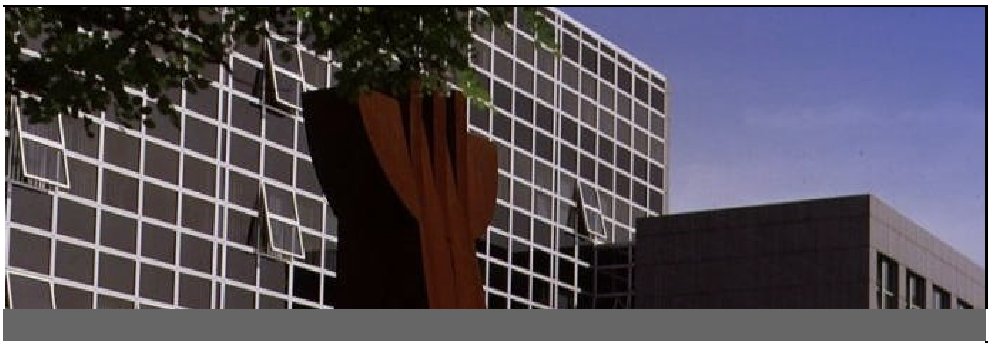
Guide to setting up your own artisan business



**Transnational co-operation and develop-
ment network for young entrepreneurs in
the artisan business and small firms sector**

CHAMBRE DES MÉTIERS
CHAMBRE DE MÉTIERS DE MEURTHE ET MOSELLE
CHAMBRE DE METIERS DE LA MOSELLE
O.C.Cla.M. UCM
HWK HANDWERKSKAMMER DES SAARLANDES

with the support of the European Commission

Transnational co-operation and development network for young entrepreneurs in the artisan business and small firms sector

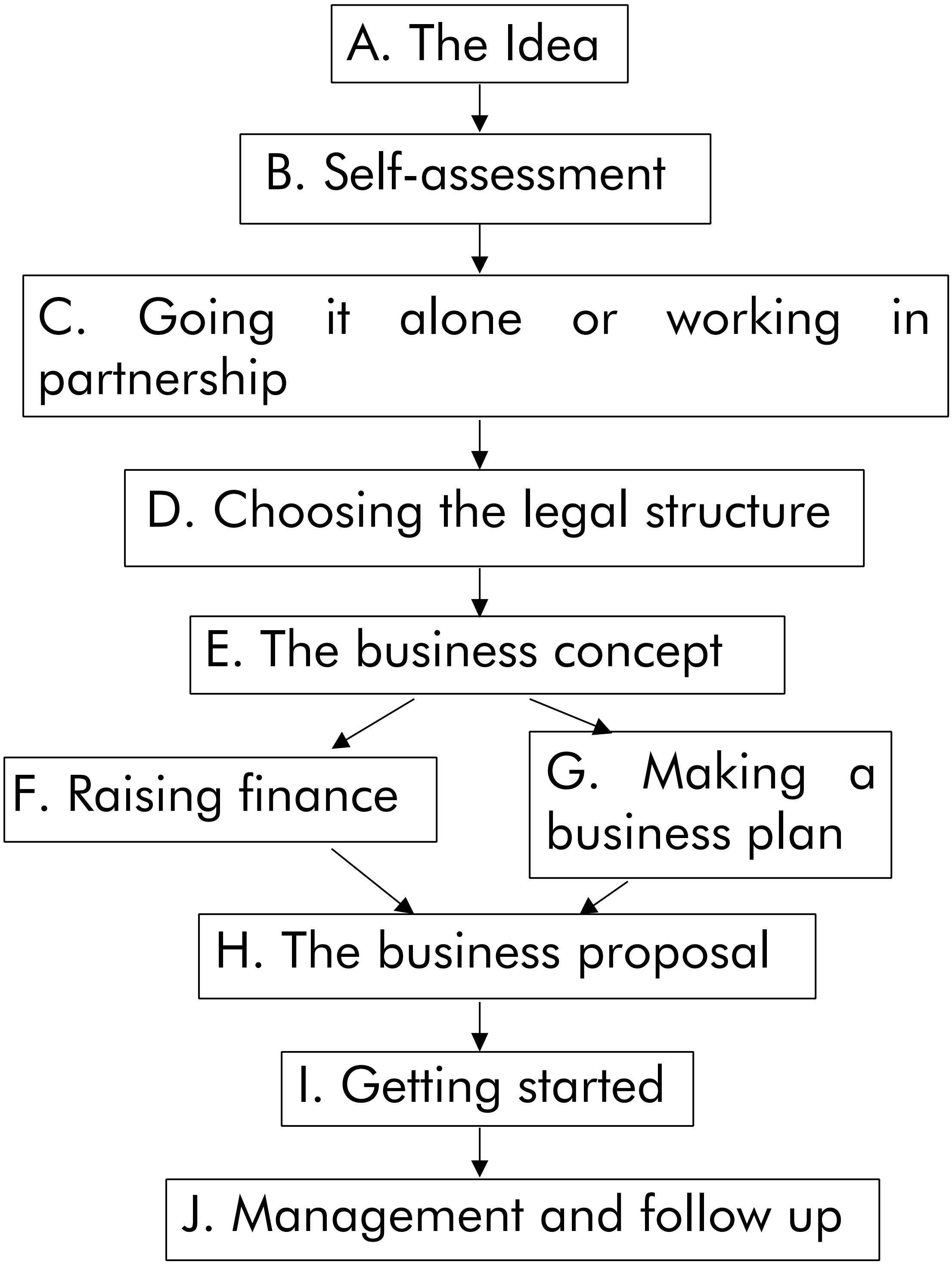
Guide to setting up your own artisan business

Chambre des Métiers du Grand-Duché de Luxembourg
Chambre de Métiers de Meurthe-et-Moselle
Chambre de Métiers de la Moselle
Union des Classes Moyennes du Hainaut
Handwerkskammer des Saarlandes
with the support of the European Commission

July 2000

Table of contents

PARTIE I : JOINT SECTION



I.A. THE IDEA

In this module:

- Having a good business idea is the first step towards creating your own business

IDEA + RESOLVE + OPPORTUNITIY = A NEW BUSINESS

A strong business idea, plus the willpower to see it through and the right market opportunity are the ingredients of a successful new business.

New entrepreneurs need to avoid making the common errors that can lead to the failure of business start-ups.

This is why you need to prepare thoroughly and to follow your ideas and plans through step-by-step, so that your start-up stands the best possible chance of success.

Joint section I: A. The business idea

As a future creator of your own business, you will have an idea for starting a new business or the opportunity to take over an existing business. Before you start, you should ask yourself a number of questions.

- What risks will I be facing?
- How will I "sell" my project to possible partners?
- What administrative formalities will I have to complete?
- …

This guide is intended to support you from beginning to end in taking the right decisions. Use it to consider your basic needs and define your criteria for making your choices so that you can:

- Assess the viability of your business
- Make the right choices as to which legal form to adopt, what business strategy to pursue and how to fund your business
- Draw up a proper and viable business plan.

You should also be aware of the commonest reasons for the failure of start-up businesses, so that you can try to avoid making the same mistakes.

Here are some of the main pitfalls:

- Overestimation of one's own abilities
- Insufficient qualifications
- Unrealistic assessment of the economic situation (potential market, sales potential)
- Insufficient personal funds
- Inadequate preparation and planning
- Failure to seek advice from experts

I.B. SELF ASSESSMENT

In this module:

This module will help you assess your personal qualities and your skills:

- professional
- organisational
- personal and social, and
- financial.

You will need to give <u>objective answers</u> to the following questions:

- Am I a self-starter?
- Am I sufficiently experienced?
- Do I have the right professional and technical qualifications?
- Can I comply with the legal provisions?
- Am I in good health?
- Do I have the support of those close to me?
- Do I have sufficient financial resources?
- …

The self-assessment form will help you decide whether your business idea is viable.

Joint section I: B. SELF ASSESSMENT

The key qualities that anyone thinking of starting a new business needs to possess are: energy, ambition, courage, creativity and leadership. You need good practical skills and you need to be good at selling and managing. You need to know how to delegate tasks and how to surround yourself with the right people. You need determination and tenacity to succeed even if you receive little recognition to begin with.

When you set up a new business you will also need professional and technical qualifications, social skills and an understanding of the relevant legal requirements.

The self-assessment questionnaire has therefore been divided into four sections, covering:

- professional skills
- regulatory framework
- personal qualities and social skills
- financial resources.

It is important that you answer the questions objectively.

Score 2 points, if you answer *yes,* to the following questions, 1 point if you answer *not sure*, and 0 points if you answer *No*.

Note down your score for each answer. An analysis of your score can be found at the end of this module.

Professional skills

- I have the necessary qualifications to succeed in the area chosen. __ points
- I have hands-on experience in the field __ points
- I have a basic grasp of business management (personnel, financial project management, etc.). __ points
- I intend to do further training. __ points
- I have previous professional experience of personnel management, project management, etc. __ points

1. Regulatory framework

- I have a CAP qualification, a master craftsman qualification or equivalent. __ points
- I am familiar with the regulations applying to my future business. __ points

2. Personal qualities and social skills

- I am willing to work, during the first few years, up to 60 hours or more a week. __ points
- I am in good health and am rarely ill. __ points
- My family is ready to support me in my new venture. __ points
- I am happy to forego a regular salary and can put up with more irregular remuneration. __ points
- I can easily cope with stressful situations and prolonged periods of pressure. __ points
- If I come across a problem, I immediately try to solve it. __ points
- I have not found it difficult to achieve fixed objectives in my professional career __ points
- I find it easy to make personal contact. __ points
- I am well organised. __ points
- I am persistent and determined when it comes to achieving an objective __ points
- I am prepared to take risks, but I carefully think through the consequences before I take a decision. __ points

3. Financial resources

- I have the financial resources I need to set up my own business, without relying too heavily on financial institutions or partners. __ points
- I have sufficient financial reserves to get past the early stages of my new venture. __ points
- I have assessed the risk to my personal finances if my business fails. __ points

It should be clear that you do not need to answer yes to all of these questions at once. Certain skills can be acquired over time. Nonetheless, these questions will help you to consider how well equipped you are to set up on your own.

Test results:

0 -15 points: Two options are open to you. You can either conclude that regular, paid employment would suit you best, or you can decide to set up together with a partner whose strengths will balance your weak-nesses.

