like in a worst case scenario?

and finally:

- The **most realistic:** your best estimate of sales and costs

By completing these alternatives you gain a valuable insight into the various risks associated with your business. Avoid the temptation to prepare more than three alternatives. Computer-generated spreadsheet programs make it easy to produce multiple scenarios by varying any number of factors. But masses of printouts will only confuse you and possibly annoy other readers of your finished business plan.

Separate business and private finances

An important tip is always to keep your personal finances and your business finances separate. Remember this is important even if you are operating as a sole trader rather than in a partnership or as a company.

See TEMPLATES 19a and 19b

(Profit and loss 1-year forecasts)

See TEMPLATE 20

(Profit and loss 3-year forecast)

Remember, three-year forecasts for most businesses, but five-year forecasts if you want to challenge your thinking.

First, your sales forecast

Start with your sales forecast, simply because the level of sales is, in the overwhelming majority of businesses, the dominant influence on the performance of the business and because most cost items are directly or indirectly linked to the level of sales.

For most existing businesses the past sales levels are the best indicator of future levels of market penetration. For new businesses it is less simple, but you will find that the accuracy of your sales forecasts will improve with time as you gain a better understanding of the relationship of your products and their markets. You must keep detailed records of all aspects of sales; however, as it is these records that provide you with the growing ability to forecast income levels.

If you have a new businesses with no past sales history, or an existing business facing a changing market, it may still be possible to get some useful information by doing the following:

Talk to industry experts

Suppliers (those who supply your competitors and would like to supply to you too), industry associations, and others in the industry familiar with products or services like yours.

Talk to potential customers

Observe the activity of your competitors and any customer buying patterns, and talk to customers about what they need, how much, and when.

Remember your capacity limits

Determine your ability to meet demand and how many units you can produce per month.

Forecasting sales should be undertaken in two steps:

1. First, forecast the number of units you expect to sell during the period:

- Begin with an analysis of current performance (if available)
- Divide sales into appropriate categories
- Consider factors that affect each category:
- Internal factors might include staffing changes, profit expectations, promotional plans, capacity restrictions, etc.
- External factors might include the impact of inflation, unemployment, competition, business trends, government policies, etc.
- Now attempt to forecast unit sales in each category for the future period (note that this may require breaking the period down into weeks or days to produce a total).

Remember that considering first a best case scenario, then a worst case scenario, will help you to determine the most likely unit sales forecast.

Accurate forecasting involves effort and research

Accurately predicting your sales levels is both the hardest and the most critical element of budgeting.

Lack of effort and research here will usually mean your overall budgeting process will not represent as good a forecast as it should.

2. **Then multiply by price (excluding any GST you add if GST registered) to calculate the expected dollar value of sales.**

In estimating sales figures for the coming period use past figures to see any trends:

- Examine your annual totals for the last 5 years to help estimate this year's total sales
- Examine monthly totals for the last 2 years to see monthly variances and seasons.
- Take into account new sales opportunities you expect to achieve in the forecast period.

Next, your direct costs

On the expenditure side the first section to address relates to the 'direct costs of sales'. These are costs that generally move or change consistently with the level of sales; they are said to be 'variable' or 'directly' related to the level of sales.

Some examples of direct costs of sales:

- A **retail store:** the price you paid to purchase the products sold
- A **manufacturing business:** raw materials, factory wages, packaging
- A **restaurant:** the cost of food, wages of kitchen and waiting staff
- A **painter and decorator:** the cost of material, painters' wages.

The amount left over after deducting direct costs from sales revenue is usually called the **gross profit** or **gross margin** of the business.

Finally, your overhead expenses

From your gross profit you then deduct the 'overhead' costs or 'fixed' costs to calculate the final **net profit** of the business.

Overhead costs are sometimes listed alphabetically in the profit and loss statement but it is probably more useful to group them by type. For example:

- **Selling:** costs associated with marketing your products and services and generating sales
- **Administration:** costs involved in administrating the business and running the office
- **Finance:** costs of funding the business and other financial losses.

These overheads or fixed costs are generally the expenses that do not vary (in the short term) with the volume of activity. For example your rent and insurance premiums do not reduce if you sell fewer goods this year. Fixed costs can therefore be estimated in advance with some accuracy because they do not change if your business is busy or quiet.

As you prepare your cost figures remember to give consideration to any other relevant influences. For example:

- Internal factors might include a planned change in staff numbers, anticipated wage increases, commitments to new leases, etc.
- External factors might include the impact of inflation over the next year, anticipated changes to supplier prices, changes in tax rates, changes to power and telephone prices, etc.

Remember again that if you are GST registered your profit and loss statements are prepared GST exclusive (as the GST component of all revenues and expenses is merely passed on to the IRD). If you are not GST registered then simply record the sales you expect to make and the full value of expenses you will incur (including GST as you are deemed an end user and cannot claim it back).

Cashflow budget

Once you have completed your profit and loss forecast, which reflects the likely profit performance of your business, you need to convert the information it contains into a cashflow budget. As the name suggests, what you are endeavouring to do here is identify, usually on a monthly basis, the inward and outward flows of cash for your business.

This is important, because profit is not the same thing as cash in the bank. In the short term a business needs liquidity, which means having enough cashflow to pay the bills as they become due.

- If the cash flowing in to your business exceeds the cash flowing out, you can continue to operate.
- If the cash flowing out of your business exceeds the cash flowing in, you eventually run out of cash and creditors may seek to have the business liquidated in order to recover their losses.

Capital expenditure budget

Many businesses will have to plan for capital expenditure, such as replacing or updating old or obsolete equipment, or buying new equipment. This includes the upgrading of computers and software. Capital expenditure has a massive impact on cashflow, especially for those businesses that use expensive equipment.

To avoid liquidity problems it is important to anticipate and plan the cashflow for your business. A cashflow forecast anticipates the flow of cash in and out of the business on a monthly basis, in an attempt to ensure that there is sufficient cash coming in to pay bills as they fall due.

The first step is to ensure you are able to break down your profit and loss forecast into monthly sections.

Having achieved this, you need to convert the information to reflect when the actual cash from a sale is received and when you actually pay the cash for an item of expenditure.

Invoice and follow up promptly

Get invoices out as promptly as possible. State your terms of business clearly and then follow up promptly if the invoice is not paid by the due date.

Sound cashflow management will impress

Stay on top of your cashflow position. Lenders and bankers will be impressed by evidence of your sound cashflow management.

On the other hand, they will lose faith in your business if you show you cannot manage your cashflow competently and have to approach them regularly for additional funds.

The key here is to remember that in many cases some of the cash coming in will arrive in a month **other** than that of the actual sale, and some of the cash going out will be in a month **other** than when you received the goods or services.

Your business policies regarding the credit you offer your customers and when you pay your bills will dictate when cash flows into and out of your business.

It is therefore vital that you make sure the policies you set in these areas are followed as closely as possible. For example, if you offer customers the usual 'payment by 20th of the month following invoice' credit terms, but then fail to collect until two months later, you will run into serious cashflow difficulties.

See TEMPLATE 21

(Cashflow forecast)

GST

If you are GST registered your financial accounts are prepared exclusive of GST, but your bank records aren't. They show the total cash in and out, including the GST component. You should use GST inclusive figures just like your bank records (to make a comparison with your bank statements easier). Simply use the estimates you've prepared for your profit and loss forecast and add GST to all figures (except items like wages and interest that don't attract GST).

But you must remember to include also your regular GST returns (i.e., GST to pay and GST refunds).

If you are not GST registered just use the sales and expenses figures you incur.

Steps in preparing a cash budget

1. Prepare sales forecasts

Use the sales projections from your profit and loss, but remember to include GST in your cashflow sales forecasts if necessary.

2. Identify the cash inflows that form a part of each month's operations.

The principle sources of cash coming in will be:

- cash from cash sales (received in the month you sell)
- cash from debtors who are paying for a past month's credit sales (so the cash receipts will be staggered over the month or two following the sale)
- any other sources of cash revenue (e.g.: interest, commission, tax refunds).

Note that the sale of assets and new injections of capital will produce cash inflows also, but these do not occur regularly. Include them when relevant.

3. Identify cash outflows

The principle sources of cash going out will be:

- cash payments for stock purchases (note that if you buy on credit you will need to stagger the cash payments to the months that you pay the bills)
- all other cash expenses (e.g.: wages, rent, power, drawings, taxes paid, etc.)

Note that depreciation is not a cash expense and is ignored in the cashflow forecast.

4. Calculate net cashflow

Subtract the cash outflows from the cash inflows.

5. Adjust the bank balance each month

By adding the net cashflow for the month to the month's opening bank balance you can estimate the bank balance at the end of the month.

Repeat for subsequent months.

Special points

It is important to note the following:

- Some expenses do not occur regularly each month—for example, insurance, ACC, Provisional Tax, FBT and GST payments—so you have to reflect the timing of such irregular payments in your cashflow forecast.
- Some cash items do not appear in your profit and loss forecast but, because they involve cash going out, they must be included in your cashflow forecast. Examples are any principal repayments on a loan, capital expenditure, or tax payments.
- Some profit and loss items are **not** included in the cashflow budget. Depreciation is not a cash item so it is not included.

Remember the purpose of your cashflow budget is to provide you with an estimate of your cash position at the end of each month. As such it must account for all cash coming into the business from all sources (sales, investments, loans, collections), as well as all the cash going out of the business in the same period.

The difference between the two totals, inwards and outwards, will leave you with either a surplus or deficit of cash. A surplus you manage by investing or holding the credit in an interest-bearing account. A deficit you have to cover by a loan, increasing your overdraft, or delaying payment to certain creditors.

Cash is king in your business—without it your business will likely fail—even when underlying profitability is sound. Like a car engine without oil, your business will cease to function if there is insufficient cash on hand to meet commitments. It is therefore vital that you continually monitor your cash position via your cashflow budget.

The balance sheet

The balance sheet of your business provides a snapshot of its financial status at a particular point in time. For most businesses this is generally at the end of the financial year where the balance sheet gives a summary of how the previous year's trading has affected the business.

For example, a year of sales growth would have led to greater investment in current assets to support the extra sales (for example, increased stock levels and an increase in debtors).

This would have required additional finance, either from yourself or your partners in the form of extra equity, increased creditors (who supplied your stock on credit), or greater short-term borrowing in the form of an increased overdraft.

Growth in sales may also require cash reserves and borrowing to be committed to new plant and equipment, which in turn may leave the business short of cash.

Curiously, periods of sales growth can result in cash shortfalls that threaten your ability to pay immediate debts. It's important to monitor this in your cashflow forecast.

Sustainable relationship

The balance sheet highlights problems associated with growth and allows the prudent business owner to keep growth in balance.

Controlled growth, in which the rate of **growth** is balanced against the objectives of **liquidity** and **profitability**, brings these three business objectives into a sustainable, balanced relationship.

Key points

Key points highlighted in a balance sheet should include:

- That the balance of types of funding (debt versus equity, long term versus short term) is appropriate for the business
- That there are sufficient current assets to cover short-term liabilities
- That profits are being retained or distributed
- The extent to which the business can grow under its existing financial structure.

The average small businessperson should not expect to understand the intricacies of the balance sheet and how it acts as a regulator of business growth. Your accountant should alert you to problems in this area.

If by this stage you have come to recognise that planning and managing a business is a continual juggling act between liquidity, profitability and growth, then you have gained a basic understanding of the importance of a comprehensive approach to financial planning.

Break-even calculation

Using different scenarios to forecast the financial performance of the business will give you an idea of the level of risks involved. A more precise way to gauge both the risks and potential of your business is to complete a break-even analysis. This involves working out how much business you have to do to achieve the desired profit.

Calculate the break-even point for your business and compare this level of sales with your best estimate of the level of business activity.

Rapid growth brings attendant dangers

Always remember your business can fail through too much growth and success.

Financing rapid growth can create pressures on your business that you need to recognise at an early stage. Regular reference to an updated balance sheet is your method of ensuring your business expansion is sustainable.

If you need funds, provide a forward balance sheet projection

Remember also to project your balance sheet, especially if you are looking for capital or for investment funds. Your balance sheet at present tells only part of the story. How will it look in three to five years time? Your accountant can assist you here if needed.

See TEMPLATE 22

(Break-even analysis)

Your business idea: a quick test

Use a trial income and expenditure statement to scope the potential of your business idea

We've said that it's accepted practice to complete the financial section after you've completed the other key elements of your business plan. However, it can be very useful to 'scope' an approximate income and expenditure statement right at the start of your business planning exercise. You can do this when you are still considering whether a new idea has the potential to form the basis of a business that will meet your personal goals.

In such circumstances it is often very difficult to get your head around the market potential of your idea, so why not work in reverse? Start with your financial goal and, by using the income and expenditure format in a 'bottom up' way, work out the necessary dollar sale levels you will need to achieve and what this represents in unit sales in the context of the market for your product. Are you confident you can produce the required units? Where and to whom will you sell this volume?

A step-by-step approach can be followed:

1. Set your financial goal. Let's say you are earning $25,000 at your current job and feel your business idea needs to give you the ability to earn $40,000 per year to compensate for the loss of income security and to offer you a return on your investment.
2. To this $40,000 you have to add the expected level of overhead costs your business will incur. Use the checklist in Template 21 to roughly calculate your likely costs. Let's say these costs total $30,000 per year.
3. Adding these two amounts together gives the **amount of gross margin** you will have to earn from sales after you have paid for the direct inputs that go into your product.
4. Let's assume you intend to make garden bench chairs and have established that you can sell these for $280. Your trial production has shown that each unit takes four hours to make at a labour rate of $15/hr (total $60) and uses $90 of materials (timber, screws, paint, etc). Grand cost total, therefore, is $150.

When you combine all this information you are able to gain a 'ball park' insight into the level of sales you will require to meet your personal financial goals from the operation of the business:

Desired financial return		$40,000
Level of overheads (list by item)		$30,000
Gross margin required		$70,000
Sales: price per unit		$280
Cost of goods sold: labour	$60	
material	$90	
Total cost per unit	$150	
(labour plus materials)		
Gross margin/unit ($280-$150)	$130	
Number of units to be sold to		
reach target: $70,000/130 =	538	
Total sales 538 x $280 =		$150,640
Cost of goods sold 538 x $150 =		$80,700
Gross margin (approximately)		**$70,000**

You have learned a number of things from this simple scoping exercise:

- You need to sell 538 units per year or between 10 and 11 per week to meet your personal financial goal from the business.
- This has allowed you to put your business potential into a market-sized context and develop a marketing strategy.
- The exercise may have provided you with an early warning that the business will have difficulty obtaining sufficient sales to meet its goals.
- It gives an indication of the level of production required to achieve market and finance targets. For instance 10 -11 units/ week at four hours per unit mean that a full 40-hour week needs to be devoted to production. With marketing, sales and administration also to be taken care of, clearly a large proportion of the production will need to be undertaken by hired labour or contracted out if you are to have time for these other important activities.

Clearly you can use this 'scoping' exercise to play around with options such as how many units you would need to make and sell if you were happy to take a lower return in the first two years while getting the business established. Try increasing the price, or lowering your costs to see what difference this makes to how many units you have to sell.

The Four Fives Rule

Often when you have completed your financial planning exercise you may want to do some fine-tuning to see whether, by your good management, you can enhance the future performance of the business. Improved performance is often the result of many small gains rather than major breakthroughs. This is where the Four Fives rule can offer a useful guide.

The four major areas where you can improve the financial performance of your business are:

- The **level** of sales
- The **average price** of sales
- The **cost** of sales
- The level of **overheads**

A target of increasing the first two by 5% each and reducing the second two by 5% each can collectively result in amazing performance improvements for a business. An example will serve to illustrate:

Projected performance		Enhanced performance	
As per original budget		The goal is to sell 5% more units at 5% higher price	
We plan to sell 10,000 units @ $20	= $200,000	We now plan to sell 10,500 units @ $21	= **$220,500**
They cost 10,000 @$3 per unit	= $30,000	If we reduce the cost per unit by 5% and sell the 5% extra units, we have 10,500 units @ $2.85 per unit	= **$29,925**
Thus the Gross Margin will be 85%	= $170,000	Therefore the enhanced Gross margin	= **$190,575**
Subtract the 50% overhead costs	= $100,000	Reduce overhead costs by 5%, they become	= **$95,000**
Giving a Net Margin of 35%	= $70,000	Giving an enhanced Net Margin of	= **$95,575**

The result of following the Four Fives Rule is a 36.5% improvement in pre-tax profit.

Notice that this improvement was brought about by making relatively small changes in a number of key areas, rather than attempting a large change in only one area.

CHAPTER 5 – USING E-COMMERCE IN YOUR BUSINESS

No Business Plan is complete without some mention of how you propose to exploit the potential of e-commerce in your business. The purpose of this chapter is to give you some ideas and guidance about using e-commerce in your business so that you can incorporate these ideas into your business planning. The two boxes on the right provide more details about free training available; in particular, think about taking advantage of New Zealand Trade and Enterprise's *E-business Guide* service that offers you free mentoring and help in developing your e-commerce capability.

There is no escaping the Internet. Even if you're doubtful about this whole technology business you are in fact already using the Internet every time you use EFTPOS, order a movie ticket over the phone, sign your name on a hand-held computer to accept delivery of a package or check your bank balance over the phone.

The three main reasons why your business plan should incorporate an e-commerce strategy are:

1. E-commerce allows you to speed up your standard business operations (advertising, sales, customer contact, ordering, etc.) more efficiently and at a lower cost.
2. It allows you to do new things: to expand your business beyond its physical boundaries, access new markets, customise products and make it easier and faster for customers to do business with you.
3. Your customers will increasingly expect you to be e-commerce capable. If you don't offer at least email, the most basic form of e-commerce communications, you will soon be categorised as behind the times. Just as almost every business now has a fax machine, so every business needs a computer or at minimum email access.

In your Business Plan you should identify the current e-commerce capability of your business and indicate how you propose to develop this capability. You should also explain how your Internet strategy fits in with your overall marketing and business operations strategies.

Becoming more e-commerce capable

How do you begin if you know little about e-commerce and the world of computers? If necessary you can begin modestly and build your capabilities gradually. This section suggests some activities to help you exploit more effectively the potential of e-commerce in your business.

Using email and building a database

If you're technology shy, starting modestly is better than not starting at all. At least make sure that you're contactable by email and can communicate via email with your suppliers and customers (including receiving orders). It's so much cheaper, faster and more convenient than conventional post or fax that this facility alone will help speed up your business processes and lower your costs.

Recent computers feature very user-friendly email programs that encourage you to start building a database of customers. You can do this very easily by adding their details to your 'Address Book', typically through a single mouse click.

Upskill through free training opportunities

If your knowledge of e-commerce is limited, make use of the free Enterprise Training programme of workshops to upskill.

