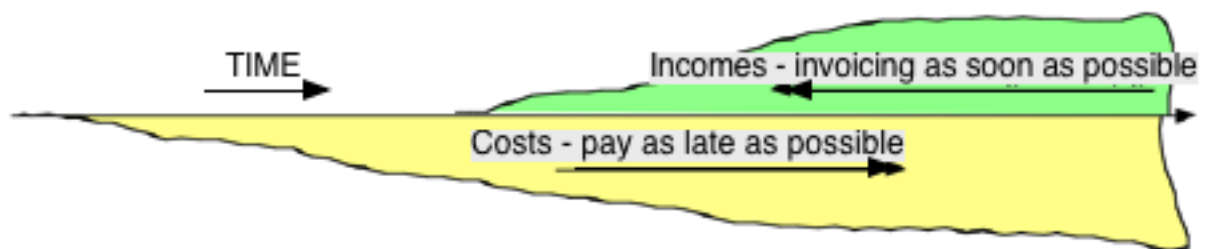


Start up program

Step 8. Business plan and budget

In this step we will write the first Business Plan and a budget. These documents are very important in the establishing of a new company. When you contact with financiers they will ask for them. And so will potential partners and suppliers.

In this last step in our start up program we will sum up what we have done in the seven previous steps. In the end of this step you have to make your choice: Go or Not Go? Are you prepared to take the risk by starting your new business? Do you feel comfortable when you look at your business plan and budget? Good!



Good timing for better liquidity

In the initial phase it's very important to get paid fast from the first customers!

However it's not unusual that new entrepreneurs are very slow with invoicing.

Probably because it's more fun running the core business. But it's very important to get a cash flow as soon as possible!

And by the same reason is it important to pay bills as late as possible.

Customer financed development (creative financing)

The start up as well as further development need to be financed. And maybe the best way to do this is to get it financed by the customers. Depending on what kind of business you are in a customer financing is more or less likely to realize.

If your business for instance is in technology you will probably have some big investments before it's up and running. If you then can write a **letter of intent** with some major customer you can get paid in advance and don't have to get a loan from the bank.

A letter of intent is a very useful kind of agreement. It can look like this:

"If Tommys IT-company can deliver a CRM-software with the specifications we decided we commit our self to buy 100 units during the next 12 months.

Signed: James Clark, managing director"

Look at Your liquidity

In this step – that end up with the decision to start or not to start the new business it’s very important to reduce risks as far as possible.

One important factor to look close on is what we call "economic persistence".

Dependin of what kind of business You are about to start up You need more or less investment capital before You are up and running. If Your business needs a lot of money in the initial stage and if it will take some time before You got any cash flow in You need to have a good economic persistence. And this must be big enough to keep You going up to the moment when the cash flow has increased so that income are bigger then costs.

Example: We have seen when an entrepreneur started a ferry company with only some million dollar to start with. We adviced him not to start because our analysis told us that his persistence only was 3 – 4 months. But he started his company and lost all his money. End of sad story!

How do You expect the cash flow to be in Your business for the first six months?

My cash flow will be like this:

.....
.....

What economic persistence do You need in Your business?

.....
.....

My business plan.1

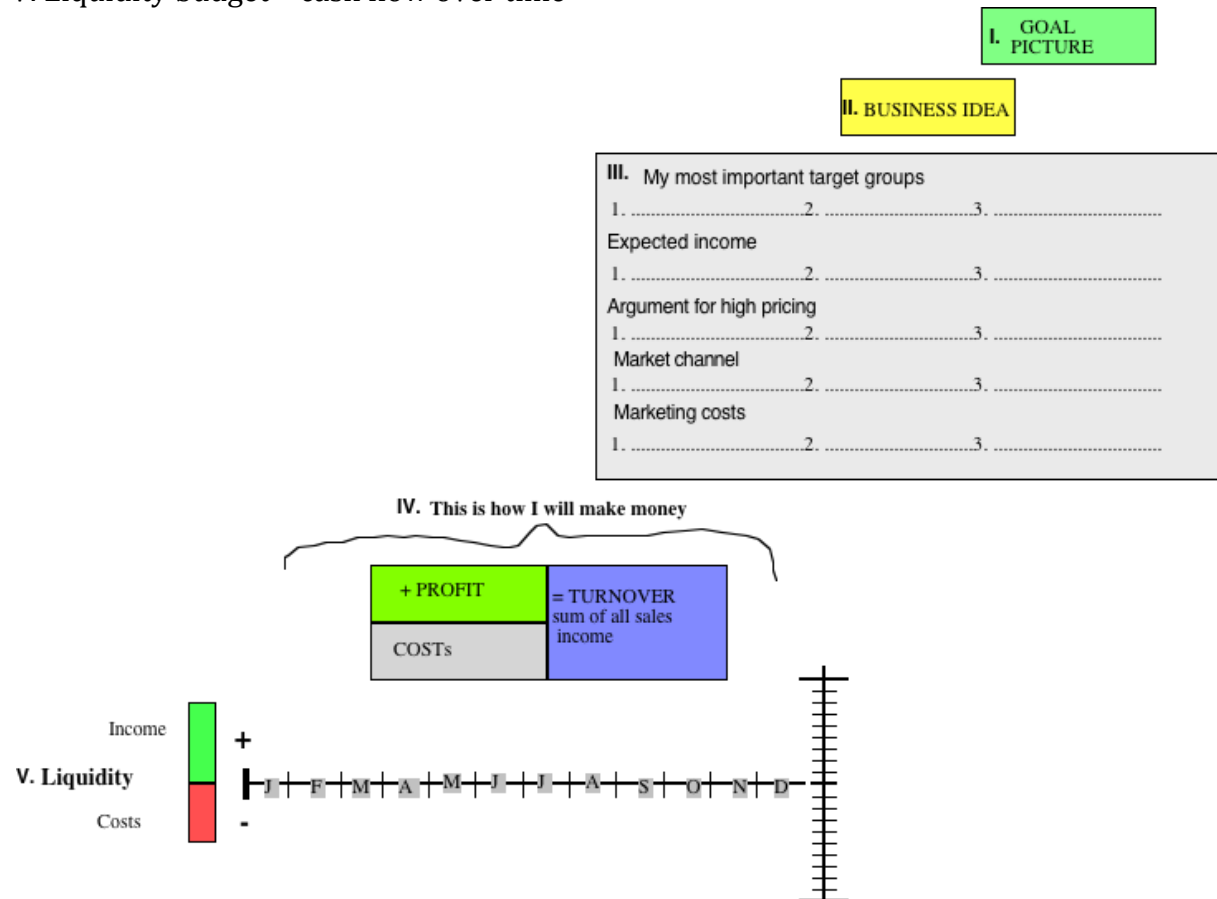
I. Goal picture – this is how my business will look when I celebrate my success