15 – 30 points: This result is inconclusive. You are probably at an important stage in the decision-making process. Go back and check those ques tions where you hesitated and decide which areas you could im prove (studies, additional planning, training, …) and which areas relate to aspects of your personality.

30 – 42 points: Are you sure you answered all questions objectively? If so, then you really are cut out to be in business. In principle, nothing stands in the way of your getting started.

I.C. The structure of your business

In this module:

- Deciding on what sort of business to set up
- Assessing the pros and cons of the structure you choose

If you are planning to set up a new business, you will need to choose whether you want to work on your own or whether you want to work in partnership.

If you are thinking of buying a business, a special Guide is available.

Joint section I: C. The structure of your business

1. Working alone or in partnership

Should you work alone or go into partnership? Anyone contemplating a new business will be faced with this question. Which is the right solution for you will depend on your personal circumstances at the outset. This module aims to set out the issues you need to think about when making your choice.

If you decide to work **alone** as a **sole owner or sole trader**, you will have to set up everything on your own. You will have to do all the work of finding and keeping your customers.

If you decide to go into **partnership**, you will benefit from the start from a certain degree of pooling of skills and financial resources. There are, however, some risks associated with running a business jointly.

Finally, if you are **buying a business**, you may benefit from existing relations with customers and suppliers and from the experience of existing staff. However, an existing business may also lack flexibility.

This Guide does not cover the takeover of an existing business, as there are specific issues to be considered in this case.

Whichever form of business you decide to go into (sole trader, sole ownership or partnership), you will still need to consider all angles.

The legal structure you choose for your future business is closely linked to whether you decide to operate as a sole trader or a partnership.

1.1. Partnership

Setting up a partnership allows you to share skills as well as profits and costs.

What are the arguments for and against working in partnership?

Advantages

Synergy: Working in partnership allows you to pool more extensive resources. You may be qualified in different but complementary areas, have complementary experience (sales and management) and, more particularly, you will have a larger pool of funds.

Liability: Liability and therefore risk is shared between the business partners.

Shared tasks: The partners can help each other to run the business by sharing jobs and particularly by standing in for each other if a partner is away or ill.

Disadvantages

Power sharing: As decisions are taken jointly by the partners, this could lead to a certain rigidity and conflicts of interest may arise when defining business strategies (investment, hiring of staff, etc), for example.

Disagreements like this could mean that a business misses out on opportunities or that it becomes stuck and then folds.

Liability: Each partner must be ready to assume responsibility for the consequences of all the business decisions taken.

Shared profits: Profits have to be shared between the partners.

Recommendations

If you do decide to go ahead and set up a partnership, here are some of the things you should think about:

- **Think carefully about your choice of partner.** Check that your qualifications and skills complement each other and above all make sure that you and your partners share the same business philosophy and attitudes to life.
- **Define your business objectives together from the outset.** Agree on a common business plan. Which markets are you planning to conquer? What investments will you be making?
- **Define the terms of the partnership.** What share will each partner have in the business; what are each partner's rights and obligations? Draw up a written partnership agreement.
- **Draw up a detailed plan.** Decide who will do what and when.
- **Make sure that you have the agreement of all spouses.** The whole family has to be behind the project.
- **Determine how decisions will be taken.** Set out the decisions that need to be taken unanimously, those that can be decided by majority and those that can be taken individually by each partner.

- **Consider your marital arrangements.** It is vital for the security of your family to organise your business and personal affairs properly.
- **Get advice.** Seek professional advice before taking a decision (government bodies, professional organisations, chambers of commerce and trade, accountants, lawyers, notaries, consultants, …).

1.2. Working alone

The advantages of working in partnership are disadvantages when seen from the point of view of a person working on their own, and conversely, its disadvantages are advantages.

Advantages

Power sharing: Decisions are taken by the owner of the business alone, which is a definite competitive advantage as decisions can be taken rapidly (investments, hiring of staff, strategy, …).

Profits: Profits can be distributed at the discretion of the owner.

Disadvantages

Liability: The owner of the business is solely liable and must take on all the risks associated with the exercise of the business.

Job sharing: It is almost impossible to share tasks in a business of this kind.

Recommendations

- **Think carefully about the legal form you choose for your business.** Consider the tax and social security implications, your personal circumstances and the liabilities incurred and risks to which you will be exposed in each case.
- **Find out**, from the start, whether your spouse is willing to help out.
- **Get advice.** Seek professional advice before taking a decision (government bodies, professional organisations, chambers of commerce and trade, accountants, lawyers, notaries, consultants, …).

2. Legal structure

It is important to find the appropriate legal structure after examining the economics of your new venture, rather than first deciding on the legal structure and forcing your business to fit.

Which legal structure you should choose will depend on several criteria, both objective (ie, legal constraints) and subjective (ie, directly linked to the project itself and its future developments). Nonetheless, there are two fundamental choices to be made, with different structures possible in each case.

- Working alone or in partnership
- General or limited partnership firm or joint stock company

The first choice, as we have seen, is between setting up your business alone or working with a certain number of partners.

The second choice is more technical and consists, in particular, of choosing between two types of company.

Possible legal structures in Luxembourg:

Working alone	Partnership	
Sole trader		
Private limited liability company under sole ownership (*SARL unipersonelle;* France: EURL)		Limited liability company
	SENC/SNC	General partnership
	SECS/SCS	Limited partnership
	SARL	Private limited company
	SA	Joint stock company/Public limited company

There are advantages and disadvantages to each legal structure. You should carefully consider the following when making your choice:

- How large the business will be (how much you will need to invest, …)
- How much of your own capital you can put into the business
- How much independence you want
- Your tax and marital arrangements.

This section simply outlines the different legal structures available and sets out the arguments for and against a particular structure and provides some guidelines to help you make your choice. More detailed explanations are provided in the second section of this Guide, in the relevant chapters for each country.

I.D. Legal Structure

In this module:

- an outline of the different legal structures
- what you should consider when making your choice

There are 7 types of legal structure. There are arguments for and against each structure depending on:

- the financial resources available
- the applicable tax regime
- the type of business planned
- the scale of the investment required
- managerial liability/responsibility
- whether you are buying or setting up a business.

Joint section I: D. Legal structure

1. Sole trader

- **You are your own boss.** You alone provide the finance and take decisions.
- **You are solely liable towards third parties.** You take on the risks related to your business alone and commit your own personal assets to the business.

Advantages

- This is the most flexible structure: there are no Company Articles and no minimum capital requirements.
- Decision-making powers are not shared.

Disadvantages

- The owner of the business personally takes on the risks of the business since there is no clear distinction between business and private assets.
- If the owner of the business dies, the business is subject to the common law on inheritance. The business may therefore be broken up.

2. Private limited company (SARL) and Private limited liability company under sole ownership (EURL)

The private limited company may have a single partner or several partners and can be seen as a hybrid form of company which combines the characteristics of partnerships and public limited companies. The main features are:

- The single partner in the case of an EURL or the partners of the SARL are liable only up to the level of their contribution.
- The capital is divided into shares which can only be sold to third parties with the agreement of the majority of the partners of the SARL.

If all the shares are owned by a single partner, then this is known an EURL (entreprise unipersonelle à responsabilité limité) or, in Luxembourg, an *SARL* (*société* à responsabilité limité) *unipersonelle,* ie, a Private limited liability company under sole ownership.

Advantages

- The minimum capital that needs to be fully subscribed and paid up is much lower than that of a public limited company (société anonyme).
- Decisions are, in principle, taken by majority and not unanimously.
- The EURL or the SARL may be set up by a single partner.

Disadvantages

- The shares are not freely negotiable. The rules governing the sale of shares are fixed by law.
- Whereas the partners' liability is limited to their contribution to the business, the owner's liability for the firm's debts may be higher than the capital contributed in the case of mismanagement or if he has acted personally as guarantor.
- The annual accounts must be filed annually with the Clerk of the District Court.
- The SARL must maintain a register comprising a full copy of the Memorandum and Articles of Association and any amendments thereto, the names and addresses of the partners and their share in the business as well as a record of the sale of any shares.

The SARL is a realistic alternative to acting as a sole trader. On the whole, an SARL structure will suit all medium-sized businesses.

3. General partnership (SENC or SNC)

A general partnership is formed by **two or more individuals acting under a business name** which includes the names of the partners or of certain partners. Each partner is considered as a trading partner.

Advantages

- This structure is a useful way of formalising the links, often between family members, that unite the partners.
- There is no minimum capital requirement.
- Financial risks can be shared.
- There is no need to draw up a notarial deed.
- The same accounting rules applying to sole traders or solely owned businesses apply.

Disadvantages

- Liability is unlimited. There is also little distinction between the business assets and the private assets of the partners.
- It is, in principle, impossible to sell the firm's shares, although special clauses may be set out in the Memorandum.
- The death of one of the partners results in principle in the dissolution of the firm.

4. Limited partnership (SECS)

A limited partnership is formed by one or several partners acting under a company name. There are two kinds of partner:

- **The general partners,** who have joint, unlimited liability
- **The limited partners,** who are simply the providers of funds and who are not allowed to act as managers of the company.

The company name must include the names of one or several of the general partners.

The introduction of the SARL means that this type of company has become markedly less common.

5. Joint stock company (SA)

The corporate personality of a joint stock company is totally independent of that of its shareholders. The shareholders may freely sell their shares and so the shareholders can constantly change. They are only liable up to their contribution to the capital. There must be a minimum of two shareholders.

Advantages

- Shareholders' liability is limited to their contribution.
- Company shares may, in principle, be sold freely.

Disadvantages

- The minimum capital must be fully subscribed and is much higher than that required for a private limited company (SARL).
- An SA must have a prescribed organisational structure, which can be cumbersome (Board of Directors, managing bodies).
- The company's accounts (Annual report, Profit and Loss account and notes to the accounts) must be filed with the Court.

The anonymity of the shareholders and the organisational constraints make the joint stock company best suited to larger companies.

I.E. The business concept

In this module:

– Defining your business goals
– Fixing business objectives and strategy

Preparing to get started will involve making sure you can give clear answers to the following questions:

- What are you going to sell?
- Who are you going to sell to?
- How are you going to create your products and services?
- How much are you going to charge?
- What is the market potential for your business?
- Where are you going to base your business?
- How are you going to protect yourself against business risks?
- …

What you need to do therefore is to try and DEFINE your future business, set out its aims and make a realistic assessment of its future. You should then decide on the OBJECTIVES of the business and make sure you have the TOOLS to make your plan work.