If you qualify for the Enterprise Training programme, you may also be eligible to access the free online training workshops on e-commerce topics.

To find out when the next Enterprise Training workshops on e-commerce are likely to be held in your area, visit **www.biz.org.nz** for information about your nearest Enterprise Training Provider or phone 0800 42 49 46.

Get help from New Zealand Trade and Enterprise's *E-business Guide*

Take advantage of New Zealand Trade and Enterprise's free assistance and mentoring to businesses looking to develop their e-commerce capability.

The first step is a 10-minute interview with a New Zealand Trade and Enterprise E-business Mentor. You will then be provided with a concise *E-business Guide* activity report at no cost, personalised to your business's level of e-business experience.

Your activity report will show you how to move from your present stage to the next using a 'learn-as-you-go' approach. For more information email **ebusinessguide@nzte.govt.nz** or phone 0800 555 888.

Your goals at first might be simply to:

- Communicate with customers via simple emails: answer questions, make appointments, etc.
- Take orders via email (speeding up the process and eliminating paperwork)
- Invoice or quote via email, for example by means of a PDF (Portable Document Format) attachment, a Microsoft Word document attachment or spreadsheet attachment
- Set up some automatic responses to emails (for example: 'Thank you for your order, it will be despatched...') to save office administration costs.

Becoming a more proficient Internet user

By the time you're using emails extensively in your business, you'll probably also have learned how to exploit the rich resources of the Internet by:

- Using search engines efficiently to access web sites and topics of interest
- Conducting market research on-line by analysing the web sites of competitors or gathering information about products and services worldwide
- Ordering products on-line
- Searching for new suppliers, distributors, agents, ideas, markets or joint venture opportunities on-line

Permission marketing via an email newsletter

Once you're confident about using email, a natural progression is to start thinking about sending a regular email newsletter out to your customers. If you already send out a conventional newsletter, you can offer your subscribers the opportunity to receive the newsletter in email form, thereby starting the transition process. New customers can be put directly on the email newsletter database.

The advantage of an email newsletter is that it can be sent out at a fraction of the cost of a conventional newsletter.

How do you get readers to actually read your email instead of simply deleting it along with other 'junk' emails they receive every morning? The key to a successful email newsletter is to make sure that the newsletter is not all about selling or promoting. In fact, your selling or promoting should be kept very discreet and low-key. **The way to build reader loyalty is to keep on giving your customers something of value in the newsletter that has nothing to do with your products or services.**

You can find plenty of useful material by searching the Internet, or from other newsletters you might subscribe to. Remember to get permission first before using articles you've found.

Secure your domain name NOW

Register your domain name as soon as possible, even if your web site plans are not yet fully developed. Choose a name that is short, memorable and easy to spell and type. If someone misspells the name, and a 'We can't find this site' kind of notice comes up, that person may well not bother trying again.

See TEMPLATE 23

(Your email and database usage)

Start building a database NOW

Start collecting customer email addresses immediately even if you do not plan an email newsletter immediately. These email addresses will be very useful to your business in the future.

See TEMPLATE 24

(Your Internet usage)

See TEMPLATE 25

(Developing permission marketing)

Reassure your customers about privacy

The main concern people have in supplying their email address to you is that they will be inundated with spam (unsolicited commercial emails).

Address this concern directly by stating very clearly that it is your business policy **never** to on-sell or provide email lists to third parties.

Make it clear that you will only use the information to provide useful information about your products and services. Always offer your customers the opportunity to unsubscribe from your newsletters at any time if they so desire.

Try if possible to make your domain name consistent with your other business branding. The appearance of your web site should harmonise with your business stationery, logo, and other promotional material so that you project a consistently recognisable image to the marketplace.

Building a basic web site

Once you and your staff have become proficient Internet users, the next logical step is a web site. Just about every business will have one of these in the foreseeable future, so you will have to give some thought to what a web site can do for your business. For example, your email newsletter might announce a new product or service, and the link would lead readers to the page on your web site where the new product or service is described and/or illustrated.

You do not have to start with a full 'bells and whistles' web site; a simple 'brochure ware' web site is often the first step because such a site can be established for a relatively modest investment. A basic 'brochure ware' site is essentially an on-line version of your business brochure or catalogue with a few added features.

Such a web site would typically feature a Home Page (the 'window' to your web site) and then tabs or buttons leading viewers to other pages, such as About Us, Products and Services, Orders, Contact Us, etc.

Some of the advantages are:

- you gain the credibility of having a web site to which you can refer customers and other parties
- you can register a distinctive and exclusive domain name (name of your web site, like www.amazon.com) and promote this via all your marketing material
- your web site, unlike your business, operates 24/7 (24 hours a day, seven days a week). It can generate business for you while you sleep
- the web site can be viewed from anywhere in New Zealand, giving you nationwide coverage
- the web site can be accessed from any country in the world, giving you a global reach
- once your web site is established, the photographs, images and text on the site can be updated very quickly to keep your business details fresh and current. For example, price list changes or new products can quickly be added
- useful features such as an FAQ (Frequently Asked Questions) section offer an efficient and time-saving way for you to answer customer queries and provide product/service information
- likewise, a 'Customer Feedback' page builds credibility by displaying comments and endorsements from customers.

A basic web site of this nature allows you to 'dip your toes' in the Internet stream, get the reaction of your customers or clients and discover the benefits of being on-line. The amount you'll learn in the process is huge.

Think about future functionality

Even if you're starting with just a simple 'brochure ware' site, think about the future and what functionality you'd like to add later to make your web site fully e-commerce capable.

For instance, you might want the ability to accept credit card payments for on-line orders. Or you might want to allow certain customers or suppliers access to selected pages of your web site through a log-on code.

Talk to your web designer about ways of building the site in such a way that you can add more features without rebuilding the whole site from scratch. You should outline in your Business Plan the intended final 'architecture' of your site, with timelines for the development of each stage.

See TEMPLATE 26

(Describing your web site)

Off-the-shelf solutions are available

Note that there are now an increasing number of off-the-shelf solutions for both basic and more advanced (e-commerce capable) web sites. These could save you money over custom-designed web sites and also on monthly hosting charges.

For example, it's not hard to see that even a basic web site enables you to save considerable time and money over the conventional and time-consuming process of having a brochure or catalogue designed and printed.

In addition, most businesses waste money sending printed brochures and catalogues to people not really interested in their products or services. A web site saves this waste.

And by using email, you can quickly alert customers, suppliers and distributors to price, product or service changes. A link to your site in an email would enable them to view these changes on your web site at the click of a mouse.

That 'something of value' can take many forms. The most obvious – and often the most useful form – is to offer them knowledge that will help them improve their businesses or their lives. In this way you're building a 'partnership' relationship that goes beyond just trying to gain sales off them.

You can use the newsletter in this way to build your credibility as the leading authority in your particular field. Where do you get the information that allows you to do this? Search the web for suitable tips, ideas, and tactics that will improve typical customer businesses. There's a constantly increasing treasure trove of information out there.

The valuable free information can take several forms, depending on the industry you're in. For example, if you sold products to the building trade, your article might be on a new building technique, a latest report about trends in the building industry.

Good marketing practice means that you should keep in touch with your clients at least every 90 days. Email newsletters allow you a cost-effective way of developing a 'permission marketing' relationship with your customers (they have given you permission to market to them).

And it's easy to tailor special newsletters. You can identify a special sub-group of your most important customers (the 20% who give you 80% of your business) and construct a special newsletter for them, based on the customer loyalty theme. This letter could go out several days ahead of your general newsletter so that this group gets advance access to tips, information, etc.

For example, you might offer them special discounts, privileged information, invitations to previews of sales (before the general public is admitted), or any other tactic that makes them feel special. Customers enjoy feeling recognised and important and are more likely to remain loyal to you if you show them that you do value their business.

Establishing a fully e-commerce capable web site

A basic web site would not feature full e-commerce capabilities (the ability to accept orders on-line) because this additional functionality is more expensive to develop. Behind every web site you view is a hidden architecture of coding that makes the site operational.

How do you find a good web designer?

Search the Internet for local examples of SME business sites you like. Look for sites that are striking, informative, fast to access and easy to navigate.

Ring up the business and ask them who designed their site and how much it cost. Also ask them how effective it has been for their business.

Most people are willing to share their experiences of this comparatively new medium and give you some valuable tips.

Develop an office email and Internet policy

Develop an office policy for checking email messages at least three times a day (morning, lunchtime and late afternoon) so that you can reply promptly to enquiries. Emailing allows you to speed up business processes, so make sure you respond to people within the same working day.

You also require an office policy restricting personal emails and general Internet surfing. An email also represents a legal company document, so set a policy or guidelines on usage.

If you require such features as the ability to accept secure credit card payments for orders over the Internet, then the site, like a software program, becomes more complex, occupies much more space on a computer or server, and will therefore cost more in monthly hosting charges—what your ISP (Internet Service Provider) charges you for hosting your site on their server.

But this step up to a fully e-commerce capable site means added convenience for your customers, and indeed such e-procurement facilities might be a prerequisite for doing business with some customers (such as government departments) who demand such functionality.

A full e-commerce site means that customers can order from you outside of normal business hours (especially important to overseas customers operating in different time zones) and considerably speed up your business processes. Invoices, delivery notes and packing slips can be generated automatically by the software, with the information fed through to your accounting and inventory control systems.

In addition, there are other features you can add. For example, customer preference software can direct your customers to other products or services they might find useful. If you've ever visited the www.amazon.com web site for instance to view a particular book, you'll be familiar with the way the software prompts you to look at other books that 'customers like you' found useful.

Developing an e-business

This involves an on-going quest to use Information Technology (IT) to streamline your business processes and remove as much human labour as possible.

For example, if other businesses can order from you via the Internet, with immediate confirmation of order received and automatic generation of invoices, there is far less likelihood of error creeping into the transaction than if the order is taken over the telephone and processed in the conventional way.

By this stage you will have identified the main categories of e-commerce and have identified which category offers you the most opportunity for deepening and developing your e-commerce strategy. These are:

1. Business to Business (B2B)
2. Business to Consumer (B2C)
3. Government to Business (G2B or B2G)

Business to Business (B2B)

To explore these three briefly, B2B e-commerce covers the relationship between your business and other businesses such as your suppliers. This is often the area in which immediate gains can be made in terms of making business processes more efficient. B2B potential is often overlooked, although many studies suggest that this increasingly important area offers e-commerce gains that are expected to exceed B2C transactions.

In the case of your relationship with your suppliers, for example, you might develop a special section of your web site that selected suppliers can access through a log-on code. This section would allow them to view your real time stock levels and orders on hand so that they can gauge when you'll need to re-order. This relationship can

Professional is better than amateur

It is possible to develop your web site yourself, but unless you are very skilled in a number of areas the result is likely to end up looking amateurish.

The same applies to your logos, your business stationery and your brochures. To project a professional image it is worth paying professionals to do the job for you. Remember too that a web site is likely to evolve from a basic site to something more complex, so money spent on developing a sound structure at the beginning will be money saved in the long run.

Develop a viable conventional business first

Except in rare instances (such as a business involving a revolutionary software program), people need to develop a viable conventional business first, before thinking about e-commerce as a way to build their turnover.

E-commerce is not a short cut into the business world, nor is it a magic wand to make money quickly. You should instead think about e-commerce as an addition to your other business. It is another form of distribution that allows you access to markets and places you would not otherwise be able to reach. E-commerce also makes the process of doing business faster and easier.

also work in reverse, of course, if you can access their inventory levels, permitting both sides to fine-tune the ordering process and reduce cash tied up in stock.

If you supply retail businesses, similar B2B efficiencies can be achieved by offering special access protected by log-on code to sections of your web site that provide information on trade prices and other details that you do not wish your retail customers to view.

See TEMPLATE 27

(Developing your B2B strategy)

Business to Consumer (B2C)

You can use this tactic innovatively in the case of B2C transactions. For example, you could offer your favoured or top-spending customers special access to certain sections of your site.

See TEMPLATE 28

(Developing your B2C strategy)

These might be the identified 20% of your 'frequent customers' that buy 80% of your products or services. Or they might be customers you wish to retain through a loyalty or points gained scheme. You can provide them with log-on codes to view selected pages of the web site that detail special offers, loyalty discounts, previews of new items, items on sale, etc.

The feeling of 'privileged access' and being part of a select few customers can constitute a powerful competitive advantage for your business. Everyone likes to feel privileged and special. Again, such access can be announced through an email or direct mailing.

Thought

The accelerating pace of technology has brought businesses face to face with the competitive advantage of speed—getting products to customers faster to increase market share while reducing inventory costs.

Other B2C strategies have been briefly mentioned, such as enabling customers to order on-line 24 hours a day, seven days a week (24/7). Since a web site potentially exposes your business to the whole world, it also allows you the possibility of extending your business far beyond its physical presence in a particular place.

Some businesses are arguably more suited to this expansion than others. Notable successes have been achieved by New Zealand businesses selling products as diverse as needlecraft patterns, wool spinning wheels, hockey gear and rebuilt vintage cars.

If you intend to broaden your business in this way, you should indicate in your Business Plan how you intend to develop such a worldwide expansion. The obvious hurdle is how to make your web site accessible to people surfing the web in search of certain products and services, bearing in mind the enormous number of web sites worldwide.

Government to Business/Business to Government (G2B, B2G)

If you have national or local government ministries or agencies as customers, then you may need to develop e-commerce capabilities to do business with them. Detail in your Business Plan the steps you may need to take to meet their e-commerce standards.

See TEMPLATE 29

(Developing your B2G strategy)

These G2B transactions are likely to be in the area of e-procurement, where government agencies may require you to tender on-line for government purchase requirements, or to have sufficient e-commerce functionality on your web site to allow them to order on-line from you.

You should also look at the possibility of lowering your compliance costs in such areas as tax returns by developing the capability to submit your compliance returns on-line (B2G). Again, this can pay dividends in speed of processing, allowing you to receive such things as tax refunds more promptly.

Summary

The Internet offers you significant opportunities to:

- speed up your business processes
- reduce costs and human error through automation
- improve efficiencies
- conquer distance and isolation to greatly expand your marketing reach
- gain new customers
- compete against much larger businesses, both through creative Internet strategies and because a small business can project a 'big business' image through a well-designed web site.

Show that you are aware of these possibilities by incorporating an e-commerce section in your Business Plan. You can develop your e-commerce strategy in a series of incremental steps.

Remember that there will always be new ways to use technology to improve your business, so surf the Internet, stay current with what others are doing and remain alert to using creative ideas in your own business. You might consider setting up an 'Internet team' in your business to research new possibilities. If you want to sell on-line, make sure you have purchased on-line, so you understand the process.

See TEMPLATE 30

(Other possible e-business options)

Are you making the most of on-line banking?

You might already be using telephone banking, but being able to access your bank account on-line is even better. It's far easier to manage your cash flow than waiting for those end of the month statements. You can check whether bills have been paid, make on-line funds transfers and view the actual transactions.

Some additional tips to save you time, money and improve efficiencies:

- Cut down on the number of cheques you write by using direct credit to your suppliers' bank accounts.
- Pay your staff by direct credit to their bank accounts. Aim to eliminate cheque writing altogether.
- Cut down on invoicing. Get your customers or clients to pay you by direct credit. You often get paid earlier this way.
- Some banks allow you some international transaction services, such as buying and selling foreign exchange on-line plus a range of other trade services.

For an example of a bank that offers a range of on-line banking services visit www.nbnz.co.nz (most banks offer similar services).

CHAPTER 6 – DEVELOPING AN INNOVATION STRATEGY

Innovation is imperative if you want to establish and maintain a competitive advantage. To maintain this advantage requires a continuous commitment to innovation, not only from you as the owner, but from everyone in your business.

According to recent research, companies that make a large commitment to innovation – where it penetrates through the organisation – are exceptional performers in their respective industries. The precursor to innovation is creativity, so infusing a creative environment where people are allowed to break the rules and push the limits is vital.

Strategies capable of producing innovation require resources and energy; it is therefore necessary to discuss in your business plan the organisational structures and practises you will put in place to encourage and support innovation. Each of the following topics needs elaboration in your business plan:

1. Creating a culture of innovation
2. Encouraging employee innovation
3. Building innovation into your business practices
4. Innovation and staff skills
5. Innovation and your customers, clients and suppliers
6. Researching innovation elsewhere
7. Implementing innovative ideas
8. Monitoring the level and success of internal innovation

1. Creating a culture of innovation

To find the few good ideas that will create value for your organisation you need to generate possibly hundreds of ideas. It should be the responsibility of every individual in the organisation to come up with ideas, not just the founder or key staff. Here are some suggestions to encourage the flow of ideas:

Encourage creativity

Encouraging creativity helps keep staff happy; if they think something is important and has the potential to have financial pay-offs for the company, let them follow their heart. People perform best when they are driven by inspiration and encouraged to extend the boundaries.

Encourage everyone to participate

Teamwork enhances people's greatest strengths and lessens their individual weaknesses. Effective teamwork also promotes the awareness that it's in everyone's best interests that the business keeps improving and growing.

Provide recognition and rewards

One of the most powerful tools to get people to be creative and to innovate is recognition. People want to be recognised and rewarded for their ideas and initiative, which can have tremendous pay-offs for the organisation. Sometimes the recognition required may be as simple as mentioning a person's effort in a newsletter.

Involving everyone in continuous improvement

A lot can be learned from the Japanese *kaizen* system, which encourages innovation through gradual and continuous improvement involving everyone in the organisation.

The process focuses on eliminating waste in all systems and processes of an organisation. Small improvements should always be sought, and staff members at all levels of the business are expected to contribute ideas.

Encourage employees to submit ideas

In creating a culture of innovation, encourage your employees to submit ideas directly to you or to your 'innovation committee'.

Some businesses encourage employees to submit ideas through their immediate supervisors. Be careful, however: it's not unknown for supervisors to claim credit for good ideas that originated from others, with disastrous results for employee morale and the future flow of innovative ideas.

Accept mistakes as part of the process

Being receptive to new business ideas means being receptive to the mistakes that are a necessary part of the process. Management guru Tom Peters insists: "Mistakes are not to be tolerated. They are to be *encouraged*."

It was while a Minnesota Mining & Manufacturing (3M) researcher was looking for ways to improve the adhesives used in 3M tapes that he discovered an adhesive that formed itself into tiny spheres. At first it seemed as if his work was a failure. However the new adhesive was later used on *Post-it* notes—a great innovation and business success for the company.

Keeping an open mind and thinking laterally

Innovative possibilities exist all the time. To realise them, everyone in the business needs to keep an open mind and the capacity to look at things with fresh eyes.

The classic example of a company completely transforming itself as a result of some lateral thinking is the Finnish company Nokia, whose original core business was wood pulp and logging.

