

4. HELPING CLIENTS DECIDE ON BUSINESS STRATEGY



Extract

OVERVIEW

In this module, we will cover the following topics:

- Setting up clear goals
- Understanding the current business climate
- Making a business/financial plan
- Cash flow management
- Varying needs of different individuals

SETTING UP CLEAR GOALS

Simply starting a business, renting a building, putting up a sign and opening the doors is not a clear business goal. Jacques Lefargue knew that was not enough, so he went looking for someone to help him. He came into my office and asked for some business guidance.

“What do you wish to accomplish with your business?” I asked him.

“Well, three things, I guess,” Jacques began, “First, I want to make a good income to support me and my family. Second, I want a business that everyone recognizes and respects in the community. And, third, I want to be able to expand the business as it grows.”

“Then, let’s look at your proposed business and see how we can be more specific in stating those goals,” I said, “but we may change the order a bit.”

CONSIDER THE BUSINESS

First, we looked at the potential business, a shoe shop that specializes in custom made footwear as well as repairs to damaged shoes and boots.

Jacque and his eldest son would do all the work initially and Jacque had years of experience in the shoe repair business. Within the past few years, he had begun making custom shoes and boots for a small number of his friends and relatives.

His son, Marc, had learned the trade from his father and had carried the customisation another step by coming up with original designs which had proven to be very popular. It was a very small operation being done in a shed in their backyard and in their spare time.

What was needed was a store-front shop with ample space for display, storing shoes that came in for repair, storing equipment and raw materials and a place for people to sit and be measured for custom shoes. Jacque had done his research in that area and found three possible locations.

The high-end location was in a mall with very high rental charges. The low-end property was cheap enough but it was in an area that had very little, if any, business traffic. The middle property was somewhat limited in space but could be adapted to their needs with some creativity.

OFFER A REALITY CHECK

In spite of the fact that Jacque had dreams of having his shop in the glitzy mall, it took little thought to decide that a more modest shop would be the best starting point. "You can still have a goal of a more prestigious location in the future," I said, "A quality shop anywhere will create a respected business."

That also fit in with his goal of making an adequate living. Looking at his products and services, we were able to estimate how much traffic he would need to turn a profit. In the moderately priced venue, he would need fewer customers than if he went with the expensive mall location.

Without prior figures to go by, we had to conjecture about the number of customers he would have. But that conjecture did not just come out of the air. We looked at the population of the city, the economic breakdown of income figures, and the number of similar shops in the area. Our conclusion was that it would be a viable business.

Taking what Jacque estimated his family budget would call for, the amount of fixed expenses his shop would have, and the projection of the number of customers, the picture looked good.

“As for your plans for future expansion,” I said, “you will have to keep that goal firmly in mind and save a portion of your daily income toward that end. In other words, you will need an explicit budget that you stick to religiously.”

After several sessions like this in my office, Jacque had greater confidence about starting up his business.

UNDERSTANDING THE BUSINESS CLIMATE

After we had a written set of goals for Jacque’s proposed business, we turned our attention to the business climate of the city. At the time, the economy was growing at a steady pace and consumer spending was up.

“That means,” I explained, “that your custom made shoes and boots will sell better than during an economic downturn. There will be more emphasis placed on buying new footwear and less on getting old shoes repaired.”

In other words, it was a good time for Jacque and his son to be starting up a new venture. But they would still have to be careful. The number of other shoe repair shops in the city meant that competition was tough and prices for shoe repair were being kept low.

What we concluded was that Jacque and Marc would likely need to concentrate on the high-end market. For that, they had another ‘ace in the hole’.

Yvette, Jacque’s daughter, had become proficient in handcrafting leather handbags. Marc was going to design and make matching boots and shoes to sell as sets. Jacque would handle all the shoe and boot repairs giving his son and daughter more time to create their original designs.

The current business climate gave us a better picture on how to focus the business which led us up the crucial moment of writing up the business plan.

MAKING A BUSINESS PLAN

In this instance, Jacque had already saved some investment capital of his own and was ready to write his business plan before going to visit bankers to secure a loan for the remainder of what he would need. The plan included the following information:

- The decision to register the business as a limited partnership
- A demographic of the 10-mile radius of Jacque's proposed business
- A list of equipment he would need to purchase
- The amount of rent and estimated utilities per month
- An estimate of quarterly income from shoe repair work
- An estimate of quarterly income from custom made products
- An estimate of fixed expenses per quarter
- Cost of raw materials based upon the estimated quarterly sales
- Projected advertising costs at start up
- A computer generated catalogue of custom made products
- A written plan for managing the cash flow of the business

It took several weeks to accumulate all of the information and get it put together in attractive form. Yvette designed an eye-catching layout on her computer and printed it out to hand to the bankers.