Joint section I: E. The business concept

The aim of this module is to help you think clearly about how you are going to make your idea for a business work, and to help you to identify your **business objective,** expectations and policy.

The results of this analysis should enable you to put figures on your project and to draw up a financially sound business plan.

A proper business concept and business plan lie at the heart of the planning process, since these data especially will be the basis on which your banker, for example, will decide whether or not to grant you a loan. Furthermore, you will be able to use this plan to carry out proper controls of your results.

This module is divided into several sections. First you will be prompted to reflect on the purpose, scope and philosophy of your business. Then you will be encouraged to identify your marketing aims and design a suitable business strategy. We will then briefly discuss the question of insurance and how to minimise financial risks if your business runs into difficulty. Finally, we will give you some useful advice.

The main emphasis of this chapter is on **marketing,** ie, putting the problems and needs of existing and potential customers at the centre of your reflections. You need first to examine the project from the potential consumer's point of view and then, on the basis of your conclusions, decide what resources you will need to commit to the project. This will help you to determine whether there is sufficient market potential to guarantee the survival of your business.

One final remark: keep track of your ideas, note them down on paper. It is important to have the concept and your ideas in written form. You can then review the concept, reformulate your ideas and, if necessary, change them.

1. Making your idea work

To make your idea work, you need to be able to describe your future business and imagine how it will actually run. Bear in mind that you will need to reconcile your hopes with what is feasible, ie, compare what you want to do with what you can do. The starting point of your reflections should be the customer, since it is the customer who will decide whether your business will prosper or go under.

You will need to ask yourself a range of questions under the following headings and answer them:

- **Service/market:** What service am I selling and to whom?
- **Pricing:** What pricing policy am I going to adopt?
- **Communication:** How am I going to reach my customers and what image am I going to project?

1.1. Service/market

- **What service am I selling?**
  Am I selling a specific service? What customer needs am I planning to fulfil?
- **How does my service differ from other similar, existing services?**
  Does the service offered give me a competitive advantage? What advantage? Will this be perceived as an advantage? Why should the consumer choose my service rather than that of a competitor? What extra service(s) can I offer my customers to make my service more attractive and to retain their loyalty?
- **Who are my customers, what is my market?**
  Am I trying to reach the general public, professional customers, etc? Taking account of prevailing prices, what is the current turnover in this market?
- **Do I already know who my customers might be?**
  Have I already taken up contact with potential customers?
- **How do I compare with the competition?**
  What kind of competition will I be facing? How will the competition react?
- **What are the likely prospects for this service/market?**
  Is it a stable market, independent of current fashion …? Is competitive pressure increasing? Is the market expanding, already saturated, in decline?

1.2. Pricing

- **What prices are currently charged for a similar service?**
  Is the price for this type of service important to the customer? How important? Are there any additional features or can I offer any additional services that justify a higher price?
- **What market share can I expect and at what price level?**
  What impact will this have on turnover?
- **How are prices likely to evolve?**
  Are my prices heavily dependent on external factors (economic cycle, technical developments, …)? To what extent will the price depend on the market and how far will it depend on production costs?
- **What conditions can I offer the customer?**
  Is it customary in this type of business to offer discounts, reductions, …? What are the usual terms of payment?

1.3. Communication

- **How will I reach my customers?**
  How am I going to make myself known, especially at the beginning?
- **How can I keep my customers' loyalty?**
- **What kind of image should the business project?**
  What image or identity do I want to give my business?

It is clear that the importance of each topic will vary with each project you examine. However considering these questions in some depth and researching your market, the competition, etc., will give you a good idea of how to place and assess your chances of making your business a success.

2. Objectives

Setting business objectives is a relatively easy task: you want to be successful! Still, this last objective needs to be described in a little more detail.

Business objectives fall into two categories:

- **Qualitative objectives,** which concern the philosophy of the business: who you want to be, how you want to be perceived, …
- **Quantitative objectives,** which can be measured and quantified.

Your answers to the questions in part one will have helped you to determine your **qualitative objectives.**

As regards your **quantitative objectives,** you will need to quantify your aims in terms of:

- Turnover
- Sales volume
- Market share
- Time
- Number of customers
- Etc.

You should fix targets by stages (6 months, 1 year, 2 years, …) and decide on the results you expect at the end of each stage.

Obviously this just gives you an idea of a general framework for fixing targets. Setting exact objectives for a specific venture depends on a number of variables, especially those referred to above.

You should also think in terms of different scenarios: pessimistic, realistic, optimistic, … so that you can examine what might happen if you over- or underestimate any particular factors.

Another thing that might be interesting would be to segment your market. This just means trying to classify customers according to geographic region or to type (private or professional) etc. This will make it easier later to check whether you have achieved your objectives and to find the reasons for any failure to meet your objectives.

3. Insurance

The owner of a business also needs to choose the right kind of insurance cover for his business (professional risks, loss of income, loss of stock), taking account at the same time of the cost of such cover to the business. You should seek specialist advice and remember to look at competitive alternatives.

4. Some advice

Take your time

This stage of the planning process is crucial, as it will form the basis of your business plan. In addition, a well-prepared business concept will contribute to the success of your venture from the start. A proper concept and strategy will not only make it easier to check and look into any failures to meet objectives in the future, but also, a proper business concept will demonstrate your professionalism in negotiations with your banker.

Be precise

Although this stage of the planning process may seem to convey rather vague and general ideas, you should try to formulate your ideas as precisely as you can. You will then, for example, find it easier to obtain the information you need on your market or markets, customers and competition.

Be consistent

Try to avoid a contradictory approach. For example, if your business philosophy does not square with your actual experience or runs counter to your business image, you will need to rethink your concept. If you don't take action to correct your actions or your philosophy, you are bound to run into difficulties sooner or later.

Focus on your customer

Never forget that your most valuable asset is a loyal customer. Customers need to be reassured, advised and encouraged so that they gradually become convinced that they have made the right choice. The time you spend on your customers is never wasted but constitutes a latent capital gain.

Establish an advertising budget

The advertising budget for a newly created business should be around 5% of turnover. Do not hesitate to involve professionals (graphic designer, advertising agency, …) as a well designed advertisement may be more valuable than a good spot.

Choose your location carefully

Weigh up the different alternatives by considering customer access, costs, infrastructure, location of the competition, administrative restrictions, etc. The more of such criteria a location satisfies, the greater an asset it will be.

I.F. RAISING FINANCE AND MAKING A BUSINESS PLAN

In this module:

– quantifying the financial resources you need
– setting up balance sheet, profit and loss and cash flow forecasts

We have now come to the final and key element in the planning process. At this stage you will need to:

- establish your need for capital, ie, determine how much money you will have to invest in order to see your project through
- identify possible sources of capital
- draw up a sales forecast
- check your project's profitability
- check the cash resources your business will need

This stage will lead to the establishment of a

- BALANCE SHEET forecast
- PROFIT AND LOSS forecast
- CASH FLOW forecast

Joint section I.F: Raising finance and making a business plan

The success of your future business will essentially depend on a carefully prepared business plan. A proper business plan consists not only of a sales forecast but also:

- an analysis of your **capital requirements**
- a **budget** which clearly shows the source of your funds
- a **profitability study**
- a **cash flow forecast**
- a balance sheet forecast

A model business plan is available in electronic file format. You can base your own specific budget on this model.

1. Mistakes you should avoid

There are number of typical mistakes that are frequently made at this stage of the planning process. Here are a few examples:

- **Insufficient own funds**
  Bankers will judge the seriousness of your proposal in the light of the amount of personal funds that you can contribute to the total capital of the business. 20% is considered as the minimum level of own funds required. You should, therefore, look scrupulously at all possible means of increasing the amount of money you can invest in the business yourself.
- **Use of short-term loans for financing investments**
  To ensure a proper balance between your needs for longer-term funding and working capital, you must make sure that you have the financial resources to meet your liabilities when they become due.
- **Underestimating the amount of working capital needed**
  A business needs capital not only for investments, but also partly to cover operating expenses, set-up costs, initial stock building, ... However, you should not overestimate the amount of capital you need either, as the additional expense will have a direct impact on the profitability of your business.

- **Delaying negotiations with your banker**
  It is important to involve your banker at the planning stage in order to demonstrate your commitment. Involving your banker will allow you to avoid costly and lengthy searches for last-minute solutions if difficulties arise.

2. Capital requirements

Before considering how you are going to finance your venture, you should first establish how much money you will need to operate. Be careful though: 95% of people starting a new business underestimate their capital requirements. This is often simply due to a lack of rigour in establishing the business plan.

You need to distinguish between long-term needs for capital and short-term needs for capital.

2.1. Long-term capital needs

You should think mainly in terms of your needs for:

- Land and buildings
- **Means of production:** machines and equipment
- **Furniture** for office and commercial locations
- **Rolling stock:** trucks, vans, …
- **Stock:** you will need to maintain a stock of raw materials
- **Set up costs:** notary's fees, registration, advice, …

Make a list of all the items of investment necessary. On the basis of estimates from suppliers, it should be relatively easy to put a figure on the different items. The scale of investment clearly depends on the business sector and the estimated turnover.

Keeping investments to a minimum

Buy second-hand equipment. You can save up to ¾ of the price for new equipment by buying second-hand machines, tools and office furniture.

You can do any decorating and moving, for example, yourself.

Check whether it would be more economical to rent than to buy. Likewise for your fleet of vehicles: look into whether leasing would make more sense than buying.

2.2. Short-term capital needs

During the launch phase you will need to set aside advance funds to cover certain operating costs, as production, delivery, arrangement and payment costs will all mount up. A certain length of time will elapse before your first payments come in.

The costs and expenses that accumulate during this gap represent an additional need for capital. This extra requirement is intrinsically hard to quantify as it largely depends on the type of business you are setting up.

In general, you will need to consider the following costs and expenses:

- Staff costs
- Rent
- Electricity, heating and water
- Car parking facilities
- Office and administration supplies
- Interest and other financial charges
- Debts
- Owner's personal drawings
- Reserve for contingencies

You should not underestimate any of these expenses. If you do, you will run into a cash flow deficit and face difficult discussions with your banker. The last item is especially important – make sure you have a large enough sum set aside for unforeseen or unpredictable events.