When the collapse of communism opened the Russian market to the west, Nokia's core business was seriously threatened by cheaper imports from Russia's seemingly limitless forests. In the deep recession of the early 1990s, Nokia management concluded that the only real competitive advantage they retained was a very efficient communications system developed since the 1970s that helped them keep in touch with their remote logging operations.

That realisation transformed the company into one of the world's most successful vendors of communications equipment.

Innovation through serendipity

If you implement many of the above initiatives, it's likely that some successful innovations will result from serendipity, that is, chance discovery.

For example, one day a Swiss amateur mountaineer and inventor, George de Mestral, went for a walk with his dog, and both came back covered in burrs. Curious about how tenaciously the burrs stuck to his woollen pants, de Mestral inspected a burr under his microscope. What he discovered was that the burr had small hooks that enabled it to cling to the tiny loops in the fabric of his pants. This led de Mestral to design a fastener which had one side with stiff hooks like the burrs and the other side with soft loops. That invention was *Velcro*.

Ultimately, in developing a culture of innovation you want employees to feel comfortable in experimenting and offering suggestions, without fear of criticism or punishment for mistakes.

2. Encouraging employee innovation

You may have an innovative culture in your organisation, but you also need to familiarise staff with some of the hallmarks of continuing innovation.

For example, you could try educating employees at fortnightly training sessions on topics such as creativity, entrepreneurship and teamwork. Each session might conclude with the assignment of an exercise to be performed any time over the next few working weeks, which builds on lessons learnt.

Thought

"Creative minds have always been known to survive any kind of bad training."

Anna Freud

Thought

"Genius is one per cent inspiration and ninety nine per cent perspiration."

Thomas Edison

'Mistakes' can turn out to be profitable

A discovery of pure serendipity occurred at 3M when a laboratory worker noticed that a chemical spill on her sneakers wouldn't wash off and also seemed to protect the fabric from the stains she got on other parts of her shoes.

The result led to *Scotchgard*, an enduring money spinner for the company. The lesson is that openness to the potential of 'mistakes' or accidents and some lateral thinking can lead to very surprising and profitable outcomes.

Your aim here is to give employees a taste for innovation so they will embrace the process. In addition, incentives can generate great ideas.

Recognise the efforts of employees

If a staff member comes up with a really creative idea, even if can't be implemented immediately, mention their efforts in a company newsletter or on a news board.

Give a profit share or offer bonuses

Some people are motivated by money and the thought of a profit share or bonus (perhaps linked to the value that the idea adds to the business) can be a powerful driver. However, it is often recognition that is more important than anything else.

Remember too that many excellent ideas can lead to genuine improvements in the business, but are very difficult to quantify in terms of dollars. For example, an administrative person may come up with a simplification that eliminates some unnecessary paperwork and significantly speeds up a business process.

Days off

For providing solutions to what has been an expensive problem facing the organisation, try rewarding the innovator with a few additional days off, perhaps a long weekend.

Trips away

Try advertising a problem facing the company that needs a solution. As a prize for the best solution, offer a weekend away, all expenses paid.

A fair evaluation process

It's important that all employees, whether key staff or otherwise, know that their suggestions will be fairly evaluated on their merits, not on the person's status in the company.

For this reason it's sound policy to form a team of people from all parts of the business to assess suggestions. This leads to more informed decisions about the merits of suggestions. The input from those who might be involved in implementing a suggestion will also help to avoid possible problems.

3. Building innovation into your business practices

Your aim in developing an innovation culture in your business is to make it as inclusive as possible. Consider inserting an innovation clause into employment agreements so that all your employees are aware from the start that they share a common responsibility for improving the business.

Make it clear to your staff that everyone is capable of generating innovative ideas. The process of innovation is not just confined to those with technical knowledge and skill, or limited to the alteration or invention of new products or services. Innovation is equally valuable for streamlining and speeding up daily business processes. There are always better, smarter, quicker ways of doing things.

For example, many businesses have achieved substantial cost advantages by using the Internet to sell their goods and speed up business processes such as communications.

Are you really open to innovation?

To test your openness to innovation, ask yourself this question: would an employee have the confidence to approach you with a cost-saving idea that might eliminate his or her own job?

If the answer is negative, you still have some way to go in fostering a culture of innovation in your business.

See TEMPLATE 31

(Encouraging employee innovation)

Company culture beats financial rewards

Some businesses offer financial rewards for good ideas. The reward is often linked to the likely savings to the business over the course of a year.

Other businesses simply encourage a flow of ideas through a strong business culture that expects innovation from everyone.

Contrary to some expectations, research shows the system that does not rely primarily on financial rewards (but instead on a company culture that 'expects' innovation) tends to produce a better flow of innovative ideas.

Encourage employees to take advantage of coffee breaks, lunch breaks, and taxi rides. Often great ideas which can lead to growth, happen outside the places where we expect them to happen, in what Dr. Seuss has called the 'waiting place'.

If it's hard to get staff together for common informal breaks, consider taking them out for an informal meal where you can encourage creative discussion about work. Also be sure to include a good dose of laughter at meetings because laughter is an effective measure of how comfortable people feel about expressing themselves.

Experience shows that innovation is more likely to occur in a low debt business. With debt hanging over a business, it is more likely to stick to proven methods that result in cash flow, as opposed to less conservative methods that might be capable equally of failing or of producing tremendous success. So effective financial management also helps you to sustain creative direction.

4. Innovation and staff skills

If you want to succeed as an innovator in an increasingly competitive business environment then you should assist all the staff in your business to acquire basic skills in creativity, entrepreneurship and teamwork.

Brainstorming sessions can be a useful tool in coaxing ideas to come to the surface. But all employees need to learn how to brainstorm most effectively. Such meetings often work best in the morning, with three to ten participants and plenty of biscuits or muffins to sustain the brain work.

- Start with a clear, predefined statement of the problem. Statements that focus on the customers' needs are usually better than ones that focus on internal issues. For example, if the problem is that the manufacture of product takes too long, restate the problem as the customers having to wait too long for a product.
- Preparation is vital for effective brainstorming. All participants need a bit of background knowledge on the industry or greater environment in which the problem exists.
- Background research might also include possibly visiting competitors, or collecting samples, brochures and ideas for a brainstorming session.
- Make up some creative rules to keep the session and participants focused. For example, only one person is to speak at a time, points should be demonstrated if possible with pictures as well as words and criticism should be delayed because every idea is allowed at this stage.
- Keep a record of ideas. Numbering them allows people to refer back to them and can also be a measure of how much work or 'idea generation' took place in a brainstorming session.
- Learn how to manage staff, particularly in the midst of brainstorming sessions. Often these meetings start off slowly, rapidly gather pace and then enthusiasm wanes. The best managers are able to encourage participation and the flow of ideas at the start, then step back when the pace quickens, and bring the meeting to a close before the quality of ideas diminishes.

See TEMPLATE 32

(Building a culture of innovation)

Thought

"One doesn't discover new lands without consenting to lose sight of the shore for a very long time."

Andre Gide

See TEMPLATE 33

(Upskilling staff in innovation)

Thought

"The best way to get people to think out of the box is not to create the box in the first place."

Martin Cooper

Research has shown that less innovative business owners had fewer skills in managing projects and managing people than innovative business owners.

To ensure you and your staff acquire these skills, investigate the free, nationwide Enterprise Training workshops programme before investigating other sources of training. The skills you acquire may well make the difference between whether an idea or concept is developed or not.

5. Innovation and your customers, clients and suppliers

Make sure you include your customers, clients and suppliers in the innovative process. Encouraging all your employees to listen carefully to customer or client feedback can lead to some very productive developments of products and services, or changes to your business procedures.

Trusted suppliers can also often offer very constructive advice on ways to make your relationship more profitable for both sides through innovative changes or efficiencies. Often they just need to be asked, or to be made aware that their contributions to your on-going innovative process will be valued.

Think of ways in which you can encourage this in a more systematic manner so that the flow of ideas is steady rather than spasmodic. For example:

- Create a 'brains trust', made up of selected customers or clients. By meeting regularly with this panel you can get feedback on your present products and services and also their reaction to proposed new products and services.
- Explain to your sales staff that market research is an on-going process. Train them always to ask for feedback from customers or clients. The feedback should cover the whole business relationship you have, not just their reaction to your products and services.

It makes good business sense to thank all contributors since this simple form of recognition encourages further contributions.

Getting direct feedback from customers

If you rely on sales reps to transmit customer feedback to others in your business (such as those actually making or administering products or services) consider eliminating this intermediary step from time to time by inviting key customers or clients to visit you and meet the people they normally have little direct contact with.

This direct contact can be very productive as a source of new ideas and improvements.

6. Researching innovation elsewhere

Business is becoming increasingly fast paced. To keep up you need to know what the competition is doing. Here are some ideas:

On the web

Competitors' web sites should be one of your first stops. Home pages often show companies in an overly optimistic light, but can help you understand the company culture and their market focus. Are there any ideas you can borrow or improve upon? What do you like about the site, and what could you do better?

If you find a particularly keen or proficient Internet surfer among your staff, encourage that person to continue surfing at home by subsidising an 'unlimited hours' Internet access plan for his or her home computer. Encourage that staff member to research innovative ideas from the huge resources of the Internet.

Thought

"If at first an idea isn't totally absurd, there is no hope for it."

Albert Einstein

In print

Subscribe to key magazines, newsletters and industry journals and circulate these around the office. The more knowledgeable your staff become, the bigger the contribution they are likely to make.

The people factor

Supplement what you learn from the Internet or conventional print sources by widening your business contacts. You can find out a lot of accurate information by talking and listening to people. In addition:

- Try going to industry conferences; most companies send their best people to speak at conferences and they will often share useful information and insights.
- Keep an eye on employment vacancies; they are a great source of business intelligence in identifying the future direction or interest of a competitor.
- Ask your customers what they think are the strengths and weaknesses of your competitors. Why do they prefer doing business with you? In what ways could you improve?
- Join your local chamber of commerce and industry group to meet more people and gain some ideas about innovations in your industry or in business in general. For example, find people at these meetings who are making successful use of the Internet or other technology. You might gain ideas from them on how you can apply their successful strategies in your business.

Implementing innovative ideas

The best ideas should be worked on as soon as possible—not just by the idea generator, but also by others who have a different viewpoint. It is imperative that refinement of an idea starts very quickly following a brainstorming session, while ideas are still fresh and enthusiasm is high.

For example, if the innovation involves a new product, encourage the construction of a crude model, made from polystyrene, foam or cardboard.

Project selection and management

Project selection is critical; this is essentially the skill of aligning innovation with your business strategy. It's often necessary to select between competing projects at an early stage of development so the most promising receive funding and the potential failures are killed off.

Project selection needs to be driven by customer needs and wants. Establish a team of representatives from each part of your business to implement innovative ideas in your business. Armed with their knowledge of the company's business strategy, their own unique fields of expertise and customer or client feedback, informed decisions are more likely to be made.

Once a project is chosen the team needs to meet regularly throughout the project duration, co-opting the assistance of other staff as the need arises. Each innovative idea needs a project manager who is responsible for drawing an overall plan for the project, showing stages, a timeframe for each stage, who is responsible for the various parts of the project, the resources needed, and how much it will all cost.

Work at developing your business networks

Business is all about people. The wider your network of contacts, the better. We often find out about good ideas simply by talking to others.

The more you talk to advisors, other business people, customers and suppliers, the more likely you are to gather useful tips, ideas and innovative directions for your own business.

If you are not a good 'mixer', delegate this task to someone in your business who is.

Use a suggestion box to encourage innovative ideas

A simple way to infuse innovation is to put a suggestion box in a communal area of your business to foster employee contributions.

Encourage people to add their name to their suggestion so their ideas can be acknowledged and to eliminate the concern that someone else will claim their idea.

Monitoring the level and success of internal innovation

As with all business systems, you must monitor the progress to ensure that the innovation is producing results and improving the business's competitive advantage.

Try also to keep track of the number of ideas generated from each division of the business, the number that are produced and implemented as a result of brainstorming session, and those useful ideas generated by customers, clients and suppliers.

Some interesting trends may arise that need to be addressed. For example, some parts of the business may not be contributing ideas because the workers might feel like they won't be taken seriously, or they haven't been sufficiently trained in the need for innovation.

It is also important that employees feel able to comment on the good and bad of the innovation culture and process in the business, as well as make suggestions on how to encourage more innovation.

Thought

"I think the tendency for successful companies to fail to innovate is just that: a tendency. If you're too focused on your current business, it's hard to change and concentrate on innovating."

Bill Gates

Summary

- Innovation is the responsibility of everyone connected with the business.
- All employees should participate in the process and make suggestions.
- To encourage innovation, you must accept and possibly encourage mistakes and a little deviance.
- Rewarding great ideas is important. Nothing motivates like recognition and benefits.
- Start organised brainstorming sessions to encourage innovative ideas.
- Since all businesses should be customer focused, encourage feedback and ideas from customers and clients and include suppliers as well.
- Research what your competitors are doing and how you can differentiate yourself from them through innovation.
- Monitor the whole process of innovation from idea to results, and then assess its success.
- Identify the factors that keep enthusiasm, drive and excitement levels high in your business and support these factors.

CHAPTER 7 – ATTRACTING INVESTMENT FUNDS

This chapter is designed to give you a brief introduction to the types of funding available and in particular whether your business might be able to attract outside investment. It also explains how you will have to modify or expand your Business Plan to attract such funding.

The chapter covers these topics:

- What sources of funds are available?
- Are you ready to share control of your business?
- Do you have the right kind of business?
- How committed are you and your team?
- Funding by agreed goals or outcomes
- The need for an exit strategy
- Preparing your presentation

If after reading this broad overview you want to pursue any of these topics in more detail, we recommend that you:

- Visit the web site **www.vcapital.co.nz** or phone 0800 822 748 and ask for the Investment Ready introductory pack. This pack includes the *Investment Ready Guide* booklet which covers in more detail all the subjects touched on in this chapter. You can also register for a free newsletter.
- Attend all of the Investment Ready Scheme workshops which are held around the country. At the end of these workshops you will have access, if this is appropriate, to a venture capital broker who will assist you to find investment funds. Attending all of the workshops will help you to prepare yourself and your business for this step.
- Seek professional advice as early as you can, specifically your lawyer and accountant. At the very least inform them of your plans, as they may have contacts that could help you.

What sources of funds are available?

The most common types of funding available for business development and growth can be summarised as follows:

1. Personal equity, friends and family

Most businesses are funded by the owner's own equity (capital). The most common sources of small business equity are the owner's savings and/or a loan or mortgage raised against the owner's home. Further financing is often raised from friends and family. Personal equity can also include the cashflow or savings you have built up in your business.

2. Bank and private institution finance

The second most common source of funding for business development are the private banks and financial institutions. These funds, whether in the form of short or long-term financing are typically for specific purposes, such as an overdraft to provide short-term working capital or a term loan to purchase buildings, machinery or other assets. Leasing and hire purchase arrangements also fall into this category.

You do need special knowledge and skills to get funding

Securing venture capital funding requires special knowledge and skills. You are highly unlikely to achieve a satisfactory outcome on your own.

Learn as much as you can by reading, by surfing the Internet and by attending the free Investment Ready workshops. Then get professional advice.

Find a wide range of resources on-line

The site **www.vcapital.co.nz** offers you a large range of resources and help on investment topics, including:

- A Help Desk
- A useful archive of articles on raising venture capital and on market research
- Information on New Zealand Government assistance
- Links to other websites and information sources, both local and international
- A sample confidentiality agreement.

Note that such funding involves little risk for the lender (the funding is characteristically secured against collateral, personal guarantees or a good trading record), and the funding is for specific purposes. The banks or other lending institutions are not interested in taking up any ownership stake in your business.

3. Government assistance

Some businesses qualify for government funding or assistance. This is more likely to be forthcoming if your business concept involves a new or advanced technology concept with the potential to provide significant employment and/or generate significant foreign exchange (export dollars) for the New Zealand economy.

To find out if your business qualifies for any kind of government aid, visit New Zealand Enterprise and Training's **www.nzte.govt.nz** web site.

If you have an advanced technology business or business concept, you should also visit the Technology New Zealand site at **www.frst.govt.nz** or contact their nearest regional office for details of possible support or funding programmes.

4. Angel investors

Simply put, an angel investor is the name given to a person who is prepared to invest in a promising business venture, often at a relatively early stage. For example, a typical angel investor might be an experienced business person with spare investment funds who is looking around for a more exciting investment opportunity than parking spare funds in a bank account or term investment.

Investing in high-growth companies allows angel investors to trade off the risk against the excitement and the opportunity to back a potential winner. They are interested in good returns, but are also attracted to the energy of a young company—sometimes backing people they like as much as the idea itself.

Angel investors will rarely go into an industry they know little about since this poses a danger for them. Most prefer to enter an industry they know and have contacts in, so that they can reduce their risk and add value to the business by offering expertise, capability and advice.

The value of angel investors is that they will often back and finance promising small businesses at an earlier, developmental stage where venture capitalists refuse to tread. This is often the stage before the business has any sales or marketing track record, but needs funds to build prototypes or research feasibility.

They also fill an important gap by operating in smaller investments (in New Zealand typically up to $1,000,000, but normally less than this), where venture capitalists would not get enough of a return to be interested.

Angel investors do expect a decent return on their money (a minimum is usually 30%), and often want some equity (ownership) position in your business to compensate them for the risk.

Thought

"A bank is a place that will lend you money, if you can prove you do not need it."

Bob Hope

Don't neglect the obvious informal sources of help

Angel investors can often be found through informal local or personal networks. Don't neglect obvious sources such as your accountant and your lawyer: both are likely to know of possible investors. You could also make enquiries through the local Chamber of Commerce or Economic Development Agency. For more details see the **Business Resources** section at the end.

Visit the MINE network for more angel investor information

The Mentor Investor Network (otherwise known as MINE) is an informal group of investors styled as business 'angels' that invest in promising enterprises and provide mentoring support for these enterprises. For more information visit the MINE website **www.mine.org.nz**

5. Venture capitalists

Venture capitalists are investment companies or fund managers that provide cash in return for part-ownership of your business.

Venture capitalists are a different class of investors to angel investors. Their core business is investing in other businesses (unlike angel investors, who may still be in business) so they are typically far tougher in their requirements. Because of the time and cost of due diligence (checking out your business), venture capitalists are not interested in looking at small investments.

In return for risking their funds, they tend to favour only high-growth companies that are likely to provide them with at least a 30% to 50% return on their money.

Venture capitalists will typically want to play an active role in your business. This may range from actually placing a manager inside your company (if they feel the business lack certain skills), to helping you with strategic alliances and contacts with other companies. At the very least they will require representation on your board of directors to oversee the running of the company.

Venture capitalists also add value through their experience of taking products or services to commercialisation, and through their international networks.

6. Corporate investors

If your company does very well, then one option at a later stage is that a corporate (a larger company which is usually a multinational) will start to take an interest.