MANAGING CASH FLOW OF A BUSINESS

"After the business has been in operation for at least six months," I explained to the Lefargue family, "we can write a more realistic cash flow plan. For now, we will base it on our projections, which I feel are sound."

To make the cash flow plan, we included *variable cost* estimates. Variable costs are those things that are not the same each month. For example:

- Shipping and delivery costs
- Operating materials and supplies
- Commissions
- Wages paid to temporary employees

Next, we added the *fixed cost* amounts, those things that do not change month to month. For example:

- Rent
- Salaries of permanent staff
- Interest payments
- Insurance payments
- Plant and equipment expenses

Finally, we included those *combination variable and fixed* costs such as utility bills. The number of calls made per month, the daylight and dark hours at various times of the year, and internet usage are among things that can be both variable and fixed.

To make these items even more attractive to a banker, the limited partnership named all family members as co-owners of the business and at first they would be the shop employees. This allowed them to lower the fixed salary costs by giving all owners an agreed stipend each month to be deducted out of their share profits at the end of the year. (Note: Not every family that goes into business can operate this way financially.)

The cash flow document also took into consideration such things as an unforeseen sales volume drop off, the eventuality of needing temporary employees at some point; and the possibility of having to lower prices because of competition or economic downturn.

EXERCISE 4.1

List and describe briefly the 3 types of costs that must be considered in a good cash flow plan.

VARYING NEEDS OF DIFFERENT INDIVIDUALS

There is no 'one size fits all' in deciding business strategy. It takes a good amount of common sense, research and time. One can only be sure of one thing: no business plan will ever be 100% accurate. A good slogan to remember is 'Expect the Unexpected'.

The Lefargue family were highly successful in their business. Today, the custom made line has become such well-known products that customers travel for miles to purchase them. Jacques abandoned his idea of moving into the mall in favour of buying a larger property for the business.

Their success had as much to do with the serious strategic planning they did before opening the business as it had with the hard work and long hours the family members put into producing quality products and services.

Other individuals would have to make entirely different business plans and the strategies might be entirely different. A purely service oriented business like a therapeutic massage business would need a different strategy than a retail shop. Nevertheless, the basic principles of study, research, analysis and planning are substantially the same for all entrepreneurs.

EXERCISE 4.2

Why doesn't 'one size fit all' in making business plans?

REMINDER

Have you completed the following exercises?

- Exercise 4.1
- Exercise 4.2

Tick each box when you have completed the exercises. Then you can move on to the assignment that follows.

SUMMARY

1. You can see the value of having clear goals before starting a business.
2. You understand how important it is to evaluate the current business climate.
3. You have a better idea of how to make both a business plan and a cash flow plan.
4. You are able look at and use the necessary factors in managing a business's cash flow.

ASSIGNMENT 4

Katrina had a dream of opening a flower shop in her city with a population of 100,000. There were already about 15 such shops in the area and about five of those were very large and got most of the high end clientele.

Financing was no problem for Katrina, but she had no prior business experience to draw on. Instead of going to a small business consulting organization, Katrina chatted with her friends and family to get their feedback on what she should do and how successful they thought she might be.

Katrina had won several awards at flower shows for her floral designs and had been featured in the local newspaper for her artistic ability. But Katrina had no knowledge about buying flowers wholesale or how to price her arrangements.

That did not deter her, however, and she went ahead with her plans. She found a supplier and made a contract with him without comparing what other suppliers might offer.

Before her shop opened, the five major flower shops in the city began running specials and discounts. One of those shops began sponsoring a local TV show using its designers to demonstrate the art of floral arranging. All of them increased their advertising budgets. Even before Katrina opened her doors, the competition had heated up against her. Within eight months, Katrina was forced to close her flower shop.

Write a report for your tutor. You should answer the following questions:

- Describe the mistakes Katrina made before going into business.
- What could Katrina have done to call attention to her shop when it opened?
- Do you think the other flower shops saw Katrina as a potential threat to their market share? Why?
- Would a well thought out written business plan have helped Katrina be successful? In what ways?
- What principle of business had Katrina overlooked when she signed a contract with the first supplier she talked with?

- Describe the business climate when Katrina started her business in terms of the competition and available market share.

When you have completed this assignment, send it to your tutor for marking. If you email your assignment, make sure you include your name and assignment number at the top of your work.

If you send the assignment by post, attach the cover sheet, which is on the following page.

You also need to include an assignment cover sheet, like the one on the following page.



Well, that's the end of the extract. If you want to know more, you'll have to register!

We look forward to welcoming you on to the course, and helping you become a business consultant.