Remember though that if you overestimate your needs, you will burden your cash flow with additional financial charges.

Minimising your capital requirements

- You can reduce staff costs by make use of self-employed traders or other outside sources.
- Structure your production procedures so as to minimise production time.
- Write your invoices immediately after delivery.
- Give discounts for customers who pay before the standard deadline.
- Manage customer credit strictly. Send a reminder as soon as the due date for payment has passed.
- Train your employees so as to limit rejects and other production losses.

A simplified example of how to calculate your capital requirements can be found in the appendix.

3. Funding

Once you have established how much capital you need, you then need to identify sources of funding. It is possible to break these sources into five categories:

- **Own funds:** savings, cars, machines, … which you own
- **Loans:** bank loan
- **Grants and subsidies:** state aid, EU programmes, …
- **Share issues**
- **Leasing**

3.1. Own funds

It is important that the proportion of own funds in the total business capital is as high as possible. Own funds contribute positively to your solvency and increase your chances of getting a loan.

You should therefore assess your own personal, financial circumstances.

- How much money do you have in savings?
- Do you have machines, cars or vans that you can use for your business?
- Can you borrow long-term from friends or members of the family?
- Can you get other people to take a stake in your business?
- Do you have any assets (land, buildings, life assurance policy, …) which you could use as a guarantee?

There is no rule for determining the minimum level of own funds necessary. Generally speaking, 20% is considered to be the lowest ratio but once again, the actual level will depend on the particular business, sector, etc.

Services you provide to the business yourself (conversion, renovation) are not treated as own funds but they will, nonetheless, reduce your need for outside capital.

3.2. Loans

After you have ascertained how much you can invest yourself, there is still likely to be a considerable amount to be invested. You will therefore have to borrow money.

Some advice

- **You have a choice**
  You can choose the bank you go to

  Avoid supplier credit
  Supplier credit is the most expensive form of credit. Imagine that a supplier offers a discount of 2% if you pay within 10 days, or no discount if you pay within 30 days. The interest rate you pay works out as follows:

  $$\frac{2\% \times 360 \text{ days}}{30 \text{ days} \quad 10 \text{ days}} = 36\%$$

  Only a company without credit facilities accepts supplier credit. Otherwise, profit from the discount offered. Any loan – or financing out of your own resources – works out cheaper.

- **Take all credit terms into consideration**
  The cost of a loan is not only a question of the interest you pay on it, the term and the amount. Find out also about any additional costs, commissions, etc.

- **Check that your use of funds matches your resources**
  As a general rule, a long-term investment should be financed by a permanent capital resource. Avoid funding high-value, long-term assets with short-term loans. This will adversely affect the profitability of your business as well as your cash flow. In principle, the life of an asset or its depreciation period should match the period of the loan taken out to finance it.
- **Be prepared**
  Prepare yourself in advance for meetings with your banker. Make sure you can show him a convincing concept, in writing.
- **Arrange for a credit facility or overdraft**
  A credit facility will help to cover temporary cash deficits. It will give your financial management a certain amount of security but you should overdraw your cash account for short periods only.

3.3. Grants and subsidies

Government assistance is available for new business start-ups: relief on social security contributions, tax relief, interest allowance, equipment loans, …

Do not hesitate to call your Chamber of Trade or your bank.

Details of government grants and subsidies are provided in the second part of this Guide.

3.4. Share issues

One way of increasing the proportion of own funds in the business is to go into partnership. We have already outlined the pros and cons of working in partnership. Note simply that if you do not have sufficient resources of your own, financing a business through shared interests is an effective means of contributing a suitable level of own funds to the business capital.

3.5. Leasing

You can avoid burdening your business and tying up capital through a new acquisition for which you may often not have sufficient own funds by making use of another type financial instrument: leasing.

Leasing is a way of renting equipment over a certain period. Under the lease agreement, on expiry of the agreement ownership is either transferred or you may purchase the equipment.

Leasing is, however, a more expensive way of financing equipment than a loan for a comparable amount and period.

3.6. The budget

You should now be ready to draw up your budget. It will quite simply set out, in table form, all the sources of your business capital:

- the amounts
- the duration of the different loans
- the first repayment dates
- the loan costs (interest, commissions, …)
- the due dates
- …

You can use this plan to demonstrate how you are going to finance your new venture to all interested parties (banker, partner, spouse, …). Furthermore, you can use it to establish a payment schedule for all your financial obligations.

An example budget is included in the appendix.

4. Profitability

The principal objective of any business is clearly to generate a surplus, ie, a profit. Regarding start-ups, however, this statement should be qualified slightly. If we look at the statistics on business failures, the main conclusion that can be drawn is that the principal objective of a new business should simply be to survive! Once again we see that it is vital not to underestimate your need for capital during the early stages. Remember:

Liquidity first, profitability second

A profitability analysis consists of establishing whether the business income is sufficient to cover purchases of stock items, overheads, staff costs, rents, interest expense, taxes, depreciation, personal drawings, … You do this by establishing a profit forecast.

Although this analysis does not necessarily take account of actual income and expenditure, a cash flow analysis will take account of any gaps that may exist between cash coming in and going out and will examine whether the business is able to meet its financial obligations at each moment. This study differs from the profitability analysis in that it takes account of real execution dates for the payments concerned.

The information you need is almost the same for both studies. Let us start with the profitability analysis and then proceed to the cash flow analysis.

An example is provided in the appendix for both cases.

4.1. Profitability

A profit and loss forecast looks like this:

(1)	Turnover	Sales and provision of services (net of VAT) + Various operating income - Discounts, rebates and reductions
(2)	Cost of materials and equipment	Materials used + Variations in stock + Supplies (fuel, small tools, packaging, …) + ancillary costs on purchases (transport, customs duties, non-recoverable VAT, …)
(3)	Subcontractors	Subcontractors' invoices
(4)	Gross margin	= (1) – (2) – (3)
(5)	Miscellaneous services and supplies	Rents + Equipment costs + Sales costs + General overheads + Unforeseen charges and omissions
(6)	Added value	= (4) – (5)
(7)	Staff costs	Remuneration of the principal + Salaries and wages + Employer's social security contributions + Other staff costs
(8)	Miscellaneous taxes	Not including deductible VAT and tax on profits
(9)	Gross trading result	= (6) – (7) – (8)
(10)	Financial result	Financial income – Short term interest charges – Long-term interest charges – Other financial charges
(11)	Gross self-financing capacity	= (9) – (10)
(12)	Depreciation	
(13)	Profit before tax	= (11) – (12)
(14)	Tax on profits	
(15)	Net profit	= (13) – (14)
(16)	Director's fees, dividends, principal's or partner's drawings	
(17)	Depreciation	= (12)
(18)	Net self-financing margin	= (15) – (16) + (17)

Note that when establishing your profit and loss forecast, you need only take account of the pre-tax profit figure.

Next you need to draw up this table for 1 month, 2 months, 3 months, … and then for one year, … As these are forecasts, the figures can be simplified if need be.

An example profit and loss forecast is provided in the appendix.

4.1.1. Turnover

This figure includes all sales made, net of VAT, for the period under consideration. It is advisable to deduct from this sum all reductions, discounts or rebates granted. Clearly the amount you need to deduct depends heavily on the type of business you are considering and it is difficult to estimate at this stage. For the sake of simplicity, you may omit this figure from your analysis for the moment.

Note that any discounts granted should be seen as a financial charge (10) rather than an amount that reduces the sales figure.

4.1.2. Cost of materials

This figure includes the costs of obtaining all supplies, ancillary items as well as the cost of raw materials required for the manufacture of the business products. Furthermore, the variation in stock should be considered as a charge (when stocks fall) and as income (if stocks increase).

You should also take account of small items of equipment, packaging, fuel for machines, etc, as well as ancillary costs on purchases (transport, insurance, customs duties, non-recoverable VAT) and variations in stocks.

Once again, since it is difficult to go into this degree of detail at this stage, it will suffice for now to determine the unit price of the product.

Nonetheless this heading should cover all the elements described above.

4.1.3. Subcontractor

If you are dealing with products for resale or with products that are part of the final product, you need to estimate invoices from subcontractors.

4.1.4. Gross margin

The gross margin or trading margin is the figure you get after deducting items 2 and 3 from item 1:

Sales - cost of materials - subcontractor's costs

4.1.5. Miscellaneous services and supplies

This figure is the total cost involved in the operation of the business excluding the expenses described above and excluding staff costs and financial charges.

This item includes:

- **Rents:** rents and service charges, co-ownership charges, insurance, repairs and maintenance, electricity, gas, water, heating, …
- **Equipment costs:** equipment rentals and fees, repairs and maintenance, acquisition of small items of equipment (not depreciable), insurance, …
- **Sales costs:** ancillary sales costs (transport, insurance, customs duties, …), advertising and promotion, presentation and display costs, travel expenses, commissions, licences, licence fees, royalties, …

- **General overheads:** office supplies, postage, telexes, telephone, contributions and subscriptions, professional fees (accountant, trustee, company secretary, …)
- **Contingent accounts**

You will have noticed that all the above items concern fixed costs, ie, they are independent of the volume of sales. Acquisitions that can be written down over their economic life are not included here.

Since these are fixed charges and since most of these charges should have come under consideration when determining your overall capital requirements, it should not be difficult to estimate these amounts.

4.1.6. Added value

This figure is obtained by subtracting miscellaneous services from the gross margin.

4.1.7. Staff costs

Staff costs include:

- Principal's remuneration
- Other salaries and wages
- Employer's social security contributions
- Other staff costs: miscellaneous indemnities, company subscriptions, work clothes, …

These costs will probably make up a high proportion of the business' total expenditure. All the more so as these are fixed charges in the true sense of the term whereas other so-called fixed charges tend to drop a little if production slows (electricity, water, small items of equipment, …)

4.1.8. Miscellaneous taxes

This figure includes all taxes payable by the business except deductible VAT and business income tax.

4.1.9. Gross trading profit

The gross trading profit (before interest charges, depreciation and taxes) is obtained by subtracting staff costs and miscellaneous taxes and duties from the added value.