These corporate investors are not primarily interested in high rates of return on any funds invested in your business, nor on taking a percentage of the company. Instead, they will want to buy you out. The most common exit for most venture capital funded companies is a buy-out by another company (known as a 'trade sale').

The venture capitalists are happy as they are able to exit at this stage. They can take their profits and invest in another business. As owner you will be happy as you will also get lots of money (for your percentage of the company). Typically you will secure a contract to continue working in the company on a salary plus stock options to keep you keen (as the corporate will usually still want your input).

Why does the corporate buy you out? Their key reason is for strategic synergies. They want your business as you do something they don't (or do it better than they do). For example you may have a superior technology, a unique product or service, exceptional staff, or a long-term contract guaranteeing sales, etc.

Another difference between venture capitalists and corporate investors is that corporate buyers don't want to exit. They will buy your business for the long haul, as part of their overall corporate development strategy.

Are you looking for the right type of funding?

Do you really need venture capital funding? Other kinds of funding might be more appropriate for specific requirements. For example, expensive machinery can be leased rather than bought outright.

Venture capital funding is for growing your business, not acquiring equipment.

Make an effort to reduce your debt levels first

Reduce your debt levels before approaching venture capitalists. They will be put off by excessive business debt because they do not want to see any funds they put into your business wasted on servicing debts or other liabilities.

See TEMPLATE 34

(Raising outside investment)

Useful web site lists venture capitalists and offers other resources

For a list of venture capitalists in New Zealand visit the web site **www.vcapital.co.nz**

This site provides details about what's currently happening in the New Zealand venture capital market.

Are you ready to share control of your business?

Both angel investors and venture capitalists may require a share of control in your business. Venture capitalists will typically require more control and closer scrutiny of your operations. **If you are not prepared to surrender some control of your business there is no point in approaching them. You will be wasting your time and theirs.**

This is the major stumbling block for many New Zealand business owners, but the reality is that owning 40% of a business worth $5,000,000 is clearly preferable to 100% control of a business worth $250,000.

Bear in mind that business wealth is most commonly achieved by sharing control of your business. In other words, using outside funding as leverage to accelerate the growth and development of the business. Bill Gates did not become the richest man in the world by hanging on to 100% ownership of Microsoft Corporation.

Do you have the right kind of business?

It's a mistake to believe that only advanced technology businesses attract investment funds or the attention of investment capitalists. But your business must have some special distinguishing features before you can hope to attract investment funds. Here are some questions to think about:

Does your business have the 'WOW!' factor?

Does your concept break new ground? Are people really impressed by what you've developed? Is this feeling shared by a wide range of business people, not just close friends?

How much market research have you undertaken? What is the level of interest?

Barriers to competition

Most important, does your business have a sustainable competitive advantage? What would make your business even more attractive to investors is a high barrier to competition.

For example, if your idea would be very hard to copy because you possess ground-breaking advanced technology that others could not easily copy, this is a strong competitive advantage.

Do you own patents or protected intellectual property? How long will you be able to sustain your market lead? Have you thought ahead in your strategy plan to second-generation products and services to keep ahead of the field?

Is your potential market big enough?

Venture capitalists will only invest in businesses that have a high growth potential. You might attract some angel investment for a product or service likely to prove a hit on the local market, but venture capitalists are unlikely to be interested unless you can demonstrate a global demand for your product or service. The New Zealand market is just too small to be of interest to them.

Understanding the venture capitalists' 2-6-2 rule

Many venture capitalists operate by the 2-6-2 rule. This means that out of every 10 deals they complete, they accept that:

- Two will be failures. They and the business lose any money invested.
- Six will return them average results, or they just get their money back.
- Two will be very successful and end up making them lots of money.

They will have assessed where they think you fit into this scheme! They'll only look at you if they believe you'll make them a significant amount of money.

See TEMPLATE 35

(Identifying key barriers)

See TEMPLATE 36

(Identifying your market and its size)

At what stage is your business?

All businesses go through a life cycle from development to decline. Is your business in the development stage, the start-up or introductory stage, the growth stage or maturity stage?

As mentioned, during the development or start-up stage you're unlikely to attract funding from venture capitalists. They will want more concrete evidence that the business idea is viable than just enthusiasm and your conviction that it will change the world. Your likeliest sources of funding for these earlier stages are your own equity, plus what you can raise from friends and family and perhaps funding from angel investors.

The growth stage offers you the best opportunities for attracting investment funds from venture capitalists. This is the stage where you have got the product or service off the ground and the business is generating cashflow. Note that if they invest at this stage, they will want to exit your business before the maturity stage, and certainly well before the decline stage.

How committed are you and your team?

You are very unlikely to attract investment funds unless you can demonstrate total commitment to your business. It's a mistake to assume that you can tap into other people's money without risking any of your own equity or assets.

Investors will want to be convinced that you are passionate about your business, that you are risking most of what you have on the business, and that you have exhausted all sources of funding first. After all, why should they risk their money unless you're prepared to commit yours?

Of course there's also what's known as 'sweat equity'. A person may have spent years of their life developing a certain product or service, and this certainly counts in the investor's mind. Years of commitment and labour can sometimes mean even more than money.

An excellent team

One of the features that venture capitalists will scrutinise very closely is your business experience and skills. Do you have the skills and experience necessary to build your business? What about your energy, dedication and commitment? What is your leadership track record?

They will also be interested in your business track record, that is, have you been involved with previous business successes?

They will apply the same scrutiny to your key staff team members, so your Business Plan should explain in some detail their skills and experience and how you intend to keep them motivated and dedicated to the task of building a great business.

Excellent business ideas are far more common than excellent business teams that are capable of developing the potential of these ideas. For this reason venture capitalists will take a keen interest in your team and may propose additional people to fill skills gaps. For example, if you lack a marketing specialist, they might suggest a suitable person for this role.

Venture capitalists offer you more than money

Venture capitalists bring more to the table than money. You should also benefit from:

- advice on strategy and management
- their industry knowledge
- their expansion advice
- strategic alliance suggestions
- their considerable experience in helping to grow businesses
- their network of local and international contacts.

Are you the right person to develop your business?

Sometimes the creator of a brilliant business concept might not be the right person to develop that concept into a flourishing and successful business.

This might be very difficult for the creator to accept, but many entrepreneurs are ill-suited by temperament or skill levels to growing a business beyond a certain level.

It is the task of the venture capitalist to assess this and to advise if necessary on the kind of professional managerial skills the business requires.

An advisory board

In your Business Plan you should also provide details of your advisory board and how often this meets. Every business looking for investment funding should have such a board, which might typically consist of your lawyer, accountant, industry experts and others that you might co-opt, such as experienced business people. More experienced business people might also be assisting you in a mentor role.

See TEMPLATE 37

(Identifying your key contacts and advisors)

Funding by agreed goals or outcomes

It is worth emphasising that you are unlikely to get all your funds at once. For example, if you secure venture capital funding of $1,000,000 dollars to develop your business, you are highly unlikely to receive a cheque for that amount. Instead the funding is likely to be fed into the business in negotiated amounts as you achieve agreed goals or outcomes or meet agreed timelines.

The good news is that when venture capitalists commit to your business they will usually agree to continue to invest in you as the years go by and introduce new investors if the need arises since they have a vested interest in the success of your enterprise.

Venture capitalists can also help your business in many other ways. Because they have had experience of many business management teams they will be able to help you develop your team, provide ideas for increasing staff commitment and provide or suggest managers to oversee critical areas in which your present team may lack skills.

In addition, they are well placed to help you with strategic alliances, networking and contacts with other companies, both here and overseas. These advantages can significantly improve your chances of success and speed up the growth of your business.

Applying the funding in a purposeful manner

Venture capitalists will want to see every dollar they supply to your business applied directly to growing the company. They will not take kindly to any attempts to use investment capital to pay off debt or fund excessive overheads, such as unrealistic salaries or ‘perks’ such as company cars.

They will expect you to run a frugal operation until success is achieved. For example, there may be other ways of committing and motivating key quality staff than large salary packages. The alternatives might include stock options that will allow them to share in the eventual success of the business or bonuses tied to agreed growth targets.

The need for an exit strategy

It may sound strange, but venture capitalists will need you to spell out your vision of their exit strategy as part of your strategic plan before they consider investing in your business. This is because venture capitalists are typically not long-term investors. Their aim instead is to invest funds in a business, help build the business up to its maximum strength, and then exit the business to repeat the process. Their investment timeframe is typically three to five years or less.

Your business plan should therefore spell out when this is likely to occur. The exit strategy can take several forms, such as the venture capitalists selling their shares back to you and/or your management team, or selling their shares to another investor, or facilitating the sale of the company to a larger company, or helping to list your company on the stock exchange.

Obviously the more successful your business becomes, the easier it will be to facilitate one or more of these options. What is important is that the venture capitalists can see a clear and convincing exit path for themselves.

See TEMPLATE 38

(Outlines an exit strategy)

Intellectual property you own

The intellectual property of your business may be the most valuable asset you have. Make sure it is yours and that your employees don't think they own it. Many companies have been shocked to find that when a key employee leaves, so do all the files. And if the employee completed work at home (for you) they may argue that work is theirs. Regardless of who is right or wrong, an investor does not want to see employees running off with the goods. At best it can cause huge delays as the issue is resolved, even if finally it is in your favour.

Insert clear instructions in your terms of employment that all intellectual property developed by the employee is owned by the company. If this is too late, then get declarations from your employees that all the intellectual property is yours. See your lawyer immediately to make sure this is watertight.

Any investors will also need evidence that any brands, patents, trademarks or existing copyrights are actually owned by the company with no claims or liability issues likely to emerge.

Try to separate out the intellectual property issues from trading activities.

See TEMPLATE 39

(Details your intellectual property protection)

Confidentiality agreement

In the course of seeking investment funds you will have to tell many people about your idea to arouse interest in backing you. But there comes a time, particularly when you need to reveal intellectual property, trading or financial details when you have to start asking people to sign a confidentiality agreement.

This agreement has two purposes:

1. It lets potential investors know that you have thought about confidentiality issues.
2. It helps prevent people telling the wrong people.

Anything discussed therefore has to be kept confidential by the person you talk to.

Accessing sample confidentiality agreements

To view a draft confidentiality agreement, visit the web sites **www.vcapital.co.nz** or **www.innovationcentre.co.nz** where you can download samples and adapt them for your own use.

Structuring the deal

Before you approach an investor, you'll need to think carefully about how you will structure the 'deal'. Make sure you get plenty of advice from experienced advisers as you don't want to gain an interview with an investor before you fully understand what you're doing.

For example, you need to know what type of funding you're after. Is it all equity, where you exchange part ownership of your company for the cash? Or is it going to be all debt, as you think you'll be able to repay the money without giving up ownership?

Possibly you may require a mix of some equity and some debt. Are you going to lease or buy essential equipment? The critical aspects of any deal are: what type of deal (equity, debt, etc.) does it involve? What will the capital be used for? What is the exit strategy?

See TEMPLATE 40

(Structuring the deal)

Attend the free Investment Ready workshops

You should not approach an investor before you understand how the investment industry works. Your next step is to attend all the free Investment Ready workshops, which give you an opportunity to increase your understanding of possible deal structures and enhance your chances of receiving investment capital. For more information visit the web site **www.vcapital.co.nz** or freephone 0800 822 748.

Preparing your presentation

If you're seeking outside capital, you will more than likely have to present your idea at some stage to a group of investors. Your presentation should be as professional as possible because there is unlikely to be a second chance.

A suitable consultant can advise on how to shape an effective presentation, but it is important that you do not delegate the whole task out, since the presentation must reflect your own commitment and hard work.

At the core of your presentation will be your Business Plan, which should include these key elements:

- A clear strategic plan and your vision for the business.
- The history of your business and its achievements to date.
- The competitive advantages of your business concept and its 'wow' factor.
- The potential market size (local and international) and your marketing plan.
- The barriers to entry for potential competitors, such as advanced technology, patents, intellectual property protection, etc.
- The growth potential, supported by evidence of market research.
- Your management team: their leadership skills and experience.
- An impressive advisory board.
- Any environmental, legal, regulatory or development constraints that need to be overcome.
- Realistic financials including documentation of existing loans and liabilities and plans for their reduction.
- Your funding requirements and how funding will be applied to grow the business.
- An exit strategy.

Useful publication provides more detail on venture capital funding

To learn more about venture capital funding you can order a copy of the *Investment Ready Guide: Your Essential Guide for Gaining Seed, Start-Up and Development Capital for your Business* from the web site **ww.vcapital.co.nz** or by calling freephone 0800 822 748.

Get help or training to improve your presentation skills

If you lack good presentational skills or experience in presenting, consider getting some professional help or training.

Another option is for you to delegate the task to a senior staff member, leaving yourself in the role of responding to specific questions about your business.

Three final pieces of advice

1. Market research

One of the key missing ingredients in any business plan written to attract investment capital is thorough and robust market research. You need to demonstrate that you have a clear understanding of your market, your competitors and your industry.

Plus, make sure you conduct research internationally! Never make the mistake of researching just New Zealand companies who might assist or compete. Market research needs to be global. Find out about potential international competitors, especially what they do, how much they charge, their distribution strategy and if they have expansion plans. The last thing you want is to develop your business and then have the '18 tonne gorilla' in the form of a large overseas business squash you.

2. Channel partners

Think carefully about how you will distribute your product or service. You do not always have to go direct to the end user. For example, if you had developed some unique software for small business owners, then you could:

- Package the software in a box and sell direct to small businesses.
- Package the software in a box and sell the product to computer stores (who would then resell to the small businesses).
- Look for a channel partner (such as Mind Your Own Business, or Microsoft), who might add your software to theirs (in effect you lose your branding, but then you do not need any boxes).

Many successful smaller businesses seek an alliance with larger companies so that they can use the distribution and channel power of the larger companies to sell their products or services.

3. Five-year forecasts

If you are serious about attracting investment into your business, then you need forecasts that project further than three years. The reasons are:

- Software and computer technologies typically have a useful lifespan of three years, but certainly need updating at five years. A five-year forecast will build in these looming potential costs.
- A five-year forecast forces you to go beyond your comfort zone (most people can guess what might happen in three years, but not in five years).
- It makes you think 'what would happen if this business does really well'? Are you prepared for the cost (such as time spent at work and away from family, travelling overseas, etc.)?
- Many investment people and companies want to exit after five to seven years, and therefore will want to see your projection of what the business will look like after this time.

Make sure you extend your forecasts.

Have you done sufficient market research?

One of the most important topics missed out in most business plans is market research. You need to provide clear detail and evidence from the market that your business will continue to be successful.

Get expert help with the valuation of your business and negotiating

Establishing a valuation for your business and negotiating exactly how much control you'll have to give up in return for capital are both complex subjects.

We recommend you attend the Investment Ready workshops to learn more about these topics and other more technical aspects of raising capital.

Also consider consulting a lawyer and an accountant who have both had experience in the area of capital raising, as there are important legal and accounting issues involved.

CHAPTER 8 – EXPORTING YOUR GOODS AND SERVICES

Exporting is an exciting and potentially profitable activity for both exporter and customer; advances in technology have made the process much easier for all parties involved.

However, your decision to export should not be made lightly; it ought to be part of a long-term vision and the result of an informed appraisal of the domestic and international market. Sound advice for most businesses is that you should not consider exporting until your business has achieved success and been in the domestic market for some time, because it is only after those in overseas markets see your commitment to the product or service that they will add their efforts to your venture.

An export plan is a must

Once you've decided you would like to consider exporting, success is more likely if you thoroughly research and plan the process. You then need to put together an export plan as an extension of your business plan. Your first contact for help with planning and research should be New Zealand Trade and Enterprise which offers a wide range of resources to help you. To make contact phone the Enterprise Hotline on 0800 555 888 or visit the **www.nzte.govt.nz** web site. You'll find a fuller profile of this government organisation at the end of this chapter.

The planning process will help you identify your weaknesses and threats and devise strategies to minimise their effect. Testing the product or service, as well as various marketing and distribution strategies in your home market will help your exporting efforts. Exporting is expensive so a strong domestic market will help to finance your entry into overseas markets and to sustain the company until exporting generates a profit.

Your initial export plan may consist of an informal proposal of what you want to achieve and how you will make those goals a reality . A more formal export plan will probably be required by your bank, financial institution or possible business partner to allow them to understand what you are trying to do and how their assistance will help achieve that vision.

If you are extending your existing business plan to include the export of your product or service, consider:

- How you will deal with agents, distributors, staff and even customers at a considerable distance.
- What factors could lead to changes of your products or services (in form, function and/or distribution)?
- How you will cope with cultural and language factors when you deal with overseas intermediaries, customers or consumers.
- How you will assess the costs of pre-entry research, market entry, the cost of staying in the overseas market and growing that market.

You should plan for success, but also have a plan to deal with foreseeable hurdles.

The importance of preparing an export plan

Reasons for drafting an export plan include:

- You think you need to export to grow.
- You want to expand into an additional or a different export market.
- The market is changing rapidly and you start to recognise gaps in your knowledge.
- You see the export plan as a natural extension of your business plan.
- The process will help your performance and your profitability
- You need something to impress potential funds providers for your exporting plans

See TEMPLATE 41

(Dealing with people in a different country)

See TEMPLATE 42

(Possible product/service changes)

See TEMPLATE 43

(Cultural and language challenges)

See TEMPLATE 44

(Assessing the cost)

Which market should you target?

Knowing where to export to can sometimes be the hardest decision. Based on your knowledge of your products or services, and trends in the industry, you are likely to have some indication of target markets, or you may have a gut feeling. Once you have an idea of where you could export, it becomes necessary to test your beliefs.

Some people prefer a very formal analysis to test their assumptions. They may rank countries on a number of variables (such as political stability, proximity to domestic market, culture, etc.) from information gathered from the Internet, New Zealand Trade and Enterprise and other professional organisations.

Others may conduct a more informal evaluation, which involves talking to business people and using market intelligence (information sourced from the world around them).

For many New Zealand exporters, Australia might seem the most logical first choice as an export market because of its similar business culture and the Closer Economic Relations (CER) agreement which makes New Zealand-made goods duty free.

However, Australia has proved a tougher market than expected for many exporters and it may well be that other markets are better suited your product or service. It's important to get expert help in identifying potential overseas markets and to beware of diluting your focus by trying to penetrate too many markets at once.

Selecting markets may also include personal considerations, such as your preferences and knowledge of markets. Some exporters choose countries that they like to visit because frequent visits are necessary to develop an overseas market, not only to negotiate and finalise contracts, but also to swap knowledge and build relationships.

Finding trade information

An integral part of any export process is collecting and processing a lot of information. Use the Internet as your first port of call: you can gain much useful trade information from New Zealand Trade and Enterprise (**www.nzte.govt.nz**), or from overseas government sites like the Australian Department of Foreign Affairs and Trade (**www.dfat.gov.au**), for example, where you'll see how products and services are promoted offshore.

