

## Business Start-Up Corner

### *Funding your new business venture*

**R**aising money for your new business venture is often the biggest challenge for a start-up entrepreneur. The truth is, it's not that easy for an established business to gain funding either!

As a start-up business your chances of securing finance are improved if you have industry experience, good references and support from a great mentor. However, you also need to create and document the best business plan ever!



### **Business Plan & Cash Flow Budget**

While the main reason most people prepare a business plan is to raise finance, your business plan should also prove the viability of your business venture. Included in the business plan is a cash flow budget for the first year of trading and a positive cash flow is an absolute necessity if your business is to succeed. Positive cash flow doesn't just happen, it needs to be planned.

That's why we strongly recommend the preparation of a 12 month cash flow budget before you start your business. In fact, any business that fails to accurately forecast its cash flow in the first 12 months is on a collision course because without realistic cash flow projections, management is unable to identify future cash shortages.

The cash flow budget is based on a number of assumptions regarding the expected future performance of the business. The assumptions must be realistic and supported by research, available data plus known facts such as rentals or forward contracts. The information in your cash flow budget is designed to:

- Forecast your likely cash position at the end of each month;
- Identify any fluctuations that may lead to potential cash shortages;
- Plan for your taxation payments;
- Plan for any major capital expenditure; and
- Provide prospective lenders with key financial information.

Of course, positive cash flow alone is not enough. The business must be returning a profit and the long term trend for both must be positive.

To obtain funding within the banking system you should:

- Practice your presentation skills;
- Present credible references;
- Produce an outstanding business plan; and
- Keep your credit history clean.

Funding outside the bank system:

- Investigate Government or other Grants;
- Angel investors;
- Crowdfunding; or
- Seed funding (where an investor purchases part of a business).

Ensure your business plan contains all the different components including organisational, marketing, operational, financial and risk analysis. If you don't know where to start contact us today.



## This Way Out

We know it's hard to understand why a business owner in the start-up phase should contemplate an exit strategy, however, in business you should always 'start with the end in mind'. Having an exit plan right from the outset is important and forces a new business owner to focus on the finish line.



The long-term plan for most business owners is simple. Sell the business at retirement. That is very logical but the sale process may be forced on an owner due to ill health, disability or death. So even though the possibility of exiting the business early seems remote, some key questions need to be asked up front.

### Sale of Business

Here are some of the types of the issues and circumstances you need to consider:

- If selling the business to a third party what exactly would be saleable? Shares? Assets? Equipment? Stock? Goodwill?
- If you are selling the assets, what assets are you selling/transferring and what assets do you intend to retain?
- Are you selling intellectual property? Is it transferable?
- Time frame - when do you want to exit? Will there be a handover period?
- Document an overview of your business including history, milestones, strengths and weaknesses, profile of your major customers and suppliers, reputation in the marketplace and industry opportunities and threats. Don't reveal trade secrets and get a signed confidentiality agreement before potential buyers see any of these details.
- Most importantly, identify your potential buyers. Historically, suppliers, clients or someone the business owner already knows buys around 75-80% of small businesses. When you know where the buyer is coming from, it is time to think about price.

- Assessing the value of a business can be complex. One common method is Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). The EBITDA of a business provides an indication of the profitability of the business based on its present assets and its operations. Different industries have a different EBITDA - a florist business has a lower EBITDA than a high-tech business.

Here are some guidelines when considering formulating your exit strategy:

- ✓ Start with the end in mind and it's never too early to plan your sale.
- ✓ Be realistic about the time frame. A business that takes 20 years to build generally can't be sold in a week.
- ✓ Know exactly what you are selling (and what are you not selling).
- ✓ Be open to alternative sale options (e.g. sell all your assets, sell your clients but not your equipment, Vendor Finance or Buyout over 3 years).
- ✓ Understand the income tax implications of selling including GST, CGT and other tax matters.
- ✓ Look at Lease Agreements on the premises and any assets.
- ✓ What happens after the sale? Will there be a restraint of trade and handover period?
- ✓ Part of the plan should include what are you going to do after the sale? You are used to a busy entrepreneur lifestyle so what comes next? Playing golf four days a week may sound appealing but it's probably unrealistic.
- ✓ What will happen to your staff and how will you communicate the sale to them? Obviously the sale of your business will impact on their position in the business, their personal financial position and future employment. Sometimes senior staff members continuing in the business may be a condition of sale. You need to be careful in this instance to ensure you don't lose a key staff member pre-settlement that might jeopardise the sale.

Talk to us today about your exit or succession plan and think big!

## Is your business ready to explode?

What if all your all marketing efforts including your website, advertising and social media strategies all started to work at once? Sounds like a 'perfect storm' most small business owners would like to have but how would you cope if you were inundated with phone calls, leads, enquiries and sales? Do you have the systems and resources in place to handle the calls, orders and delivery deadlines?

This marketing explosion could stretch your resources to breaking point and failure to return customer calls and emails on time could damage your brand and undo all your hard work.

Courtesy of technology and social media you can grow a million dollar business faster than ever before but many entrepreneurs fail to plan for the 'perfect marketing storm'. Below we provide some tips on what preparation needs to be made when everything falls into place.

### Growth Targets

Have you set goals for your business? What level of turnover, profit and staff are required if your business reaches these targets? What time frame are you looking at and what milestones have you pegged? Be clear on what you are targeting for and why. Knowing the answer to these questions will dictate the action steps that you need to take.

### Financing the Growth

The start-up phase aside, growth spurts are the second most risky time for a business. Growth can squeeze cash

flow, which could mean there may simply not be enough money available when bills fall due. The state of your working capital is crucial at this time and to get ready for the growth spurt you need to be clear on how you will fund the boom. It could be from retained earnings, through supplier credit terms or finance from a bank or other source.

### Infrastructure & Systems

Do you have the right building blocks to support your growth goals? Knowing what your long term plans are will help you put your day to day systems in place. A simple spreadsheet for customers may be sufficient at start-up but a customer relationship management (CRM) system may be the long term solution. A system that can back you up in case of staff absence or illness could prove invaluable.

### Delegate or Outsource?

Rapid growth may mean transitioning from sole trader to literally running a business team overnight. Entrepreneurs need to examine what they spend their time doing and continue working on high return activities. The low end tasks need to be delegated or outsourced. Just be careful when delegating or outsourcing that your service standards don't drop. Often, the biggest constraint for a fast growing business is accessing quality, experienced and stable staff. While contract staff may work well in some situations, it's not a model that works for a business with a history of sustained growth.

### Adopting New Skillsets

Many businesses are built on the back of an entrepreneur's single idea or skill. These businesses will often require injections of additional skills and knowledge to grow into larger businesses and you need to either build your knowledge and skill or recruit people who do have the skills.



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