4.1.10. Financial result

The financial result is the figure resulting from the financial operations of the business, such as interest charged on loans, the sale or purchase of shares, income on investments in mutual funds, etc.

Note that discounts, including those offered to customers (= charge) as well as those obtained from suppliers (= income) should be included under this heading.

As we are dealing here with a forecast, you should not speculate on future results. Therefore, except for the interest on loans granted, these figures should not be included in your forecast.

4.1.11. Gross self-financing capacity

This figure is obtained by subtracting the gross trading profit from the financial result.

It represents the real resources available to a business out of its profits.

4.1.12. Depreciation

Depreciation is a term that gives rise to considerable confusion. Depreciation is not a means of setting up a reserve for the purpose of replacing, in the future, an asset acquired, but is a means of spreading the impact of acquiring these assets over a period of time and in particular over the economic life of the asset in question. It is easy to understand the concept if you remember that there are assets which can be used for a period longer than one year. The reason for depreciating these assets is therefore to spread the total lump-sum purchase cost over the whole life of the assets.

For forecast purposes, you simply need to consider the estimated life of the asset concerned and calculate the depreciation according to the straight-line method. For example, for an asset with an economic life of 5 years, the depreciation rate is 100/5 = 20% a year.

4.1.13. Net profit before tax

Net profit before tax is obtained by subtracting the total depreciation from the self-financing capacity. The tax due is calculated on this amount.

The real problem with establishing a profit and loss forecast is to estimate sales for the different periods as well as the cost of materials and equipment as these are heavily dependent on the nature of the business venture. It is advisable to ask for advice from the Chamber of Trade and also to obtain professional literature on the subject.

Quantifying the remaining items is easier since many of them will have been estimated at earlier stages of the planning process.

4.2. Liquidity

As we have already indicated, having sufficient cash is more important than profitability in the early stages of business. Initially you need simply to survive, ie, to guarantee that the business is capable of meeting its financial obligations.

In principle, an analysis of your cash needs is based on the same data as the profitability analysis but the approach is more “realistic” since it is based on real business income and expenditure.

For example, the purchase of a van will have an immediate impact on your treasury (bank account). In a profitability analysis, this impact is spread over a certain period by means of depreciation. When you perform a cash analysis, the expense must be taken account of straightaway.

The same applies to sales. Although a sale may be made on date X, the customer will only settle his account on date X + 30 days (in principle).

Your cash forecast should take account of these gaps and enable you to foresee any cash flow problems affecting your business.

A few words of advice

- **Do not underestimate your working capital requirements.**
  A number of start-up entrepreneurs correctly estimate their long-term investment capital requirements: machines, furniture, tools and equipment, etc. However they regularly underestimate their short-term working capital requirements. Underestimating your needs for cash will strain your treasury and you may even run out of money.
- **Bad turnover forecast**
  Turnover is the principal generator of cash, so it is essential to forecast your turnover carefully. Use all the information available to you: trade journals, experts, your Chamber of Trade, …
- **Imbalance between administration and production**
  If the business is going badly, you should not make savings in the wrong places. Do not rationalise by cutting productive potential (lay-offs, for example) but retaining an administrative structure that generates fixed costs.
- **Costing**
  Costing is essential when determining whether your business will be viable or not. However, you may sometimes find it worthwhile to accept low-revenue jobs or even jobs on which you lose money if they contribute to full use of existing capacities. It is crucial to examine job profitability, as this will enable you not only to establish the real return on the job but also to check its exact cost.
- **Effective credit management**
  Rapid invoicing is vital but not enough. Before accepting a job, it is a good idea to check up on the customer's financial situation. Overdue claims must be monitored regularly. Set up a system for monitoring your claims, send out reminders, …

5. Balance sheet forecast

A firm's balance sheet is a way of setting out uses and sources of business capital. It provides a "snapshot" of the company's assets at a given moment and makes it possible to analyse the firm's financial health at that moment. In a working balance sheet, a distinction is made between fixed items and circulating items, depending on how liquid they are.

Without going into too much detail, a balance sheet forecast is usually presented as follows:

ASSETS (MONEY USED)	LIABILITIES (RESOURCES)
Set-up costs	Capital
Fixed assets	Result
Stocks	Short-term debts
Customers	Long-term debts
Treasury	Bank loans
	Commercial loans
Other	Other resources
Total assets	Total liabilities

The asset side shows the purpose to which the business capital has been put. These are broken down into:

- **Set-up costs:** expenditure incurred at launch such as notary's fees, registration fees, etc.
- **Fixed assets:** assets used for the business over a long period such as land and buildings, machines and equipment, etc.
- **Stocks:** Stocks of supplies and materials, semi-finished products, etc.
- **Customers:** Amounts owed by customers, or sums billed to customers but not yet paid
- **Treasury:** liquid assets, ie, bank account balances, cash in hand, etc.
- **Other**

The liabilities side of the balance sheet sets out the sources of the business capital. These are broken down as follows:

- **Capital:** The business' own capital since incorporation plus any capital increases.
- **Result:** Any unallocated profits brought forward
- **Long-term debts:** Amounts owed by the business to third parties with terms over one year, such as bonds etc.
- **Short-term debts:** Amounts owed by the business with terms less than one year. A distinction is generally made between commercial debts (amounts owed to suppliers) and bank loans.
- **Other**

Assets and liabilities are classified in order of increasing liquidity. Set-up costs fixed assets, capital and result have a **fixed character:** these assets are difficult to transform into cash and the liabilities are only due at a relatively long date. Stocks, customer accounts and treasury are, in principle, easy to turn into cash: these are referred to as **circulating or current assets.** Likewise, short-term debts are due within a shorter period: these are known as **circulating or current debts.**

From this, it will be clear how important it is to finance fixed assets with long-term resources: matching assets and liabilities should have the same "duration". **Working capital** is the difference between long-term resources and stable resources. Your working capital should be positive. The working capital figure shows the extent to which normal business activities are financed by its permanent resources.

The information gathered in this module should enable you to set up a balance sheet forecast for your business venture. This balance sheet should be set up as soon as you start trading (opening balance sheet) and also at the end of the first year of trading. Example balance sheets are included in the appendix.

All the information you have gathered so far will form the basis of your BUSINESS PLAN. You will be able to set up an effective system for measuring your real results against your plan, draw conclusions and react appropriately.

The model presented here, simplistic though it may be, provides a basis for the development of more complex models that are closer to reality.

Furthermore, it will allow you to perform a sort of "test run" before you actually start of the impact on your business operations of certain factors that are difficult to forecast: turnover, payment deadlines, etc.

In any case, you will be able to meet your most immediate target which is to ensure that your project will be feasible and profitable and so to convince your financial backers (banker, partners, …) of its viability.

Appendices: Example figures for a business start-up

Note that the examples are provided for illustration purposes only of the concepts set out thus far. The amounts used are purely hypothetical since as we have seen, any forecast figures depend on the exact situation of the start-up entrepreneur, the resources available, business objectives, current market environment, nature of the venture, etc.

Nonetheless, the examples clearly demonstrate what is meant by budget, profitability analysis, etc.

They also show the extent to which you need or are forced to simplify your estimates because of the difficulty of forecasting certain items in detail.

Appendix 1: Example calculation of capital requirements

1. Investment capital requirements

Land and buildings			-
Office equipment and furniture			200 000
Machines and equipment			2 500 000
Vehicles			450 000
Stocks	750 000 = stock value		
	= 750 000 / 5 5 rotations a year		150 000
Set-up costs			250 000
Total investment			**3 550 000**

Operating capital requirements

Staff costs	1 350 000	a year	
Rent	260 000	a year	
Electricity, gas, heating	160 000	a year	
Car fleet	50 000	a year	
Office supplies	250 000	a year	
Interest charges	250 000	a year	
Drawings	1 500 000	a year	
Other, contingent account, …	250 000	a year	
	4 070 000	a year	
	= 4 070 000 / 360		
	= 11 306	a day	
production period of 14 days	158 278	per production cycle	**158 278**
Expected turnover of	10 000 000	a year	
payment terms of 30 days	= 10 000 000 / 360 x 30		
	= 833 333		**833 333**
Total capital requirement			**4 541 611**

Note that the figures for the production cycle as well as the annual stock rotation are heavily dependent on the sector of activity. Average figures for the sector may be obtained from the Chamber of Trade or from trade literature.

Appendix 2: Example borrowing figures

Sum borrowed	4 500 000
Interest rate	5.5%
Term	10

Loan repaid in equal instalments (fixed tranches)

		Repayments		
End of year	**Amount owed**	**Capital**	**Interest**	**Total**
1	4 500 000	450 000	247 500	697 500
2	4 050 000	450 000	222 750	672 750
3	3 600 000	450 000	198 999	648 000
4	3 150 000	450 000	173 250	623 250
5	2 700 000	450 000	148 000	598 500
6	2 250 000	450 000	123 750	563 750
7	1 800 000	450 000	99 000	549 000
8	1 350 000	450 000	74 250	524 250
9	900 000	450 000	49 500	499 500
10	450 000	450 000	24 750	474 750
TOTAL		4 500 000	1 361 250	5 861 250

Loan repaid in regular annuities

		Repayments		
End of year	**Amount owed**	**Capital**	**Interest**	**Total**
1	4 500 000	349 505	247 500	597 005
2	4 150 495	368 728	228 277	597 005
3	3 781 767	389 008	207 997	597 005
4	3 392 760	410 403	186 602	597 005
5	2 982 356	432 975	164 030	597 005
6	2 549 381	456 789	140 216	597 005
7	2 092 592	481 912	115 093	597 005
8	1 610 680	508 418	88 587	597 005
9	1 102 262	536 381	60 624	597 005
10	565 881	565 881	31 123	597 005
TOTAL		4 500 000	1 470 050	5 970 050

Appendix 3: Budget

Imagine that the venture will be financed as follows:

Source of finance	Amount	% of total	Commissions, charges	Net amount	Interest rate	Term in years	Date of first repayment
Own funds	1 250 000	27%	0	1 250 000	-	-	-
Grants	125 000	3%	0	125 000	-	-	-
Low-interest loans	1 500 000	32%	2%	1 470 000	6.50%	4	Year 1
Bank loan	1 750 000	38%	2%	1 715 000	8.75%	5	Year 1
	4 625 000	100%		4 560 000			

To make this easier to understand, imagine that you repay the loans in the form of regular annuities and that the repayments are made from the first year of the loan in 4 annual instalments.