All overseas markets have regulations that you need to understand. Overseas regulations relevant to New Zealand exporters usually relate to:

- import duties
- sales and other taxes
- legal requirements
- sanitary, health and environmental requirements
- standards (such as ISO 9000 compliance)
- testing or other forms of certification
- labelling and packaging.

Some useful resources to help your exporting plans

1. You'll find a wide range of information on the web site **www.marketnewzealand.com** and you can also register to profile your products and services as well as access news and global market intelligence.
2. Get help from the Enterprise Hotline on 0800 555 888.
3. Visit the Export New Zealand web site **www.einz.co.nz** or **www.exportnewzealand.org.nz** for details of an expanding network of companies building a shared knowledge base of exporters nationwide.
4. Also note the equivalent Importers Institute web site at **www.importers.org.nz**

See TEMPLATE 45

(Selecting export targets)

Can you visit a trade fair or join a trade mission?

If you're planning a visit to your targeted overseas market try to find out if there is a trade fair at the time of your visit that may be relevant to your products or services. New Zealand Trade and Enterprise and/or your local Chamber of Commerce can advise you on details.

Another possibility is to join a New Zealand trade mission to an overseas country. This will give you excellent opportunities to meet the right people and establish networks.

Sources of help

To avoid shipment delays or expensive penalty and storage charges you need to comply with all local regulations. New Zealand Trade and Enterprise, international freight forwarders and the experiences of other exporters are the best sources of information on requirements for exporting goods into particular markets.

In addition to New Zealand Trade and Enterprise, New Zealand's Chambers of Commerce help to facilitate international trade. They are an excellent source of help for export trade beginners as well as those well versed in exporting and/or importing.

The services are typically funded by membership levies, so it is well worth joining your local Chamber of Commerce. The services range from passing on trade enquiries, locating potential customers and identifying trade shows, right through to documentation enquiries, including the issuing of Certificates of Origin and advice on special documents and certification procedures.

Your local Chamber of Commerce can also help you with letters of introduction, which can open doors in overseas markets. Such letters can form part of your market entry method and strategy.

New regulations in response to the terrorism threat

The fear of international terrorism in the wake of the September 11, 2001 attack has led to a tightening of import requirements and inspections in many countries, especially the USA. You can download information about the latest regulatory requirements from the US Food and Drug Administration (FDA) from New Zealand Trade and Enterprise's web site **www.marketnewzealand.com** or phone the Enterprise Hotline on 0800 555 888.

The sources of help listed above will also help you keep up with any new controls that may be imposed by overseas countries.

Market research

A common cause of general business failure is lack of proper market research. If you intend to export, thorough market research is even more vital to your success. The two main reasons for market research are:

- to understand your market as fully as possible
- to minimise your risk, particularly important in the case of exporting since you are dealing with a distant market.

Primary and secondary research

Use both primary and secondary market research before you begin your export drive.

Primary research involves direct contact with your market in the form of visits from you or a key staff member to the target market. You can also enlist the help of New Zealand Trade and Enterprise and possible agents or distributors (if you choose to make either of these part of your plan) to help investigate potential demand for your products and services.

See TEMPLATE 46

(Listing helpful export contacts)

Take local festivals and holidays into account

To avoid wasting your time, carefully plan the dates you visit your overseas market. Take into account local non-working days, public holidays, religious festivals and buying seasons.

Learn as much as possible about your target market

Learn as much as possible about customs and importing requirements and compliance issues in the country you have targeted.

Your local Chamber of Commerce (see **www.chamber.co.nz** for details) is a good source of help on export documentation.

Failure to do your homework thoroughly in this regard could cause delays and/or penalty payments that could seriously erode your profits and your patience.

Allow extra time for deliveries, particularly in underdeveloped countries, where border delays can sometimes be frustrating and time consuming.

Often a local agent or shipping representative who understands the local language and ways of doing business is best suited to dealing with these matters.

Use the Internet as much as possible for **secondary market research** (information about the target market, rather than direct contact with that market). Data is available from such sources as:

- Overseas government departments and publications (try to find the local equivalent to Statistics New Zealand (**www.stats.govt.nz**) for demographic and population data). Use search engines to find their web sites.
- Your local library which should have overseas trade directories, international publications and a range of other useful resources.

The aim of both your primary and secondary market research is to answer these questions:

- Is there a demand for our products and services in the target market?
- Is this demand sustainable?
- What competition will we face?
- What can we charge for our products and services?
- Is there potential profit?
- Where should we locate, or which areas of the target country should we concentrate on?

Reaching the market

Most New Zealand exporters will initially work through agents or distributors, eventually considering other options such as undertaking direct selling or promotion, or seeking alliances and agreements.

The Internet is another means of entering a market, but is usually part of a wider strategy of how you enter the market. These decisions will be greatly influenced by market size, the type of goods or services you are offering and the amount of control you wish to maintain over a targeted overseas market. Options include:

Agents and distributors

You could choose a local representative, such as an agent or a distributor, to co-ordinate your export efforts. The difference between the two is that in the case of an agent you employ or contract the agent to work for you. The customers are yours but you must meet the agent's costs. A distributor, however, buys your product from you and on-sells it, giving you less control over the whole process.

Direct control of the market

Establishing an office overseas is the best idea to gain control and increase the efficiency of your overseas operations, but this is an expensive undertaking and one not recommended for inexperienced exporters.

Some control can be gained using e-business techniques such as email and the use of the Internet for ordering and purchasing. The downside of these technological applications is that they do not allow for personal selling, which is only achieved by face-to-face contact—an approach particularly valued in some Asian societies.

More informed decision making helps your targeting

Ultimately, market research leads to more informed and therefore better decision making. This means that you can target and promote your goods and services as effectively as possible and lower the risk of wasting the funds you commit to the exporting effort.

Test your agents first before signing a long-term agreement

When you select an agent make sure you ask how long they have worked in your specific industry; how many clients they work for; how many staff they employ and how effectively they cover the whole country.

Before signing a permanent contract it's worth testing a few agents over a trial period to see how much business they are capable of bringing in.

It's easy to underestimate the overhead costs of an overseas office

Many businesses underestimate the overhead costs of establishing and maintaining an overseas presence in the form of an office and/or a warehouse.

It may be more viable to pay commissions to agents or distributors than to fund an overseas presence which requires a substantial order volume to make it worthwhile.

E-business also means orders have to be sent directly from New Zealand; with a permanent base overseas, economies can be achieved by sending over a bulk product shipment and storing the excess.

Distance selling

This method works best with specialised products. Some of the most common methods used for direct selling include selling goods from a catalogue, which are held in a centralised warehouse. Additionally, infomercials, financed by your company and screened on television can be used to display the features and benefits of your product.

E-business

The Internet offers you numerous benefits, including an efficient means to communicate and co-ordinate your operations. E-business through the Internet has considerable future potential.

Developing an export e-business means that your transactions and payments take place on line, supply and distribution are co-ordinated electronically, and the marketing function is performed over the Internet. All exporters can make some use of e-business, but it is more suited to some products and services than others.

For example, e-business is very suitable for exporting intellectual property products such as software, where the customer anywhere in the world can download your product off the Internet and pay you by credit card.

Other possibilities

Your export plan should include options beyond the conventional definition of exporting. That is, you should consider also the possibility of establishing contract manufacturing, selling franchises, participating in a joint venture, making licensing agreements, selling intellectual property or forming strategic alliances.

Contract manufacturing

This involves another firm making your product or part of your product under a contractual agreement. Essentially this is a customer – supplier relationship where you define and control the specifications. The job of selling the finished product still remains your responsibility.

A key reason for undertaking contract manufacturing is to reduce the cost of manufacture and/or your distribution costs. Manufacturing in the country you wish to sell your final product may also overcome bureaucratic barriers to trade, such as tariffs and quotas.

Franchising

This option should only be considered once you have a proven product or service concept with a good track record in New Zealand; it requires the sale of the product or service and the systems and training practises to make that product or service work.

A franchise allows you to expand your business at minimal capital cost because it is usually the franchisee who bears the majority of costs. However, there are development and on-going costs for such things as refining your business system so it can be duplicated and offering training and support to your franchisees.

Foreign exchange transactions can be tricky

Seek advice from your bank and from export consultants regarding foreign exchange transactions. This applies particularly if you have to price your goods and services in the currency of the target market or in US dollars.

Areas requiring specialised knowledge include:

- Forward cover to protect against currency fluctuations
- Terms of trade
- Letters of credit
- Special insurances

Remember your aim is to make sure you get paid and make a profit. There are some pitfalls for the inexperienced or the unwary.

Check out the incentives offered by overseas goverments or regions

Check what incentives overseas governments or local regions offer for local manufacturing or joint ventures. For example, you might be able to negotiate:

- a tax-free 'honeymoon' period, or reduced taxes for providing local employment
- special low rates for the purchase of commercial property
- subsidised utility rates, etc.

Some of these costs can be recouped from franchise fees, but many business people still underestimate the management skills, time and commitment needed to establish a successful franchise chain.

Joint ventures

A joint venture involves you combining with an overseas enterprise for mutual benefit. This strategy is common between New Zealand companies and businesses overseas as a means of overcoming trade barriers.

Licensing

If your business owns inventions, technologies, software, manufacturing systems and artistic material, to name just a few examples, then licensing these products or services for production in other countries is a possibility.

Royalties

Royalties typically involve selling your intellectual property to someone else who will use it to make the product or enhance existing products. Every time a sale is made, the seller of the intellectual property receives an agreed amount, or royalty.

Strategic alliances

These are similar to joint ventures, but strategic alliances are usually entered on a less formal basis, for a shorter period of time and often focus on a niche part of the market. These alliances are particularly beneficial for small companies, who can align themselves with much larger companies with superior operations.

The exporter's market mix

Branding

Branding is vital in overseas markets; it encompasses your product or service, packaging, promotion, price and distribution. Some of these aspects may need substantial alteration to those used in New Zealand. A very good way to see what works in the overseas environment is to assess what your competitors are doing – a little market research will help you here immensely.

Promotion

To many business people, promotion conjures up images of advertising, but this is often prohibitively expensive and does not reach the target market. Effective use of public relations may be more useful, particularly if you can gain mention in professional or specialist trade magazines.

A web site is also a great way of informing your market about your products and/ or services. But you should only use a web site if you are prepared to regularly up-date by adding new content and changing any outdated content. Ease of use and interactive features are also a good idea. Assign a staff member to keep the site current and deal with emails at least once a day.

Some more traditional options include in-market promotion that allows customers to either see the product in use or try it out themselves. A consultant based in the targeted overseas market who understands the local culture and ways of doing business is the best person to advise you on effective promotion. Participation in trade shows is also a tried and tested method of promotion.

Joint ventures do pose some challenges

Joint ventures can be hard to manage and it's nearly impossible to ensure that benefits are equally advantageous.

See TEMPLATE 47

(Distributing your products and services)

Check for local meanings and nuances

Before you use a brand name overseas, check that it doesn't have unfortunate connotations in the language of the targeted country. Consult a local expert for advice.

See TEMPLATE 48

(Covers branding issues)

Exporter education available

A range of courses is available from 'Introduction to Exporting' through to more comprehensive courses. Call the Enterprise Hotline 0800 555 888 for details.

See TEMPLATE 49

(Promoting in your targeted country)

New Zealand TRADE & ENTERPRISE

Pricing

New Zealand Trade and Enterprise advises the use of value-based pricing, that is, price your product or service at the price the market will bear. Again, market research is essential for finding out what your competitors are charging for similar offerings; don't underestimate this task because it is not easy to increase price in a market or under a particular contract.

When you do finally decide on a price, it is a good idea to consider costs at home and anticipate other costs you may incur; make sure these costs are covered by the price you decide to charge. If your products or services have to be priced in the currency of the target overseas market, or in US dollars, make sure you consult your bank for protection against currency fluctuations, which can seriously erode the profitability of your exports.

See TEMPLATE 50

(Assessing possible price changes)

See TEMPLATE 51

(Covers transport issues)

Place (Distribution)

Understanding freight and delivery options may save you and your business a lot of money. Your chosen delivery method will depend on the type and value of your product, the urgency of the order and the market developments. Most large shipments and bulk exports travel by sea, but more products are leaving our shores by air. The increasing popularity of fresh or chilled, value added and specialised products has influenced this trend, as has the demand for fast delivery.

Get help from those who have successfully exported

Ask your Chamber of Commerce for contact details of fellow members who have successfully exported to your target country.

Approach them for advice both on cultural matters and also on other challenges they had to overcome in that country.

Visit **www.chamber.co.nz** for details of your nearest Chamber of Commerce.

Negotiating in a different environment

While luck undoubtedly has a place in business, it is usually knowledge of the potential market and clients that gives you an edge over competition. Knowing the idiosyncrasies of a culture can make all the difference to your sales pitch.

In different cultures, different people wield decision-making responsibility, and your task is to identify exactly who these people are and how you can reach them. Often negotiations can be unlike what you are used to, they may be drawn out over a number of days, could involve meeting the boss's family and may involve gifts and/or entertainment.

It is important that you have some understanding of local values and customs if you intend negotiating deals in overseas markets. For example, some cultures will never actually say 'no' directly, they may use a variety of ways to convey their lack of agreement; it is also possible that a person could say 'yes' to a deal, but actually mean 'no'.

It is not unheard of, particularly in Eastern culture, to agree to a contract, meaning that the utmost will be done to achieve the terms, but in reality the people agreeing are all aware that the contract will never be fulfilled. This is not necessarily bad faith; it could simply be the accepted way in that culture not to hurt your feelings through outright rejection.

Failure to understand these cultural nuances could obviously lead to a general deterioration in the relationship because the two parties involved—yourself and the overseas party—could end up believing you've agreed to very different things.

Local contacts, interpreters or intermediaries can smooth the way

If you're negotiating in a foreign country with very different cultural values it's a good idea to ask New Zealand Trade and Enterprise for a local contact, person or interpreter who can explain local customs to you and the implications of any agreements reached.

Such an intermediary can also be of great assistance in advising you on how to approach delicate negotiations.

Summary

There is enormous potential to grow New Zealand's presence in the global market, but to make the most of your opportunities it's important that your products and services have been well proven in the New Zealand domestic market.

You also need to undertake thorough research of the particular culture and industry which you have targeted since this will allow for the production of a better export plan.

Consider too the product or service itself and any possible adaptations that may need to be made to make it more appealing to the export market. Promotional methods abroad and even branding may have to be very different to those used at home.

You might need to alter your pricing not only to cover extra costs, but to pitch your goods at a level the market will bear. If such a price does not cover your costs then your target market may not in fact be the correct market to focus on.

Finally, the distribution method needs to be assessed, particularly in the case of products: how do you intend to get your products to market?

Plan for success, but consider also how you will overcome possible hurdles.

Get more help from the Business resources section

For more details of useful web sites and other sources of help with your export planning, see the **Business resources** section which starts on page 82.

NEW ZEALAND TRADE AND ENTERPRISE

An important part of New Zealand Trade and Enterprise's role is to promote New Zealand business to the world. The focus is on reducing your risk in doing business overseas and maximising the potential gain from any international business.

The organisation offers hands-on support in more than 50 countries and can offer help from overseas staff by providing:

Information
To guide you through different stages of approaching offshore markets. Phone the Enterprise Hotline 0800 555 888 for more details.

Market Intelligence
Facts and analysis about offshore markets, trade barriers, competition, sector trends.

Consultancy
Services to suit your specific needs and objectives.

Opportunities
To help you identify leads and market potential and turn them into sustainable profits.

Visit New Zealand Trade and Enterprise's web site **www.nzte.govt.nz** and also the linked web site **www.marketnewzealand.com** for help and resource material on exporting and any possible costs involved.

Examples of help available include:

- Advice on market selection and entry strategies
- Cooperation with other exporters
- Support on the ground overseas
- Business contacts
- Trade statistics
- Regulations and compliance issues in your target market
- Trade missions
- Export financing
- Buyer/partner identification

You can also read **success stories.**

The www.biz.org.nz web site
Another useful web site is the government portal **www.biz.org.nz** which devotes a whole section of its site to exporting advice, articles, resources and information about government services for exporters. You can also get help from the Enterprise Hotline 0800 555 888.

CHAPTER 9 – MANUFACTURING

This section deals with how goods are to be produced. If you do not manufacture anything (for example, if you operate a pure service business) then you can skip this section. It is therefore concerned with organising and controlling the production function. The aim is to ensure that goods are made in the **right quantities**, at the **right quality**, at the **right time** and at the **right cost**.

The operations section helps you to answer the following questions:

1. **What sort of product will you produce?**
2. **What plant or machinery do you require?**
3. **Where will you locate your business?**
4. **How will you organise the production sequence of the product to maximise profitability?**
5. **How will your staff impact on design and production?**
6. **What stocks of raw materials are needed?**
7. **How do you make sure that you are in control?**

As you work through these questions you will realise that they are interrelated and that the answer to one question impacts on all the others. The questions concern the operations section which, more than any other area, has the potential to dictate the profitability of the business.

Operations is about throughput. Throughput involves the transformation of inputs such as raw materials into outputs, that is, sales. Remember that business is about generating sales. Producing inventory doesn't make a successful business; producing, selling and getting paid does.

1. The product

From your marketing research you should have an idea of the type of product you want to sell.

What are the product's specifications?

At this stage you should outline in detail what it is that you aim to produce or sell. This will help when it comes to buying equipment or if you wish to subcontract a part of the production process.

For example

Carbonated liquids must be bottled in the right type of bottle with the right cap so as not to lose fizz.

Should you make everything yourself?

It does not always make sense to try and manufacture the whole product yourself. It often makes more sense to subcontract a part of the manufacturing process or buy in ready-made parts.

For example

Imagine you are a soft-drink manufacturer. Should you subcontract the printing of the labels or should you purchase your own printing press to print the labels?

Build upon the work and ideas of others

A common method of deciding what technical specifications your product should have is to collect as many competing products as possible. Then design a product that overcomes the weaknesses of the competitors and builds on their strengths. You should take care, though, not to infringe any copyrights or patents.

In this example the answer is obvious (subcontract the printing). However, this is not always the case. To help you choose which part of the manufacturing process you should subcontract, ask yourself these questions:

SHOULD YOU SUBCONTRACT? A QUICK TEST

	Yes	No
• Can the subcontractor manufacture to a competitive price and to your specifications?	☐	☐
• Is the subcontractor able to deliver at the times you require?	☐	☐
• Does the subcontractor have competitors who could carry out the contract if required?	☐	☐
• This part of the process is **not** strategically important to your business (answer Yes if this statement is true).	☐	☐
• This part of the process is **not** your core competitive advantage (answer Yes if this statement is true).	☐	☐

For example, in the case of the soft-drink manufacturer it may be feasible to subcontract the bottling process because the distribution and marketing of soft drinks is the company's core competency.