II. My business idea – this is my unique offer to my customers

III. My most important target groups and what I'm offering them

IV. Result budget – profit and loss account

V. Liquidity budget – cash flow over time



Now we are getting closer to the moment of truth: Start or not start? Go – Not go?
When all figures are in place in the diagram above – you will have a clear picture!

I. Goal picture – this is how my business will look when I celebrate my success

Your goal picture is to be found in Step 1, page 2. Is it still OK? Or do You need to do an update before You write down on these lines. (See figure above!)And specify the date when the goalpicture shall be accomplished.

II. My business idea – this is my unique offer to my customers

You find Your business idea in Step 3 page 4 – bottom line. Write it down on the lines below!

III. My most important target groups and what I'm offering them (se Step 3 page 7)

- 1.2.3.

Expected income:

- 1.2.3.

Argument for high pricing:

- 1.
- 2.
- 3.

Market channels

- 1.
- 2.
- 3.

Marketing costs:

- 1.
- 2.
- 3.

The budget work

It's important to get a realistic forecast of the cash and cost flow when starting a new business. You don't have any figures from last Year to build on - everything is new and difficult to forecast. We recommend the start ups to make three different budgets: one **optimistic**, one **pessimistic** and one - in between - a **realistic** one.

You are adviced to make two kinds of budget:

- result -profit and loss
- liquidity

On next page You find the result budget - profit and loss. This can look different in different countries. Most important for You during Your first Year as an entrepreneur: Check Your figures continously. The budget is like a weather forecast - everything is under change. The most important thing is to keep the balance between income and costs. If You income will be reduced from budget You must reduce Your costs in the same way. Then there is no danger for liquidity.

On page 6 You find a figure for liquidity. You must - of course - fill in the actual figures from month to month to be able to predict where it's going!

RESULT- profit and loss

Business income

Sales 1.

Sales 2.

Sales 3.

Other sales

Total income

Business costs

Staff

- salary

- taxes

- health care

Material

- incidental materials

- office costs

Account

IT-service

Phone/internet

Postage

Car

Travel and lodging

Representation expensess

Advertisinf and marketing

Papers and professional press

Organisational fees

Insurance

Total costs

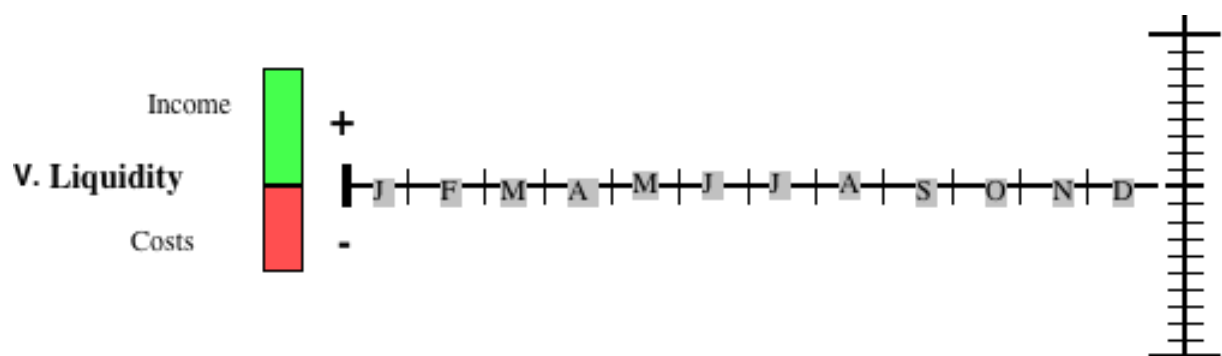
RESULT profit and loss

Reduction (20% on investment).....

Interest costs

Interest income

RESULT before tax



In most businesses the cashflow varies over time. That means that the income and costs can appear in different time windows causing problem with liquidity. If the costs comes earlier then the income - You got to pay your bills before Your customer pays You, there can be problems. So to be safe in predictions we recomend You to make a liquid budget on a monthly level. Se figure above! To be liquid You need to have the cash flow above the black line every month!

Liquidity - cash flow

Liquidity 1st January = _____

Income - receipts + _____

Costs -disbursements - _____

Liquidity 31st December = _____