Own funds and grants do not need to be repaid.

You have sufficient data to establish the following summary table of income and expenditure to be realised during the first 3 years of trading.

Source of finance	Year 1 Month 1	Month 3	Month 6	Month 9	Month 12	Year 2	Year 3
Own funds	1 250 000						
Grants	125 000						
Loan A	1 470 000	- 153 566	- 153 566	- 153 566	- 153 566	- 614 264	- 614 264
Loan B	1 715 000	- 188 303	- 188 303	- 188 303	- 188 303	- 753 212	- 753 212
	4 560 000	-341 869	-341 869	-341 869	-341 869	-1 367 476	-1 367 476

This table is useful when analysing your project's profitability and cash flow.

Appendix 4: profit and cash flow analysis

A few words of introduction:

First, the following calculations are based on data from the previous tables. Where a hypothesis or estimate has been necessary, these are indicated.

This example study shows that there is no immediate correlation between liquidity and profitability. While a business may operate at a loss during the first few months its cash flow can be positive on the whole. This positive treasury balance is nonetheless precarious. The table shows that the treasury balance is around some 100 000 only. A single late payment could jeopardise this balance.

During the first few months the business shows negative profits. This is, in principle, only to be expected as it takes a certain while to get production going, build up a customer base, etc.

However, the weak point of all such forecasts can be seen straight away: turnover. This is because, while most of the figures are reasonably easy to estimate or deduce, other figures, such as turnover, are in large part hypothetical. The whole study depends in some way on how realistic this figure is. How can you keep this uncertainty to a minimum?

- Contact your Chamber of Trade for help with estimating your market potential and the turnover you can expect.
- Do not hesitate to ask for advice from any other body.
- Set up different scenarios and imagine how they will influence your model: realistic, pessimistic, optimistic, …

The model tables are available on disk. You can expand and modify the models according to your needs. So, for example, you can replace the turnover figures by a figure consisting of the volume and unit price, or include a check on production capacity. Keep your model general but, at the same time, do not oversimplify it so that you can use it as a basis for analysing most activities.

Estimated key figures – PROFITABILITY

(1) Turnover

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Months 7 – 12	Year 2	Year 3
by period	475 000	580 000	800 000	885 000	900 000	910 000	5 450 000	11 000 000	12 100 000
annual aggregate	475 000	1 055 000	1 855 000	2 740 000	3 640 000	4 550 000	10 000 000	11 000 000	12 000 000

Remarks:

- You should allow a certain period before production and sales take off. A business needs a certain amount of time to reach cruising speed.
- An annual growth of 10% has been assumed. This growth may be due in part to inflation, higher prices or higher sales volumes.
- Reductions, rebates and discounts have not been accounted for.

(2) Cost of materials and equipment used

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Months 7 – 12	Year 2	Year 3
Materials	156 750	191 400	264 000	292 050	297 000	300 000	1 798 500	3 630 000	3 993 000
Stock									
Total	156 750	191 400	264 000	292 050	297 000	300 000	1 798 500	3 630 000	3 993 000

- It is assumed that materials make up 33% of turnover.
- Initial stock building does not affect the profitability of the business. This is treated as a straightforward balance sheet operation.
- It is assumed that there is zero stock variation during years 2 and 3.

(3) Subcontractors

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Months 7 – 12	Year 2	Year 3
Subcontractors	0	0	0	0	0	0	0	0	0

- It is assumed that the business does not work with subcontractors.

(5) Miscellaneous services and supplies

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Months 7 – 12	Year 2	Year 3
Office overheads	35 000	35 000	35 000	35 000	35 000	35 000	210 000	420 000	420 000
Equipment	0	0	0	0	0	0	0	0	0
Sales costs	27 083	27 083	27 083	27 083	27 083	27 083	162 500	325 000	325 000
Administrative expenses	20 833	20 833	20 833	20 833	20 833	20 833	125 000	250 000	250 000
Contingent accounts	20 833	20 833	20 833	20 833	20 833	20 833	125 000	250 000	250 000
Total	103 750	103 750	103 750	103 750	103 750	103 750	622 500	1 245 000	1 245 000

- The different items are calculated as follows:

Office overheads:			
Rent	260 000		
Electricity, heating, …	<u>160 000</u>		
	420 000 a year	=	35 000 a month
Equipment:	included in other and contingent accounts:		0 a month
Sales costs:			
Vehicle fleet	25 000		
Advertising, promotion	<u>350 000</u>		
	325 000 a year	=	27 083 a month
Administrative expenses:			
Office supplies	250 000 a year	=	20 833 a month
Contingent accounts:	250 000 a year	=	20 833 a month

(7) Staff costs

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Months 7 – 12	Year 2	Year 3
Salaries	112 500	112 500	112 500	112 500	112 500	112 500	675 000	1 350 000	1 350 000
Drawings	125 000	125 000	125 000	125 000	125 000	125 000	750 000	1 500 000	1 500 000
Total	237 500	237 500	237 500	237 500	237 500	237 500	1 425 000	2 850 000	2 850 000

- It is assumed that the firm only employs one person.

(8) Miscellaneous taxes

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Months 7 – 12	Year 2	Year 3
Taxes	10 000	10 000	10 000	10 000	10 000	10 000	60 000	120 000	120 000

- The amount paid in tax will depend on the type of business under consideration.

(10) Financial result

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Months 7 – 12	Year 2	Year 3
Interest expense	83 542	83 542	83 542	81 301	81 301	81 301	465 575	825 417	644 980

- It is assumed that a reserve is set aside each month to cover financial charges so that the cost is spread over their duration

	Months 1 - 3	Months 4 - 6	Months 7 - 12	Year 2	Year 3	Regular annuities
Loan A	97 500	93 856	175 816	296 387	205 326	614 264
Loan B	153 125	150 047	289 759	529 030	439 654	753 212
	250 625	243 903	465 575	825 417	644 980	1 367 476

- Careful! This table only sets out the INTEREST repaid on the loan.

(12) Depreciation

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Months 7 – 12	Year 2	Year 3
Depreciation	61 319	61 319	61 319	61 319	61 319	61 319	367 917	735 833	735 833

	Original cost	Life (years)	Annual deprecia-tion	monthly depre-ciation
Office furniture	200 000	5	40 000	3 333
Machines, equipment	2 500 000	5	500 000	41 667
Vehicle fleet	450 000	4	112 500	9 375
Set-up costs	250 000	3	83 333	6 944
	3 400 000		735 833	61 319

- The depreciation is calculated on a straight-line basis.

PROFIT-ABILITY	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Months 7 – 12	Year 2	Year 3
Turnover	475 000	580 000	800 000	885 000	900 000	910 000	5 450 000	11 000 000	12 100 000
Cost of materi-als	156 750	191 400	264 000	292 050	297 000	300 300	1 798 500	3 630 000	3 993 000
Subcontractors	0	0	0	0	0	0	0	0	0
Gross margin	318 250	388 600	536 000	592 950	603 000	609 700	3 651 500	7 370 000	8 107 000
Miscellaneous services and supplies	103 750	103 750	103 750	103 750	103 750	103 750	622 500	1 245 000	1 245 000
Added value	214 500	284 850	432 250	489 200	499 250	505 950	3 029 000	6 125 000	6 862 000
Staff costs	237 500	237 500	237 500	237 500	237 500	237 500	1 425 000	2 850 000	2 850 000
Miscellaneous taxes	10 000	10 000	10 000	10 000	10 000	10 000	60 000	120 000	120 000
Gross trading result	-33 000	37 350	184 750	241 700	251 750	258 450	1 544 000	3 155 000	3 892 000
Financial result	83 542	83 542	83 542	81 301	81 301	81 301	465 575	825 417	644 980
Gross self-financing ca-pacity	-116 542	-46 192	101 208	160 399	170 449	177 149	1 078 425	2 329 583	3 247 020
Depreciation	61 319	61 319	61 319	61 319	61 319	61 319	367 917	735 833	735 833
Result before tax	-177 861	-107 511	39 889	99 080	109 130	115 830	710 508	1 593 750	2 511 187
Annual total	-177 861	-285 372	-245 483	-146 404	-37 274	78 555	789 064	1 593 750	2 511 187
Aggregate	-177 861	-285 372	-245 483	-146 404	-37 274	78 555	789 064	2 382 813	4 894 000

Estimated key figures – LIQUIDITY

Available from start

Own funds	1 250 000
Grants	125 000
Loan A	1 470 000
Loan B	1 715 000
	4 560 000

Investments

Furniture	200 000
Set-up costs	250 000
Machines, equipment	2 500 000
Vehicle fleet	450 000
	3 400 000
Stocks	750 000

Financial charges

These figures represent the total repayments in capital and interest.

The loans are repaid in 4 regular annuities, ie, at the end of months 3, 6, 9 and 12.

	Annuity
Loan A	153 566
Loan B	188 303
	341 869

LIQUIDITY	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7 – 12
In hand							
- Bank, cash register, …	4 560 000						
- previous month's surplus		58 750	25 750	0	0	147 681	57 562
Total in hand	4 560 000	58 750	25 750	0	0	147 681	57 562
Income	0	475 000	580 000	800 000	885 000	900 000	5 451 667
Total in	4 560 000	533 750	605 750	800 000	885 000	1 047 681	5 509 229
Investment	-3 400 000						
Stocks	-750 000						
Material	0	-156 750	-191 400	-264 000	-292 050	-297 000	-1 799 050
Salaries/wages	-112 500	-112 500	-112 500	-112 500	-112 500	-112 500	-675 000
Drawings	-125 000	-125 000	-125 000	-125 000	-125 000	-125 000	-750 000
Misc. services and supplies	-103 750	-103 750	-103 750	-103 750	-103 750	-103 750	-622 500
Taxes	-10 000	-10 000	-10 000	-10 000	-10 000	-10 000	-60 000
Financial charges			-341 869			-341 869	-683 738
Shortfall from previous month		0	0	-278 769	-94 019	0	0
Total out	-4 501 250	-508 000	-884 519	-894 019	-737 319	-990 119	-4 590 288
Cash available	4 560 000	58 750	25 750	0	0	147 681	57 562
+ money in	0	475 000	580 000	800 000	885 000	900 000	5 451 667
- money out	-4 501 250	-508 000	-884 519	-894 019	-737 319	-990 119	-4 590 288
Surplus	**58 750**	**25 750**	**0**	**0**	**147 681**	**57 562**	**918 941**
Deficit	**0**	**0**	**-278 769**	**-94 019**	**0**	**0**	**0**

Appendix 5: Balance sheet forecast

The balance sheet forecast is relatively easy to set up using the data developed in this module.