If you answered yes to **all** the above questions then subcontracting may be a real option. If you only answered yes to one of the questions you should probably manufacture it yourself.

2. The plant

What plant is required? Plant includes furniture and fittings, equipment and machinery.

Obviously the type of business you plan will dictate the type of plant you require. A retail store will need items such as display racks and mirrors as well as cash registers. An office-based business will require chairs, desks, computers and printers. A manufacturing concern will require processing equipment and so on.

There are specific stages to this part of the section.

a) Designing the process

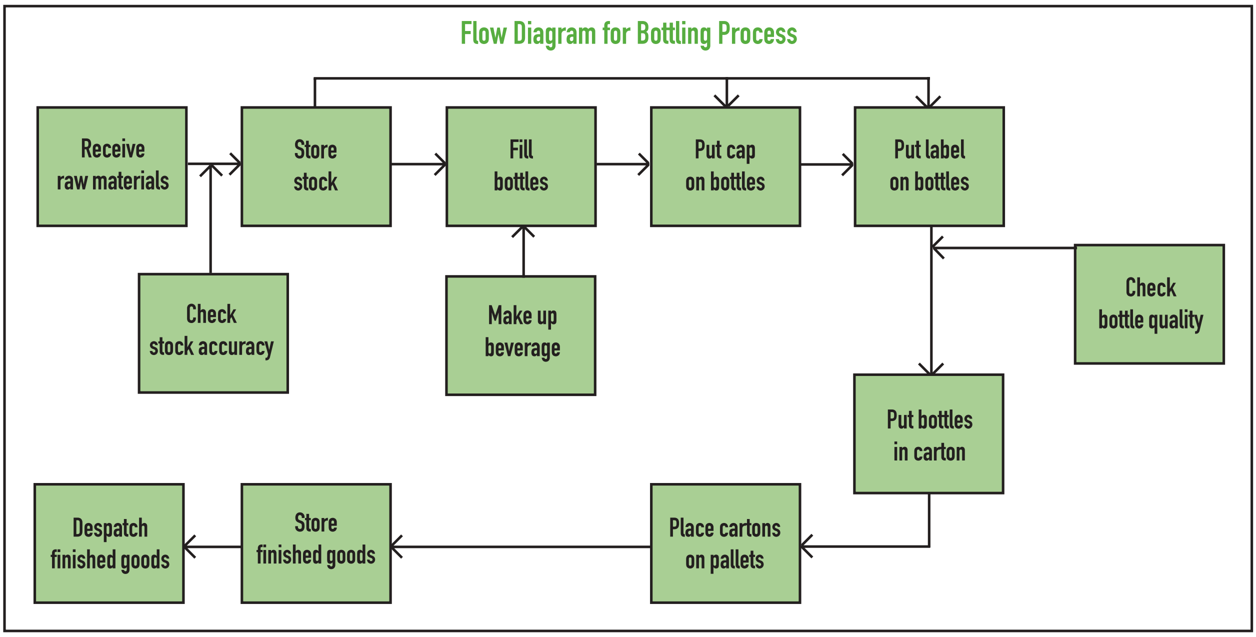
This is important for all businesses. In the case of a restaurant, for instance, the design might detail the flow of how people will enter, where they will sit and should include the mapping of how meals will be assembled.

Beware of one buyer for one product

If you design your process to manufacture just one product and you're reliant on one buyer you could end up in a very dangerous position.

This is especially true if the one buyer is an overseas company and the local market cannot absorb all your planned production.

In the case of a bottling plant, the layout will need to take account of the most efficient flow of materials and operational processes. For example:



Remember also to consider the broader issues of health and safety in your work environment when you're considering your processes. It is a good idea to contact the Occupational Safety and Health (OSH) service of the Department of Labour for further health and safety details and guidance (see **www.osh.dol.govt.nz** for details of your nearest OSH Information Support Officer). Then incorporate their requirements and recommendations into your plan.

b) Machinery required

Now detail at each stage of the process what plant and machinery is required. Write the specifications and the approximate cost of each item. Try to be as specific as possible and do not overlook any necessary piece of equipment, including health and safety equipment such as dust extractors, guards on machines and safety signage.

See TEMPLATE 52
(Plant requirements)

c) Capacity of each stage

It is important to identify the capacity of each stage of the process. Note that you can only produce as fast as the **slowest** part of the process.

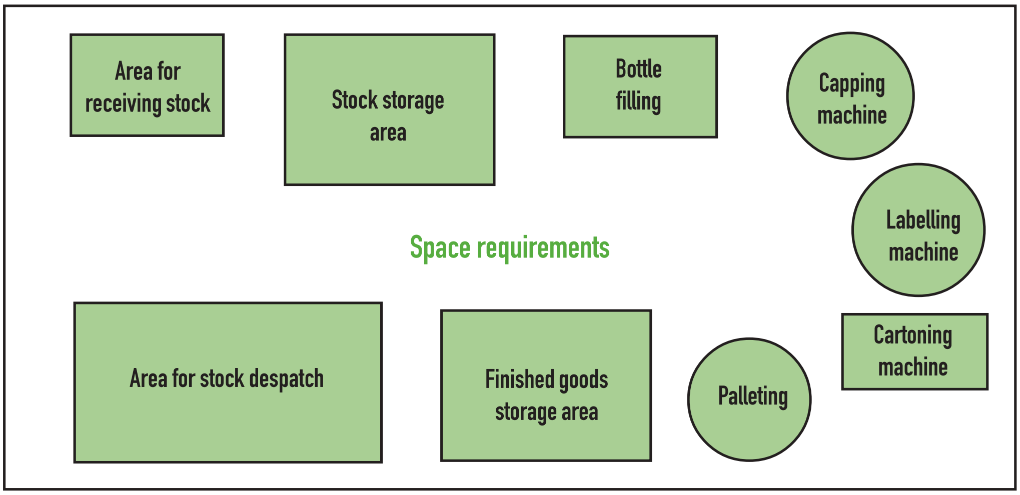
In the above flow diagram, the capping machine is the slowest machine in the process. If this machine operates at 1000 bottles per hour, then this figure effectively sets the overall rate of production for the whole process.

d) Establish the area required

Now it should be possible for you to gain an indication of how much space you will need. A simple way to do this is to make a scale drawing of how much area each piece of plant and machinery requires. Then arrange the drawings into the sequence that you decided upon in the flow diagram. This should give you an idea of the overall production area you require.

Remember to allow space to receive shipments, store stock, greet customers, display goods, manufacture products, do office work, and so on.

For example:



e) Special requirements and licences

If you plan to produce a food product you will require premises capable of being licensed for food production. Your plant and machinery might also have to meet special requirements such as stainless steel fittings.

It is important that you contact your local council to ensure that you will be able to meet all the legal requirements to operate and obtain the necessary licences. Alternatively, if you are already in business, you should check that you are complying with all legal requirements.

3. Locating the business

The choice of location may very well be one of the factors most critical to the success of your business.

The factors that help determine your location are complex and require a great deal of thought. Your market research should play an important part in determining the location. Then again, because most commercial properties have leases that are fixed at multiples of a year, you need to be sure you have chosen correctly because you might be stuck there for a considerable period of time.

Consider second-hand equipment or leasing options

Buying new plant and machinery is always an expensive exercise, so you should investigate options such as purchasing second-hand equipment or leasing equipment.

Leasing equipment may increase your operating costs, but it will reduce the amount of capital required as well as subsequent debt payments on the extra capital you may have had to borrow.

Here are some of the questions you need to work through:

a) Cost of location?

The cost of rental is an important factor. For retailers, choice of location is critical and needs to confront issues such as:

- do you need extra parking for your customers, and
- do you locate in a mall or outside a mall?

Having already decided on how much space you require you can now work out the cost of that space in different locations.

b) Where are the customers?

Do you locate as near as possible to your customer base or should you locate somewhere else? Should you freight your product to your customers or require them to travel to you? Will they be prepared to do this?

c) Availability and cost of labour?

If you require skilled labour to help operate your business is this labour available in the area you plan to locate in or can they easily travel to you?

d) Availability of raw materials?

For most manufacturers raw material can easily be transported within New Zealand. It is the cost of transport that has to be considered. If your raw materials cannot sustain a high freight cost then it is probably best for you to locate as close as possible to the raw material supply. This is especially important if your raw material is perishable.

e) Availability of transport?

If your business is export focused or geared towards the overseas tourist market then it would make sense for you to be close to a port or international airport.

4. Organising the sequence

How will you organise the production sequence to maximise profitability? A manufacturing facility can be designed to produce one product or it can be designed to produce a range of products:

One Product	Multiple Products
Large production runs *Focused production process* *Low number of inventory items*	*Small batch production* *Flexible production facilities* *Large number of inventory items*

There are advantages and disadvantages to both strategies. For example, if you are considering exporting, you may need large capacity. Many business people have developed export markets only to discover they cannot produce the orders requested.

Therefore, if you are considering exporting, you may have to dedicate the facility to produce reasonable volumes of a few products. The danger in this strategy is that if the market changes, your dedicated facility may lack the flexibility to produce other products.

5. How staff impact on design

We have seen that the availability of staff is a factor in influencing your choice of location. You should also take staff into consideration when you design your process. Automating production processes is a method of reducing staff requirements, but this usually requires large amounts of capital.

When you design a manufacturing facility you should take into account the human needs of your staff. The facility should be spacious, well-lit and ventilated, feature good climate control and be free from fumes and excessive noise.

As mentioned before, you will need to meet specific health and safety requirements. However the design of the process should go beyond the minimum legal requirements to consider the ease of operation, that is, the relationship between the operator and the machine. Try imagining yourself doing the job, eight hours a day, five days a week, all year and for the pay you are prepared to offer. Would you be productive in the circumstances you have designed?

6. What stocks of raw materials are needed?

You should research potential suppliers well in advance of start up. Since New Zealand is a long way from the rest of the world, you should establish how long it would take for stock and inventory sourced overseas to arrive. If you are sourcing materials that might take months to arrive, you will have to hold enough raw materials on hand to ensure that you do not run out of stock. This can turn out to be an expensive exercise.

See TEMPLATE 53

(Raw materials requirements)

Even though local suppliers might be more expensive, they could save you the cost of investing in large inventories.

Large inventories soak up a lot of money. What some manufacturers do is maintain a minimum stock level and receive deliveries more frequently. This is called 'just-in-time' inventory management.

Keep your inventory to a minimum: it's 'money in chains'

Inventory is money in chains: it can't be spent until it is freed up through actual sales. So avoid over-buying. Where possible hold a minimum of stock. Retailers can use well-designed shelving systems to hide low stock levels. Manufacturers can investigate using 'Just-in-time' inventory systems to minimise the cost of holding stock.

7. How will the whole process be controlled?

Quality control is a critical success factor. Quality can be defined as meeting the customer's stated, unstated and future needs. To meet these needs and to maintain a consistent quality of production you need to identify what the critical quality issues are and design tests that can be used to ensure that quality is being maintained.

For example

A problem that can exist in bottling plants is that a variable amount of liquid is placed in the bottles. Therefore a system has be designed to ensure that samples of bottles are taken at regular intervals and measured to establish if the right quantity of fluid is being placed in each bottle.

Putting quality checks in place is very important if you are to ensure that customers receive a standard quality product. If something does go wrong, you need to fix the **process itself** so that it does not happen again.

There are various quality assurance programmes available to you. Check, though, that the cost of a particular programme does not outweigh the benefits. Contact your local manufacturers' association for assistance in this area. You could also contact a quality consultant, but take care in choosing the most appropriate consultant for your needs.

The impact of e-commerce

Do not forget about the impact of e-commerce on your operations. For example, have you considered the following:

- Linking your production, inventory and sales systems to improve efficiencies such as lowering the amount of raw materials you hold?
- Sourcing staff via employment web sites as an alternative to conventional staff sourcing?

In addition:

- Trade hubs and electronic markets may be able to put you in touch with suppliers that you have never previously considered
- You may be able to contract out parts of your production via the Internet
- Some customers may demand that you integrate electronically with their production systems
- Some customers will not buy off you unless you can pay and generate an invoice electronically.

All of these issues will become more and more important in your business as e-commerce becomes another way of doing business (until eventually the 'e' will be dropped as these procedures simply become standard business practice).

Summary

Manufacturing management is an important part of your business planning. If you are in business, inventory control and production planning are critical to ensure that you can meet customer demand, but do not over-invest in raw materials and inventory.

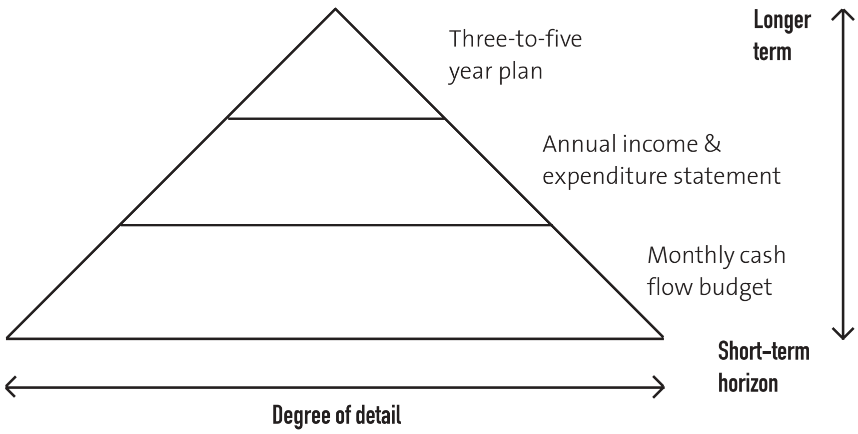
Production planning needs to be carried out to ensure that your products are produced, and customers serviced, in the most efficient manner. If you have an existing plant or process, never assume that it is running at maximum efficiency. Re-examining everything you do periodically is a sound way of identifying what could be done to improve the efficiency of your business.

CHAPTER 10 – PLANNING FOR THE FUTURE

Most businesses need to carry out some longer-range planning (usually three to five years) in order to place shorter-term action plans into a broader strategic framework.

Direction for your longer-term action plans can be focused by such questions as "Where would I like the business to be in three (or five) years?" and "What do I want to be doing by then?"

The various business time horizons can be illustrated using a triangle:



Short-term planning should be aligned with your longer-term goals

Always ensure your detailed short-term planning is consistent with, and reflects, your longer-term business and personal goals. Challenge your thinking and both your business and personal goals by writing down where you think you might be in five years time.

At the longer-term apex of the triangle you focus on broad concepts, strategies and direction. At the short-term broad base of the triangle, attention to day-to-day detail, especially with respect to cash movements, is the order of the day.

Need for the longer view

Why should you look beyond one year out in your planning?

Probably the most important reasons are very practical ones:

- It is highly unlikely you can achieve everything you want from your business in 12 months
- Your investment, or at least part of it, will in many cases involve plant and equipment that has a payback period of two to three years, thus requiring you to think and plan beyond one year.

The five stages

How then does this longer-term planning process work?

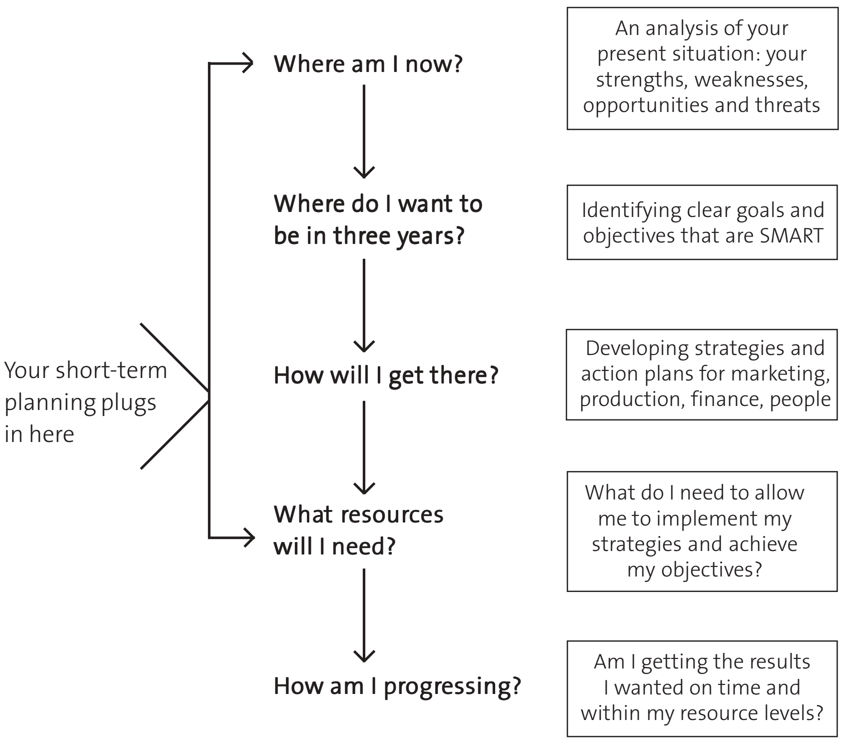
It is easy if you see it as a five-stage process that is continuous. Progress needs to be reviewed and the planning direction adjusted as appropriate every year.

Thought

"Nothing is more difficult, and therefore more precious, than to be able to decide."

Napoleon I

The five stages are as follows:



Choose SMART goals

Goals and objectives that are SMART are:

- **S**ustainable
- **M**easurable
- **A**ttainable
- **R**esults focused
- **T**imebound

Try to make your goals fit this model. Vague unmeasurable goals are usually meaningless.

Day-to-day management of your business

Many small business managers believe they prepare business plans, budgets and cashflow forecasts mainly to keep their bank manager happy. While there may be a requirement in this area, the primary use of these important planning tools is to help you manage your business on a day-to-day basis.

Your projected income and expenditure and cashflow budgets are the tools that you use on a regular basis to measure if your business performance is meeting planned expectations. They will confirm for you on a regular basis that you are heading in the right direction. Your business, to run well, demands that you look and plan ahead and regularly monitor the important performance indicators.

What are the key indicators?

1. Level of sales

Sales contribute a gross margin, which in turn pays for the fixed costs and hopefully leaves a profit. If sales levels fall then the overall margin to pay these costs is less.

2. Gross margins

If you achieve lower than budgeted margins (perhaps because of offering discounts) you again have less to pay fixed costs.

Computerised business software greatly speeds up your planning

A personal computer and appropriate business software packages can greatly aid the generation of timely and accurate information about your business.

3. Monitoring fixed costs

Make sure they do not creep upwards over time. Continually question if you need to spend money on that particular cost item.

4. Debt collecting

Next to cash the money people owe to you is the most liquid asset you own. Make sure your cashflow forecast is not thrown out because you are slow to collect what is owed to you.