The opening balance sheet shows only purchases of fixed assets (furniture, machines and equipment, vehicle fleet) and initial stock building.

After one year of operation, the balance sheet will already be more complex.

On the ASSETS sides, you will see that:

- The value of your fixed assets has fallen as a result of depreciation.
- The value of stocks remains the same – it is assumed that once you have built up your initial stocks, you will renew supplies as they are used up (sold).
- Commercial debts due within agreed payment terms total over 900 000.
- Treasury has increased as a result of the venture’s successful operations.

On the LIABILITIES side, you should note that:

- Capital has remained stable since no capital increase has been carried out.
- However, Own funds have increased as a result of the carry forward of the first year’s profits.
- Long-term debts have decreased as a result of the repayments made during the year. Note that interest expense connected with the loans does not affect the balance sheet except as far as the annual result is concerned.
- Commercial debts to suppliers have increased. This is because it is assumed that suppliers grant 30 days' credit on their invoices.

You will also see that the firm is reasonably healthy. All stable assets are financed by permanent resources. The cash position is also positive. The firm’s profits have allowed it to increase its own resources and capacity to finance itself.

Balance sheet forecast

Balance sheet as at 1.1. of the 1st month of the 1st year

ASSETS		**LIABILITIES**	
Set-up costs	250 000	Capital	1 375 000
		Result	
Fixed assets		Long-term debts	
Furniture	200 000	Loan A	1 470 000
Machines	2 500 000	Loan B	1 715 000
Car fleet	450 000		
Stocks	750 000	Short-term debts	
		Bank loans	
		Commercial loans	
Customers			
Treasury			
Other assets		Other liabilities	0
Total ASSETS	**4 560 000**	**Total LIABILITIES**	**4 560 000**

Stable assets	3 400 000	Permanent resources	4 560 000

Operating capital	1 160 000
Operating capital requirements	750 000
Treasury position	410 000

Balance sheet forecast

Balance sheet as at 1.1. of the 1st month of the 2nd year

ASSETS		LIABILITIES	
Set-up costs	166 667	Capital	1 375 000
		Result	789 064
Fixed assets		Long-term debts	
Furniture	160 000	Loan A	1 222 908
Machines	2 000 000	Loan B	1 554 000
Car fleet	337 500		
Stocks	750 000	Short-term debts	
		Bank loans	
		Commercial loans	299 750
Clients	908 333		
Treasury	918 941		
Other assets		Other liabilities	0
Total ASSETS	**5 241 441**	**Total LIABILITIES**	**5 241 441**

Stable assets	2 664 167	Permanent resources	4 941 691

Operating capital	2 277 524
Operating capital requirements	1 358 583
Treasury position	918 941

I:G. THE BUSINESS PROPOSAL

In this module:
- how to present the conclusions of the foregoing analyses and considerations and convince your financial backers and other interested parties in your venture.

Now that you have worked through the previous stages of the planning process – to recap –

- Self assessment
- The structure of your business
- Legal structure
- Business concept
- Making a business plan

you will be ready to put all these ideas together in a form that can be presented to anyone who is interested (banker, partners, etc.)

Joint section I: G. THE BUSINESS PROPOSAL

You have now completed the different preparatory stages. You now need to bring your ideas and the results of your studies together in a form that can be presented to interested parties: financial sponsors, potential partners, members of the family, …

- You know that you are setting out on an adventure (Self assessment)
- You have decided whether you are going to set up as a sole trader, in partnership or whether you are going to buy an existing business.
- You have chosen the appropriate legal structure.
- You have established your business concept.
- You have made a start-up business plan.

The main features are presented in the BUSINESS PROPOSAL form which follows.

Do not hesitate to add your own ideas if you think that there are other matters of importance to communicate.

BUSINESS PROPOSAL

Title of project	....
Project initiator	....
Private address	....
Telephone n°	....
Fax n°	....
Mobile n°	....
E-mail address	....
Sector/industry	....

1. Personal details of project initiator

Date of birth ....

Place of birth ....

Nationality ....

Marital status ....

Number of children ....

Education/Qualifications ....

Professional title ....

....

Additional training ....

....

Professional experience ....

Professional CV ....

....

....

....

2. Details of proposed business

Business name ……………………………………………………………………

Legal structure ……………………………………………………………………

Start-up, partnership or takeover …………………………………………………..

Registered office ……………………………………………………………………

Locations ………………………………………………………………………

Business capital ………………………………………………………………………

Potential partner(s) ………………………………………………………………………

………………………………………………………………………

………………………………………………………………………

………………………………………………………………………

Opening date ………………………………………………………………………

3. Business concept

Products offered	....
Markets targeted	....
Market potential	....
Potential competitors	....
	....
	....
Current prices	....
	....
	....
Market developments	....
	....
	....
Additional services offered to customers	....
	....
	....

Planned advertising
Campaigns ....

Distribution ....

....

....

....

Comments ....

....

....

....

....

....

4. Business plan

Expected turnover ....

....

....

Sales volume ....

....

....

Pre-tax result ....

....

Number of staff ....

....

....

Own funds ....

....

....

Outside capital ……………………………………………………………

……………………………………………………………

……………………………………………………………

Comments ……………………………………………………………

Attached:

- Capital requirements table
- Budget
- Profit and cash flow forecasts
- Balance sheet forecasts

5. Miscellaneous and other comments

……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………

I.H. GETTING STARTED

In this module:
- Launching your business
- Making 'To do' checklists

Finally, things are beginning to look serious. The theoretical stage is over, and now you need to put your plans into practice.

We will try to provide a brief outline of the different tasks you need to accomplish and help you make checklists to help you organise the completion of these tasks.

Without going into detail, here are some of the things you will need to see to:

- Administrative formalities
- Hiring of staff
- Organising your communication service (internal and external)
- Setting up control systems
- Making contact with suppliers and clients
- Internal organisation
- etc.

Joint section I: H. Getting started

At last, things are looking serious. The preparations and theoretical work is complete so all that remains is to turn your plans into reality.

There are still a lot of steps to be accomplished. These can be divided into two categories:

- Administrative formalities: these formalities are not described in this section but are described in more detail in the second part of this Guide.
- Practical steps needed to get the business up and running: these are of widely varying nature (opening a bank account, hiring of staff) and depend to a large extent on the firm's operations.

We will try to provide a brief outline, in the form of checklists, of the various steps that may need to be taken when setting up a new business.

- Open one or several bank accounts
- Take out different insurance policies
- Create headed paper, invoice forms, catalogues or other business stationery
- Purchase office furniture and equipment: computer, desk, …
- Hire staff: advertise, interview, …
- Set up initial contacts with clients, suppliers, …
- Launch publicity campaign (a few weeks before you actually open for business)
- Sign rent agreements, lease agreements, etc.
- Set up the firm's internal organisation, designate responsibilities, etc.
- Set up internal control procedures (together with external experts: trustee, accountant, …): financial control, site inspections, …
- Install equipment etc at your locations
- Etc.

You will see that this list is not complete and that each point could be expanded. However, this is relatively complex and the exact nature of the tasks is specific to the business. The exact checklist will depend on the precise nature of the business being set up.

What is important though is to work in an organised fashion: set up a plan detailing everything that needs to be done. Set deadlines for completing each stage. If you do this, you will avoid omitting something and wasting time as well as money.

I.I. MANAGEMENT AND FOLLOW UP

In this module:

- setting business priorities over time
- setting up a scorecard of financial indicators
- specifying the action to be taken when things go wrong

A business' priorities and objectives evolve over time and can be summarised as follows:

	Liquidity	
	customer management	We will try to define and explain business priorities, set up a scorecard which you can use to control objectives and implement the tools needed to react to a given situation.
	project management	
	availability of resources	
	profitability	
	order book	
	management of suppliers	
	growth	
	new markets and products	
Time	…	

Joint section I:I. MANAGEMENT AND FOLLOW UP

A firm's objectives and priorities will change over time. A newly established business clearly has different concerns from a firm that is well established in its market.

In this module we will try and see what happens to a new business' main objectives as it evolves over time. These objectives may become contradictory depending on the age of the business. We will then put forward an example scorecard with a certain number of indicators. These indicators will give you a global overview of how business is going and enable you to identify things that are going wrong. We will also briefly outline what you should do to correct any unsatisfactory situations that may arise.

1. Business objectives

When considering business policy, objectives and expectations, one generally has three different time scales or horizons:

- Short-term: a day, week or month
- Medium term: a month, a quarter
- Long-term: a year, or even 5 or 10 years

There is no precise definition of these horizons and their duration depends heavily on the nature of your business: production deadlines, value of the products, etc.

In the **short term,** a new business will aim simply to survive. This is because the business has to make sure it has enough cash to cover expenditure related to purchases, remuneration, taxes etc. Moreover, to acquire and keep its customers it needs to gradually build up its customers' trust. Another important objective is to keep current projects running smoothly. Lack of business experience and a fragile financial structure make it essential to avoid costly shortages of time and money. Along the same lines, providing the raw materials necessary for production is another top priority.

Medium term objectives are similar but the focus will have already shifted towards profitability. The reason for this shift is that positive cash resources during the first few months arise essentially from the fact that permanent capital resources (own funds, long-term debts) are higher than investment requirements and that this capital is in part financing the firm's everyday operations. At some point, the cash will have been used up and it then becomes necessary for the business to generate a surplus, in short, make a profit.

To make a profit, you need to have orders. It therefore becomes a priority for the business to have an order book that is full enough for it to continue operating over the next 2, 3, … months.

A business that gently reaches cruising speed will be in a better position to negotiate with suppliers. Your volume of purchases rises, you have sufficient cash to pay your commercial debts promptly, and you become an interesting client for the supplier. Relations become stronger and the business may then be able to negotiate better terms.

The **long-term** policy of a company is highly strategic. The objectives are now growth, increased market share and expansion into new markets. These aims are much more general and achieving them requires much subtler planning than is the case for short-term objectives.