5. Stock control

Your business will probably need to hold stock to maximise the level of sales. Make sure you do not hold too much.

Potential problems and opportunities

Regular availability and analysis of information relating to the key performance indicators of your business will allow you to identify potential problems and opportunities. In turn, this information will allow you to plan future direction better via developing positive management responses to these issues. Corrective or reinforcing action could take many forms depending on the nature of the problem or opportunity. Some examples are:

- Employing extra sales staff when a competitor's failure creates a gap in the marketplace
- Changing suppliers when raw material quality decreases
- Refinancing to reduce interest costs when a loan falls due
- Negotiating a more flexible agreement with staff to achieve productivity gains
- Introducing a new stock control system to increase stock turns and improve delivery times.

The important point is that sensible management decisions cannot be made in any of the above examples if you, the manager, do not have access to information on the key areas of your business that is **relevant, timely** and **accurate**.

Be warned, however. Because we do not live in a perfect world you will not be able to pre-empt all the problems that may beset your business. When the unexpected does occur, however, the secret is to be in a position to react quickly and positively with decisions based on factual information.

Have you included a risk management plan?

Don't forget to add in a section on risk management. Could anything happen to place your business at risk of failing?

If so, outline possible solutions or actions that you can take to avoid these risks.

Thought

Decisions are like New Year resolutions—making them is easy; sticking to them is the hard part.

Anon

Planning: present and future

It goes without saying that unless you plan what your business is going to achieve it is difficult—if not impossible—to manage it effectively. It is therefore good practice to get into the habit of regularly thinking about the future of your business and to write down your key objectives and how you intend to make them happen.

This information can then form the basis for developing your performance indicators which become the benchmarks for measuring the daily, weekly and monthly health of your business.

Template 54 will help you formulate your longer-term goals and objectives and translate them into action plans that will breathe life into them. This should also prompt you to identify what additional resources you will require to attain your goals.

One final reminder

Business planning has to be an on-going exercise if it is to reflect the dynamic, ever-changing nature of your business. So as your business grows and changes, recognise that you should be prepared to return to the planning process at regular intervals.

Take time away from your business to review and plan

It's difficult to think about the future when you're surrounded by the problems of the present.

So regularly take time to get away from your business (with key staff, if necessary), to review your future direction and plans.

See TEMPLATE 54

(Covers long-range, medium-term and short-term planning for your business)

Thought

Making a decision is like choosing a route through the wilderness—you hope that it is going to take you where you want to go, but you can never be entirely certain.

Anon

CHAPTER 11 – SOME FINAL ADVICE AND RESOURCES

It is important to acknowledge that only certain types of people make self-employment a success. Being self-employed is never easy, but it can be one of the most rewarding and satisfying decisions you will ever make. However, there is never any substitute for experience. Here are our last pieces of advice:

Be realistic about budgets

You may find that at first you never meet your budgets because you tend to inflate the sales you are likely to make and underestimate the expenses. So be tough on your budgets and never believe what others tell you about margins. Only experience will tell you what the real costs and expectations are.

Success characteristics

You must personally be able to handle being in a small business. It is not easy and you have to be made of the 'right stuff'. For your business to succeed your partner and family must be committed to the enterprise as well. Specifically you will need to:

- Be **persistent**. Never take no for an answer and continually question and go back to people again and again.
- Be **really good** at what you do. Become the expert.
- **Read** as much as you can about being in business and what other people have done to succeed. Learning never ends.
- Go on as much **training** as possible. Attend all the Enterprise Training courses possible, especially in the areas where you lack skills.
- Find a **mentor** or person with whom you can talk through your business challenges.
- Take advantage of **opportunities** as they present themselves. Be flexible enough to change what you are doing if this is necessary.

Always invest in good people

If you are going to hire people, hire the best you can afford. People and staff will be the most expensive, rewarding and frustrating investment you will ever make. You'll probably spend more waking time with your employees than your partner, so you might as well create a healthy, happy and safe work environment that everyone enjoys. Invest in your staff to keep them and to encourage them.

Selling

Never forget that if you do not actually get to sell something, then you are not in business. Even if everyone loves what you are doing, unless the dollars come in, you are out. The acid test of any business is cashflow. Many people may give you false hope by saying your idea is brilliant—but they will not use your product or service.

Small steps to big improvement

Remember that Four Fives Rule (page 36), where small improvements make a huge difference to the bottom line of your business. Continually seek to improve all aspects of your business by 5% every year.

Make use of business coaching and mentoring opportunities

Attending any free Enterprise Training workshop will entitle you to some free one-to-one business coaching. For more details of your nearest Enterprise Training Provider visit **www.biz.org.nz** or phone 0800 42 49 46.

Another worthwhile source of free business mentoring is the Business in The Community organisation (BITC). For more details of their services visit www.businessmentor.org.nz or phone 0508 103 400.

Thought

"The more vicious the criticism the more I always feel the critic must be a bit jealous."

Jackie Collins

What the customer wants

Never forget that whatever you do, it is the customer who pays you. If you do not provide what they want, you will not be in business for long. Continue to ask your customers through your market research what they want in case they change their minds over time. If you do not adjust, and one of your competitors does, you may still be wondering what happened long after the cash runs out.

Planning ahead

Any experienced business person will tell you that things do not always go perfectly in a business. Planning ahead to manage the risks of the business and the unexpected is another important aspect of being in business. This includes cashflow and working capital management, tax and compliance planning and health and safety issues. It also includes contingency planning for accidents and sickness and contractual disputes (whether with customers, suppliers, or your own staff). Get the best advice you can to help you manage these challenges. Sound planning can help you anticipate or minimise these risks and good business is always about minimising risks while maximising your opportunities.

Summary

Your business plan is a road map guiding you to achieve your business and personal goals. Examine your plans at regular intervals to ensure you are on track.

The very process of review may show you that your original goals have changed over time. The changes may well require you to rebuild your plan to reflect a new direction or focus. If that proves to be true for you, simply revisit this 'do it yourself' list to assist you in developing your new business plan.

Finally, we would stress again the need to take as much advantage as possible of the business training available under the Enterprise Training programme. Visit the web site **www.biz.org.nz** or phone 0800 42 49 46.

Thought

"Some people don't think taking advice is important. No one congratulates you for being good at it.

When was the last time someone praised you for 'taking advice well'?"

Mark McCormack

BUSINESS RESOURCES

NEW ZEALAND TRADE AND ENTERPRISE

New Zealand Trade and Enterprise (NZTE) provides information and resources to help businesses, industries, and regions develop and grow. Visit their web site **www.nzte.govt.nz** or phone the Enterprise Hotline on 0800 555 888 for details of the services listed below, as well as their products and services. Services are offered in five categories:

1. Business development

NZTE supports New Zealand businesses at every stage of their development—from start-up to solid success, including:

Biz information service and web site

Biz is a specialist business information service for small to medium businesses (SMEs). Biz will help you identify organisations, people, training programmes and resources to help develop your business, as well as contacts and information on government and non-government services. To access Biz services visit the Biz web site **www.biz.org.nz** or use the freephone service 0800 42 49 46 for:

- information on training and important regulatory information, including quick help with taxes, ACC, workplace safety and employing staff.
- other resources useful when starting up, growing or closing down a business
- free publications (such as this book) that you can download.
- help with finding a partner or investor (the Investment Ready Scheme)
- help with starting up a company in a supportive environment or forming business clusters to share costs and multiply opportunities
- help to find and follow up new opportunities through the Growth Services Fund, Enterprise Development Fund or Industry Capability Network
- help on how to make the most of e-business

Enterprise Training

The NZTE Enterprise Training Programme (ETP) provides upskilling to the owners/operators of small and medium-sized enterprises (SMEs) aimed at helping them to develop and grow their businesses.

A limited amount of training for people interested in starting a business is also available.

The Enterprise Training Programme is delivered by specialist training providers throughout New Zealand and offers a range of training for managing a business, complemented by follow-up coaching designed to enable a client implement what was learnt. For more details about the programme visit the web sites **www.nzte.govt.nz** or **www.biz.org.nz** or use the freephone service 0800 42 49 46.

On-line Training and Distance Learning

If you qualify for the Enterprise Training Programme you may be eligible to access free on-line business training modules on a range of topics, or a business management related distance learning course (learning by correspondence) designed to provide you with the skills needed to run your business. To access this on-line or distance learning training you must go through one of the Enterprise Training Providers. To find your nearest Enterprise Training Provider visit the web site **www.nzte.govt.nz** or use freephone 0800 42 49 46.

2. Export services

Key export information and assistance, and a wide range of services to help you broaden your opportunities. Visit **www.marketnewzealand.com** where you can register to profile your products and services and also access news and global market intelligence.

Exporter education

A range of courses is available from 'Introduction to Exporting' through to more comprehensive courses. Call the Enterprise Hotline 0800 555 888 for more details.

3. Industry sector development

With a strong focus on sectors, NZTE takes a strategic approach to improving the capability and international competitiveness of New Zealand businesses. We work in partnership with industry sectors, and this work influences the way we set priorities and develop services.

4. Regional development strategies

NZTE helps regions develop and action sustainable strategies for economic growth.

5. New Zealand Success

Awards, grants and programmes that encourage success and connect high-potential New Zealand businesses with a worldwide network of top overseas businesses friendly to New Zealand.

OTHER GOVERNMENT ASSISTANCE

Technology New Zealand

Technology New Zealand (part of the Foundation for Research Science and Technology) provides a comprehensive set of schemes to promote the development and adoption of advanced technologies by business. You can search the website **www.frst.govt.nz** for business assistance schemes from Technology New Zealand and New Zealand Trade and Enterprise.

Work and Income

To find out if you qualify for financial assistance from Work and Income to start your own business visit **www.workandincome.govt.nz** or phone 0800 559 009.

MINE (Industrial Research Ltd)

The Mentor Investor Network (otherwise known as MINE) is an informal group of investors styled as business 'angels' that invest in promising enterprises and provide mentoring support for these enterprises. For more information visit **www.mine.org.nz**

Te Puni Kokiri – Ministry of Maori Development

While no funding is available from this source, they can help you identify sources of funding and provide an invaluable mentoring service to provide advice, guidance and facilitation to services essential to developing a new or existing business.

Poutama Trust

If you are a Maori organisation or individual, Poutama can help your business with funding and advice through Te Putea Whanake Business Development Grant. Under Te Putea Whanake there are three types of business funding you can access:

- Putea Kimihia, Business Investigation Funding
- Putea Whakaako, Business Training Funding
- Putea Tipuranga, Business Growth Funding

For more information visit **www.poutama.co.nz** or call 0800 476 882.

OTHER HELP

Chambers of Commerce

Chambers of Commerce offer much valuable help to members and also allow you to network with and meet both local and overseas fellow business people. Visit **www.chamber.org.nz** for details of your nearest Chamber of Commerce.

Industry sector associations

Investigate joining your specific industry sector association. Visit the Business New Zealand web site at **www.businessnz.org.nz** for more details.

Networks

Join business networks to extend your business contacts and build your business skills. Contact your local Economic Development Agency for information about the various business networks operating in your area. (To get details of your nearest Economic Development Agency visit **www.edanz.org.nz** or phone (04) 924 1290.)

Business in the Community (BITC)

Business in the Community offers a free business mentoring service to qualifying businesses. Phone 0508 103 400 or visit **www.businessmentor.org.nz** for more information.

Company Rebuilders

Also offering a business mentoring service for businesses under stress (experiencing rapid growth or decline) is Company Rebuilders, a Charitable Trust that uses the services of retired, highly experienced business people. Phone (09) 408-3056 or email **mattjones@hyper.net.nz** to make contact.

New Zealand Institute of Management (NZIM)

www.nzim.co.nz

The New Zealand Institute of Management offers a large range of business information, training, skills and networks that can assist members in building a competitive advantage for themselves and their organisation.

SPECIFIC TOPIC RESOURCES

E-commerce

Denby, Neil. *E-Commerce*. Teach Yourself. London (2001).

Earl, Nick and Keen, Peter. *From .com to .profit: Inventing Business Models that Deliver Value and Profit*. Jossey-Bass: San Francisco (2000).

Holden, Gregory. *Starting an Online Business for Dummies*. IDG: Foster City, USA (2000).

www.ecommerce.govt.nz
This site explains the Government's e-commerce strategy.

www.biz.org.nz
The E-commerce section of this site features articles, services and business tools to help you improve your e-commerce capability.

Exporting

www.marketnewzealand.com
This web site, run by New Zealand Trade and Enterprise, offers a wide range of information. You can register to profile your products and services and access news and global market intelligence, or get help from the Enterprise Hotline on 0800 555 888.

www.nzte.govt.nz and **www.biz.org.nz**
Both these web sites for helpful information, resources, tools and articles on exporting topics.

www.customs.govt.nz/exporters/default.asp
Provides assistance to ensure exporters meet customs requirements and includes an FAQs (Frequently Asked Questions) section.

www.einz.co.nz or **www.exportnewzealand.org.nz**
Export New Zealand's web site provides details of the expanding network of companies building a shared knowledge base of exporters nationwide.

The **Open Polytechnic** offers a subsidised home study course, 'Business Success: Running an Export Venture'. For more details freephone 0508 650 200.

Financial, accounting and tax compliance

Blackwell, Edward. *How to Prepare a Business Plan.* Kogan Page: London (2002).

KPMG. *Be Profitable in Business: Starting Up, Managing for Profit, Managing for Growth*. Penguin: Auckland (1999).

Hodgson, Sari. *Accounting for Small Businesses.* Tandem Press: Auckland (2000).

The Inland Revenue Department's booklet *Smart business* offers an excellent introduction to tax compliance issues. Order the booklet by phoning 0800 377 774 or download it from the IRD's web site at **www.ird.govt.nz/incometaxbusiness/irdpublications/**

Human resources

Millar, Sandy. *Managing Human Resources in New Zealand.* Longman: Auckland (2000). Zealand.

Rudman, Richard. *Human Resources Management in New Zealand.* Prentice Hall: Auckland (2000).

Rudman, Richard. *New Zealand Employment Law Guide.* CCH New Zealand: Auckland (2002). See also **www.cch.co.nz** for articles and resources.

www.employmenttoday.co.nz
The web site version of *Employment Today* magazine offers coverage of topical human resource and employment law issues.

www.acc.org.nz
This site has tips on how to keep safe at work, including the prevention of harm to visitors at your workplace. There is also a list of injury prevention programmes run by ACC to assist you in looking after your human resources.

Innovation and entrepreneurship

Boyett, Joseph and Boyett, Jimmie. *The Guru Guide to Entrepreneurship.* John Wiley: New York (2001).

Drucker, Peter. *Innovation and Entrepreneurship.* Butterworth Heinemann: Oxford (1994).

Kelley, Tom. *The Art of Innovation.* HarperCollinsBusiness: London (2001).

Peters, Tom. *The Circle of Innovation.* Hodder & Stoughton: London (1997).

Small business management and marketing

Brooksbank, Roger. *The 7 Key Principles of Succesful Small Business Marketing*. Dunmore Press: Palmerston North (1999).

Curtis, Veechi. *Small Business for Dummies*. Hungry Minds Australia: New South Wales (2001).

English, John and Oliver, Leith. *The Small Business Book*. Bridget Williams Books (2002).

Gerber, Michael. *The E-Myth Revisited: Why Most Small Businesses Don't Work and What to Do About It*. HarperBusiness: New York (2001).

Higham, Richard and Williams, Sara. *The New Zealand Small Business Guide*. Penguin: Auckland (1994).

Levinson, Jay and Godin, Seth. *The Guerilla Marketing Handbook*. Houghton Mifflin: New York (1994).

McBride, Ian and Senior, Glen. *Marketing Your Small Business in New Zealand*. Enterprise Publications: Christchurch (1997).

McBride, Ian and Senior, Glen. *Small Business Survival Tactics*. Enterprise Publications: Christchurch (2000).

www.biz-growth.co.nz
Articles, tools, success stories and resources to help you develop your business.

www.homebizbuzz.co.nz
A variety of marketing ideas can be found in the articles contained in the marketing section of this site; topics include both online and offline marketing.

www.osh.dol.govt.nz
Provides much useful information, some tailored for specific industries. The information is designed to help all businesses establish an OSH policy and procedure manual.

www.toolkit.cch.com
This site has a wide range of business and legal articles for small business owners; you can also download a range of free business tools, such as checklists and business plans.

www.tsbc.co.nz
The Small Business Company Ltd's web site contains a wide range of articles on many topics of interest for small to medium businesses. The free monthly newsletter also informs you how to build a better business and inspires you through regular success stories.

Manufacturing

www.bizmove.com/small-business/business-plan.htm
Extra assistance for a manufacturing business writing a business plan

www.businessnz.org.nz
The Business New Zealand site is the policy and advocacy wing formed by a merger of the New Zealand Employers' Federation and the New Zealand Manufacturers' Association. For further information on employers' and manufacturers' associations, see **www.emacentral.org.nz** and **www.ema.co.nz**

Venture capital

Beverely, Alicia. *MAKE IT BIG: How to make money from your million dollar idea*. Allen & Unwin

James & Wells. *Inventors' Guide to Success*. Print House: Hamilton (2000).

Senior, Glen. *Investment Ready Guide: Your Essential Guide for Gaining Seed, Start-Up and Development Capital for your Business*. (updated November 2003). This publication is available by calling freephone 0800 822 748 or from the web site below.

www.vcapital.co.nz
This site, funded by New Zealand Trade and Enterprise, offers you a range of articles on how to raise capital for your business, particularly if it has the potential for high growth.

www.mine.org.nz
Visit this site for information about the Mentor Investor Network (otherwise known as MINE), an informal group of investors styled as business 'angels' that invest in promising enterprises and provide mentoring support for these enterprises.

www.nzvca.co.nz
The Venture Capital Association's website offers news about what's happening in the venture capital field.

General

Cameron, Alan & Massey, Claire. *Entrepreneurs at Work: Successful New Zealand Business Stories*. Pearson Education (2002).

Locke, Stuart. *Improving Small & Medium Business Performance: Beating the Odds*. Waikato Print, 1999.

Wilson, Rebecca & Evans, Bronwyn. *A Passion for Life—Young New Zealanders Doing Business*. Shoal Press: Christchurch (2002).

Other publications

Franchise New Zealand: Published quarterly, each issue contains details of franchise and business opportunities.

Marketing Magazine: While targeted specifically at marketing-orientated executives, this magazine is useful because it examines the latest marketing trends.

New Zealand Business: Targeted at small to medium sized businesses, this magazine features articles on news making companies and executives.

Unlimited Magazine: This New Zealand periodical has a distinct focus on the new economy. It is a useful resource for the business pursuing e-commerce opportunities and looking to make innovation a part of their operations.

inc: An American magazine devoted to growing companies. Features inspiring stories and useful articles. The on-line version of the magazine at **www.inc.com** is also worth a visit.

Entrepreneur: Another American magazine that has informative section on money, technology, management and marketing. Their on-line site at **www.entrepreneur.com** offers tools not available in the printed version.

Free books from Biz

Order from the Biz freephone service: 0800 42 49 46

Hogg, Brian. *BIZ Business Steps: A Practical Guidebook for Small Business*. HVCC (2002).

Massey, Claire & Cameron, Alan. *Biz Small Business Assistance Directory 2002*.

Foundations for Success: A New Zealand Guide to Business Improvement. (2002). This book outlines key ways you can improve your business and explains the benefits of doing this. It also provides tips for where to turn to for help (information, funding or advice) in heading down the business improvement path.

GLOSSARY

Average age of accounts receivable
Sales divided by level of debt, expressed either as a number or by number of days. This shows how quickly (and therefore efficiently) the business collects its debts from customers.

Capital introduced
An accounting term to describe the formal introduction of new money into the business that will show on the balance sheet.

Closing inventory
The value of the total inventory (stock) or number of units that a business has on hand at the end of an accounting period.

Company
The legal definition of a business where shares are issued and one person or a number of people control ownership through these shares. The company, not the owners, is responsible for any liability, although the Companies Act holds company directors responsible for their actions.

Current ratio
Current assets (cash, debtors, stock) divided by current liabilities (overdraft, creditors). You should aim to keep the Current ratio at 2:1.

Debt to equity ratio
Long-term debt divided by shareholders' equity.

Demography
The study of populations. A demographic profile typically measures the general population in terms of market suitability, for example, age, sex, income, occupation, consumer preferences, preferred residential areas, etc.

Direct costs
Costs of actually producing your product or service. Usually covers materials and labour and other costs that increase or decrease in line with levels of output.

Equipment or plant
All the machinery and equipment used by the business to earn revenue.

E-commerce
The term used to describe how technology and the Internet can be used to improve your business.

Fixed costs
Those costs that tend not to vary with your level of output. Your phone rental is a good example. Often called overheads.

Foot traffic
A count of the people that walk past your business or a location you think might be suitable for a business. Usually measured per day or per week.

Forecast
An estimate or prediction of a future happening (sales, expenditures, profits, and so on).

Gross margin or Gross profit
Sales less the direct cost of producing the goods or services.

Gross profit ratio
Your gross profit divided by sales.

Inventory
The dollar value (cost or market, whichever is lower) of all the stock of physical items that a business uses in its production process or has for sale in the ordinary course of doing business.

Jargon
Specialised technical terms used by certain industries which are meaningless to the average reader unless properly explained.

Just-in-time
The process of organising your production so that stocks of raw materials arrive at the business just in time to produce a product or service a customer's needs.

Just-in-time organisation allows you to free up the money that is normally tied up in stock (inventories) for more productive purposes.

Businesses that make use of just-in-time inventories usually form a close bond with trustworthy suppliers who can be relied on to deliver quality goods or services at short notice.

Labour expense
The total direct cost to the business of its employees during an accounting period.

It includes in addition to actual wages paid the cost of all other benefits, unless these are listed separately.

Lease
A legal contract covering the use of assets drawn up between the owner (lessor) and another party (lessee) at a given rent, for a stated period of time.

Market size
Measures how much people throughout New Zealand spend on your particular product. Usually measured in total dollars spent per year.

Market viability
Measures if there is enough demand in the marketplace to justify the existence of your business. Are there sufficient customers out there to make your business profitable?

Mission Statement
A short statement that describes exactly the main purpose of the business.

The mission statement is often only one sentence: the brevity helping to keep the business owner and employees focused on what they are actually trying to achieve.

Net profit to sales
Net profit before tax divided by sales.

Opening inventory
The value of the total inventory or the number of units a business has on hand at the beginning of an accounting period.

Operating forecast
The anticipated earnings of a business, determined by estimating sales and subtracting expected expenses.

Ownership ratio
Owner's equity divided by total assets.

Partnership
The legal definition of a business owned by two or more people.

Payback period
How long it takes to recover the cost of a capital item. The cost of an item is divided by the level of annual net profit with the result expressed in years.

Patent
The legal registration of a product's design or features aimed at preventing competitors from direct copying or imitation.

Privacy Act
Legislation covering the collection of information about people, such as lists of names and addresses or other personal information. The Act prescribes the ways in which this information can be used in order to protect people's right to privacy.

Production sequence
A series of events or steps that produces a product or service.

Professionals
A term used to describe lawyers, accountants and business consultants, etc.

Profitability test
A test that measures whether you can make any money out of your proposed venture.

Quality
Conforming to the customer's requirements.

Sales increase/year
This year's sales divided by last year's sales expressed as a percentage increase.

Sampling
Taking a small sample of the total market to determine the possible size of the market for a product or service.

Sole trader
The legal definition of a business owned by one person.

Stock (inventory) turns
Cost of goods sold divided by cost of stock. Reflects how fast you are able to turn your stock over during the year.

Throughput
The transformation of raw materials and labour into sales to customers.

Trademark
The legal protection of words, a picture or logo with the aim of preventing copies or imitations.

Template 1

Exactly what is the business plan for?

Write down why you are writing this business plan. It is important that you have a clear reason. Ensure that you refer to this reason as you complete your plan:

Template 2

Executive summary: what is the purpose of your business?

Briefly outline the history of your business:

Objectives (where do you want to be in five years?):

Template 3

What key products are you going to offer?

List the major requirements you'll have to comply with, or apply for:

Where will the business be located?

Indicate key people or organisations prepared to help you:

Template 4

How big is your market? Outline the potential demand:

Describe the major targets your business will be aiming for:

What major trends will impact on your business?

Chapter 1: Your business profile

Template 5

What have you achieved so far?

List your achievements to date. If you have not started your business then list what you've done to prepare yourself:

Chapter 1: Your business profile

Template 6

List the major competition:

What impact will e-commerce have on your business?

Mention any other topics not covered above that are likely to have an impact on your business:

Chapter 2: Marketing

Template 7

Customer feedback

Outline how you intend to collect information from your customers:

Chapter 2: Marketing

Template 8

Critical success factors

What are the critical success factors for your business?

Key ratios

What are the key ratios in your business?

Template 9

Your best customers

Who are your best customers (80/20 rule)?

Strategic impact

What else may impact strategically on your business?

Template 10

Market analysis

Threats:

Opportunities:

Trends:

Template 11

Market analysis

How is your customer base changing?

What are your competitors currently doing?

From the above information, what in your business do you think you should change strategically?

Template 12

Note: This worksheet should be photocopied so that you can fill out this section for each of the targets you have selected. If you have five targets, then you'll be repeating this worksheet five times.

1. Select one target for the next 12 months. Describe the target in as much detail as possible:

2. Are you going to change any of the following for the selected target? If you are, then state what you intend to do:

Price?

Product or service?

How will you distribute?

3. List the promotional activities you'll use to attract the target described:

4. Estimate the total cost of the ideas generated in Point 3 above. Is this amount of money feasible? Can you still make a profit?

Template 13

Tactical marketing plan timeline

List all your promotional ideas:

Place an an X in the month when you intend to run the specific promotion

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

Chapter 2: Marketing

Template 14

Your competitive advantages

What are your key competitive advantages? List as many reasons as you can why you are better than your competition:

Template 15

Creating a job description

Job title:

Immediate superior (person to whom reporting)

Responsible for:

Brief description of job:

Major job objectives:

1

2

3

Key tasks:

Resources required to achieve key tasks:

Template 16

Creating a person specification

1. Physical requirements:

2. Qualifications — level of education and experience:

3. Special aptitudes — numeracy, literacy and computer skills, etc:

4. Personal characteristics — communication skills, etc:

5. Specific circumstances — able to travel, etc:

Template 17

Application form

Personal information

Position applied for: Date:

Full name:

Address:

Contact details:

Phone:

Fax:

Email:

Previous experience

Start with your current or last position

1. Job title:

Name of company:

Contact person:

From:

Key Tasks:

2. Job title:

Name of company:

Contact person:

From:

Key Tasks:

3. Job title:

Name of company:

Contact person:

From:

Key Tasks:

Template 18

Performance appraisal (PA)

Staff member:	Date of PA	PA completed? yes/no	Results of PA

Action taken as result of Performance Appraisal:

Staff member:	Date of PA	PA completed? yes/no	Results of PA

Action taken as result of Performance Appraisal:

Staff member:	Date of PA	PA completed? yes/no	Results of PA

Action taken as result of Performance Appraisal:

Template 19a

Profit and Loss Forecast: One-year forecast

Note: GST **exclusive**

Year Ended:

	Pessimistic		Realistic		Optimistic	
	$	% of Sales	$	% of Sales	$	% of Sales
SALES REVENUE						
Cash sales						
Credit sales						
Other revenue						
(A) Total revenue						
LESS **Direct cost of sales**						
Stock/raw materials						
Direct wages						
Commissions paid						
Other direct costs						
(B) Total direct cost of sales						
(C) GROSS PROFIT (A-B)						
LESS **Overhead expenses**						
Selling expenses						
Promotions						
Freight						
Royalties						
Commissions						
Other selling expenses						
(D) Total selling expenses						
Administration expenses						
Depreciation						
Insurance						
Lease costs						
Power						
Rent/Rates						
Repairs and maintenance						
Salaries						
Stationery						
Sundries						
Telephone						
Travel						
Vehicle expenses						
Other admin expenses						
(E) Total admin expenses						
Financial expenses						
Bank charges						
Interest						
(F) Total financial expenses						
(G) Total expenses (D+E+F)						
NET PROFIT before Tax (C-G)						
Less Tax						
NET PROFIT AFTER TAX						

Template 19b

Profit and Loss Forecast: **Realistic one-year forecast by month** **Note:** GST **exclusive**

Year Ended:

Note: Most financial years start in April; adjust if necessary

SALES REVENUE	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total Year
Cash sales													
Credit sales													
Other revenue													
(A) Total revenue													
LESS **Direct cost of sales**													
Stock/raw materials													
Direct wages													
Commissions paid													
Other direct costs													
(B) Total direct cost of sales													
(C) GROSS PROFIT (A-B)													
LESS **Overhead expenses**													
Selling expenses													
Promotions													
Freight													
Royalties													
Commissions													
Other selling expenses													
(D) Total selling expenses													
Administration expenses													
Depreciation													
Insurance													
Lease costs													
Power													
Rent/Rates													
Repairs and maintenance													
Salaries													
Stationery													
Sundries													
Telephone													
Travel													
Vehicle expenses													
Other admin expenses													
(E) Total admin expenses													
Financial expenses													
Bank charges													
Interest													
(F) Total financial expenses													
(G) Total expenses (D+E+F)													
NET PROFIT before Tax (C-G)													
Less Tax													
NET PROFIT AFTER TAX													

Profit and Loss Forecast: Three-year forecast

Note: GST **exclusive**

Year Ended:

	Pessimistic $	Pessimistic % of Sales	Realistic $	Realistic % of Sales	Optimistic $	Optimistic % of Sales
SALES REVENUE						
Cash sales						
Credit sales						
Other revenue						
(A) Total revenue						
LESS **Direct Cost of Sales**						
Stock/raw materials						
Direct wages						
Commissions paid						
Other direct costs						
(B) Total direct cost of sales						
(C) GROSS PROFIT (A-B)						
LESS **Overhead Expenses**						
Selling expenses						
Promotions						
Freight						
Royalties						
Commissions						
Other selling expenses						
(D) Total selling expenses						
Administration expenses						
Depreciation						
Insurance						
Lease costs						
Power						
Rent/Rates						
Repairs and maintenance						
Salaries						
Stationery						
Sundries						
Telephone						
Travel						
Vehicle expenses						
Other admin expenses						
(E) Total administration expenses						
Financial expenses						
Bank charges						
Interest						
(F) Total financial expenses						
(G) Total expenses (D+E+F)						
NET PROFIT before Tax (C-G)						
Less Tax						
NET PROFIT AFTER TAX						

Template 21

Cashflow Forecast: One-year forecast

Note: GST **inclusive**

Year Ended: ☐ Optimistic ☐ Realistic ☐ Pessimistic ☐ (tick one)

Use the projections from your one-year Profit Forecast, but adjust the figures to identify the specific months when the cash is expected to be received or paid. Adjust for GST if required by adding GST to all figures that attract GST and entering your forecast GST returns.

Note: Most financial years start in April; adjust if necessary

CASH RECEIPTS	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total Year
Cash sales													
Cash received from debtors													
Other revenue													
Capital injections													
Loans received													
Tax refunds													
Other cash received													
(A) Total cash receipts													
LESS CASH PAYMENTS													
Stock/raw materials													
Direct wages													
Commissions paid													
Other direct costs													
Promotions													
Freight													
Royalties													
Insurance													
Lease costs													
Power													
Rent/Rates													
Repairs and maintenance													
Salaries													
Stationery													
Sundries													
Telephone													
Travel													
Vehicle expenses													
Other admin expenses													
Bank charges													
Interest													
Drawings													
Purchase of Fixed Assets													
Repayment of loans													
GST payments													
Income tax payments													
Other													
(B) Total cash payments													
(C) NET CASHFLOW (A-B)													
(D) Opening bank balance													
Closing bank balance (D+C)													

Template 22

Break-even calculations

To calculate the necessary level of sales for your business, use the information developed in your Profit and Loss Forecast (Template 20).

A) Sales last year	$	
B) Gross Profit last year	$	
C) Gross Profit percentage	%	
D) Total fixed expenses	$	
E) Desired profit (if not already included as owner's wages in fixed expenses)	$	
F) Required sales level	$	D + E above divided by C%
G) Required Sales Level – Units per year (divide by 52 for weekly)	Units	F above divided by average unit price

An example: Let's presume your sales total last year was $180,000, and your gross profit was $90,000. Your gross profit percentage was 50%. This year your fixed expenses are expected to be $60,000 and you are seeking a profit of $50,000. Your average price is $10.

Step 1. Work out your Gross Profit percentage

Divide your *Gross Profit*	$90,000
by your *Sales* – and then multiply by 100	$180,000
Gross Profit percentage	**50%**

Step 2. Fixed overheads

Add fixed expenses costs	$60,000
and your desired profit	50,000
Minimum needed	**$110,000**

Step 3. Now you can work out the target sales figure

Minimum needed to cover fixed overheads	$110,000
Divided by Gross Profit percentage	50%
Required sales level	**$220,000**

Step 4. Finally, you can work out how many units you must sell

Target sales	$220,000
Divided by average unit cost	$10
Number of units per year (required sales level)	**22,000**

(Note: you can leave out the profit estimate if you want a true break even).

Chapter 5: Using e-commerce

Template 23

Email and databases

Outline how you use email and your customer databases in your business:

Chapter 5: Using e-commerce

Template 24

Using the Internet

Outline here how your business uses the Internet to become more efficient, to research markets, to order products and services, to source information and to reduce costs:

Chapter 5: Using e-commerce

Template 25

Permission marketing

Describe here how you use e-commerce to develop permission marketing in your business:

Chapter 5: Using e-commerce

Template 26

Your web site

Describe here the functionality and purpose of your web site:

Chapter 5: Using e-commerce

Template 27

B2B e-commerce

Describe how your business uses e-commerce to do business with other businesses:

Chapter 5: Using e-commerce

Template 28

B2C e-commerce

Describe how your business uses e-commerce to do business with the end customer:

Chapter 5: Using e-commerce

Template 29

B2G e-commerce

How does your business use e-commerce to work with national or local government?

Chapter 5: Using e-commerce

Template 30

Other e-commerce uses

Outline here any other ways not previously covered that your business uses e-commerce:

Chapter 6: Innovation

Template 31

Encouraging employee innovation

Outline here how you encourage employees to innovate in your business:

Chapter 6: Innovation

Template 32

Developing a culture of innovation

What are you doing to encourage a culture of innovation in your business?

Chapter 6: Innovation

Template 33

Innovation training

What are you planning to do to ensure that you and your staff can continue to upskill in innovative practices and be exposed to new ideas?

Chapter 7: Raising investment funds

Template 34

Raising outside investment

If you're looking to raise outside investment for your business, where do you expect these funds to come from? If necessary, list multiple sources (for example, cashflow, the bank, a corporate investor):

Chapter 7: Raising investment funds

Template 35

Your key barriers

What do you think are the key barriers faced by other businesses that might wish to compete against you?

Chapter 7: Raising investment funds

Template 36

Market size

What is the size of your market in New Zealand dollars?

Chapter 7: Raising investment funds

Template 37

Identifying key contacts

List here the key people you have access to for assistance. Include their experience, qualifications, history and the relationship they have with you:

Template 38

Exit strategy

Outline how you believe an investor will be able to exit from an investment in your business:

Template 39

Intellectual Property Protection

Describe all the intellectual property protection you have in place for your business:

Template 40

Structuring the deal

Outline how you believe you will structure the deal for any potential investor. Include here also how much your business is worth, and what percentage of your business you intend to sell (if you're looking for investment capital):

Template 41

Dealing with your customers

How do you intend to deal with people located in another country? By phone? By visiting? By a physical office? By employing staff overseas?

Chapter 8: Exporting

Template 42

Possible product or services changes

What would you have to change in your product or service to meet the needs of an overseas market?

Chapter 8: Exporting

Template 43

Coping with a different culture

How will you cope with possible culture and language difficulties?

Chapter 8: Exporting

Template 44

Market development costs

How do you intend to assess the costs of researching and staying in an overseas market?

Chapter 8: Exporting

Template 45

Targeted overseas markets

What country or countries have you targeted for export?

What types of people or businesses are you targeting in these countries?

Chapter 8: Exporting

Template 46

Contacts and sources of assistance

List here all your existing export contacts and sources of assistance that have helped you so far:

Chapter 8: Exporting

Template 47

Distributing

Outline how you intend to distribute your products or services in your targeted country:

Chapter 8: Exporting

Template 48

Branding issues

What brand will you market under in your international markets? Explain why this is suitable:

Chapter 8: Exporting

Template 49

Promoting overseas

How do you intend to promote your business in your targeted international market?

Chapter 8: Exporting

Template 50

Assessing possible price changes

Do you intend to price your products or services differently internationally? If so, how and why?

Chapter 8: Exporting

Template 51

Transport issues

How do you intend to transport your products to reach your markets on time?

Template 52

Plant requirements

List here your plant requirements:

Template 53

Raw materials

What raw materials and stock are required?

Template 54

Long-range Planning – Time frame: 3 - 5 years

Your Goals and Objectives	Comments
A	
B	
C	
D	
E	

Medium-term Planning – Time frame: 2 - 3 years

Your Goals and Objectives	Comments
A	
B	
C	
D	
E	

Short-term Planning – Time frame: within 12 months

Your Goals and Objectives	Comments
A	
B	
C	
D	
E	