Nonetheless, you should not lose sight of any of these objectives throughout the life of your business as they will continue to be important, although their importance will vary depending on your horizon. So, for example, liquidity is a top priority when the business is going through a period of growth.

These objectives may sometimes pose something of a paradox. In principle, you should try to maintain coherence between the different priorities. So, if you decide to attack the top-of-the line market in services, you are almost certain to fail if at the same time you pursue a policy of low prices aimed at capturing a different segment.

How the business defines its objectives is clearly dependent on the personality of the manager and his or her expectations. A certain level of realism is needed at all times and account must be taken of the real resources available.

2. Scorecard

The scorecard is a tool that allows you to monitor your business closely and to take corrective action rapidly if needed.

The proposed model does not need very many, sophisticated, exact indicators. However the indicators are useful tools for immediately detecting any deviation from the path you have set yourself and they are easy to set up. It should be relatively easy to refine the model to suit your own purposes.

There are 7 indicators to consider:

- 2 relate to sales of goods and services
- 2 concern the collection of income on these sales of goods and services
- 1 relates to stocks
- 2 deal with profitability.

You should perform your scorecard check at least quarterly or even monthly so that you can react in time.

Example scorecards are given as an appendix.

2.1. Gap between actual sales and budgeted sales

This is an extremely important indicator as sales of goods and services are the foundation of the business.

You can decide whether to calculate monthly, quarterly or aggregate gaps for the year.

What should be done if there is a gap?

If you sell more than you budgeted for, all the better.

If you sell less, then you need to look into the reasons for this.

- Is the gap a result of reduced prices or lower sales? Would raising prices cause sale volume to fall?
- Have you been giving reductions or discounts too easily?
- Was the business plan just too optimistic?

If the reason can be found by answering the first three questions, then action can be taken: raise prices, give fewer discounts, etc.

If however, despite all your sales efforts, advertising, quality improvements, … no reasonable cause can be found, then you need to review your forecasts. This will involve reviewing your sales figures and other aspects of your business plan (areas where savings can be made). You should not however fall into the trap of making savings which affect the productive potential of the business or you risk creating a vicious circle. You should try – wherever possible – to make savings on fixed costs such as administration and also put in some extra personal effort: customer relations management, road shows and presentations, …

2.2. Order book

If your business works on the basis of an order book, this is an extremely useful forecasting indicator. You will be able to check developments of actual sales and see how they differ from the predictions of your business plan

Calculate the number of days of budgeted sales that are covered by your order book. Bear in mind that if your order book records sales for the next 3 months, the projects you accept now will (on average) be carried out only in 3 months time.

Order book analysis will obviously depend on the nature of the business and seasonal characteristics. Find out about the seasonal characteristics of the sector you are in from your Chamber of Trade.

2.3. Late payments

This is the Achilles heel of young businesses. The cash flow needed for the business to survive is generated by collections of sales proceeds.

You can create collection reports for each customer. Just make a list of the amounts owed by each customer and check whether the customer is respecting your payment terms.

What should you do if a customer has not paid a bill?

First find out why.

- Is the customer just giving himself more time or were you too slow sending the bill?
- Are you taking risks concerning the customer's creditworthiness?
- Have you failed to make adequate checks as to whether bills have been paid?

If you cannot find any shortcomings within the business, then you can start to approach the customer. First draw up a statement detailing the number of days overdue, the amount outstanding and the terms agreed. Exert friendly pressure initially and then, if the situation does not improve, stop deliveries or consider coercive measures.

2.4. Accounts receivable turnover

This second indicator provides an overview of the extent to which all customers are complying with payment terms. This indicator is quick to set up as you need only take account of two things: sales and outstanding claims.

The value of this indicator gives the number of days taken on average by customers to settle their accounts:

$$\frac{360 \text{ days x claims}}{\text{(sales of last two months) x 6}}$$

Note that this formula can be adjusted depending on the business. The sales denominator must represent the entire annual sales figure. If sales are spread more or less equally over the year, it is valid to extrapolate on the basis of two-month figures (multiplied by 6). If, on the other hand, sales are strongly seasonal, it would be better to consider a longer period.

2.5. Stock turnover

You need to find a compromise between, on the one hand, the commercial need to maintain sufficient stocks so that they are readily to hand and there is no shortage and on the other hand, the financial requirement to keep stocks to a minimum in order to reduce the need for operating capital and to improve your treasury.

Calculate the number of days of sales that corresponds to your stock. The indicator measures in how many days on average you will have to replace stocks. Here two values are involved: the cost of materials and the value of the stock.

$$\frac{360 \text{ days} \times \text{stock}}{(\text{cost of materials in the last two months}) \times 6}$$

Again, this formula should be adjusted to meet the specific characteristics of the business. In general, one can say that the time taken into account for the cost of materials should be more or less the same as the stock rotation period. If, for example, stock is rotated on average every 60 days, the costs incurred in the last two months are considered.

If your rotation period is much longer than the average for your sector, then:

- Analyse your stock structure. Are you keeping stock that is not used or which could be written off?
- Are you holding high-value materials that are rarely used?
- Is your stock too diverse?
- Are you keeping stocks too high?

If you think your figures may be wrong (stock value), you need to consider physical stocktaking so that you can update your figures.

2.6. Gross sales margin

The gross sales margin is the difference between your turnover and the cost of materials together with subcontractor's fees.

Compare the result with your business plan forecasts.

An analysis of the different cost items will enable you to take appropriate measures.

2.7. Added value

Added value is calculated by subtracting miscellaneous goods and services from the gross margin.

Again, compare the result with your business plan forecasts and examine the reasons for any divergence.

An analysis of these last two indicators will either lead you to take corrective action or to review your business plan as described above.

3. Managing qualitative objectives

Managing these objectives is highly strategic. They are mostly qualitative in nature. It is hard to express them in figures and, consequently, it is more difficult to set up a system of control for these objectives than it is to set up a financial scorecard.

Qualitative objectives include:

- Improving customer service
- Improving product quality
- Acquisition of new customers
- Projecting a brand image
- Maintaining customer loyalty
- Improving internal flows
- …

It is obvious that monitoring the achievement objectives require diverse instruments which will vary from case to case. Gathering relevant information will be all the more difficult, if the objective is highly subjective.

You can use information concerning customer management and to some extent information on products resulting from direct contact with your customers. Another way of gathering information would be to organise a competition combined with a questionnaire and to offer a free service as a prize, for example.

Customer loyalty can be measured in terms of the frequency of repeat orders.

An effective control system can only be implemented by considering the specific situation. Here is some general advice to consider when deciding on the form these controls should take.

- **Take an inventive approach to finding information.** Use all the means at your disposal. The best way of getting to know a market is to walk around it, ie, through regular contact with the customer.
- **Decide what it is you want to measure.** To waste the least amount of time and money, decide what information will be relevant.
- **Measure regularly.** Whether you make monthly, daily, quarterly or annual checks, get your information regularly. This will enable you to see how well your business is doing.
- **Take corrective steps.** Remember that effective control means taking corrective action if things are not going according to plan.

Appendices: Example scorecard

The figures are mainly based on the business plan established in the previous module.

We find:

- Sales were better than expected.
- The order book was slightly fuller than forecast.
- Apart from a few exceptions, customers paid up on time.
- The stock value is in line with the plan.
- The gross margin is higher than forecast.
- There is however a problem with added value. The business lost about 210,000 (=53.3% - 48.7%) x 4,602,000) of profit at this level. This needs to be studied and the cost item generating this loss needs to be identified.

Business Plan	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Total	Annual total
Turnover	475 000	580 000	800 000	885 000	900 000	910 000	4 550 000	10 000 000
Cost of materials	156 750	191 400	264 000	292 050	297 000	300 300	1 501 500	
Gross margin	318 250	388 600	536 000	592 950	603 000	609 700	3 048 500	
Added value	214 500	284 850	432 250	489 200	499 250	505 950	2 426 000	
Amounts owed by customers	475 000	580 000	800 000	885 000	900 000	910 000	758 333	
Stocks	750 000	750 000	750 000	750 000	750 000	750 000	750 000	
Order book	2 265 000	2 585 000	2 695 00	2 718 333	2 726 667	2 725 000	2 619 167	

Real results	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Total
Turnover	470 000	575 000	833 000	912 000	874 000	938 000	4 602 000
Cost of materials	155 100	190 900	277 389	293 664	278 806	316 106	1 511 965
Gross margin	399 000	400 000	550 000	580 000	490 000	750 000	3 169 000
Added value	230 000	220 000	430 000	450 000	390 000	560 000	2 280 000
Amounts owed by customers	400 000	590 000	820 000	915 000	890 000	888 000	750 500
Stocks	770 000	680 000	660 000	675 000	720 000	740 000	707 500
Order book	2 365 000	2 574 000	2 649 000	2 596 020	2 907 542	2 878 467	2 661 672

SCORE CARD

	SALES				Order book in days	CUSTOMERS		STOCK	PROFITABILITY	
	Forecast	Real	Monthly Variance	Annual Variance		Late payments	Average payment terms/days	Rotation /days	Gross margin in %	Added value in %
Objectives	xxxx	xxxx	xxxx	xxxx	52	0	30	90	67.0%	53.3%
Month 1	475 000	470 000	-5 000	- 5 000	47	0	xxx	xxx	84.9%	48.9%
Month 2	580 000	575 000	- 5 000	- 10 000	51	15 000	34	118	69.6%	38.3%
Month 3	800 000	833 000	33 000	23 000	53	0	35	85	66.0%	51.6%
Month 4	885 000	912 000	27 000	50 000	52	3 000	31	71	63.6%	49.3%
Month 5	900 000	874 000	- 26 000	24 000	58	16 000	30	75	56.1%	44.6%
Month 6	910 000	938 000	28 000	52 000	58	0	29	75	80.0%	59.7%
…										
Total	**4 602 000**	**4 602 000**	**52 000**	**xxxx**	**53**	**5 667**	**32**	**85**	**70.0%**	**48.7%**

PART II: DETAILS "BY COUNTRY"

A. Access to the profession and types of business

B. Legal form and taxation

C. Set-up fees

D. State aid

E. Social security law

F. Administrative formalities

G. Useful addresses

H. Access to cross-border markets

I. Glossary