



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Evaluating the Business Idea

Trawsnewid Addysg; Trawsnewid Bywydau
Transforming Education; Transforming Lives



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How do we translate our ideas into reality?

RESEARCH!

Need to Evaluate the Business Idea

- How?

Evaluating the Business Idea

- You need to find customers?
- You need to understand your competitors
- You need to understand the market place you are about to compete in.
- How are you going to attract customers?
 - Marketing strategies
- Ensure you have sufficient resources – MONEY!

Knowing your customers

Too much focus on the product itself and not of the market for the product can lead to failure.

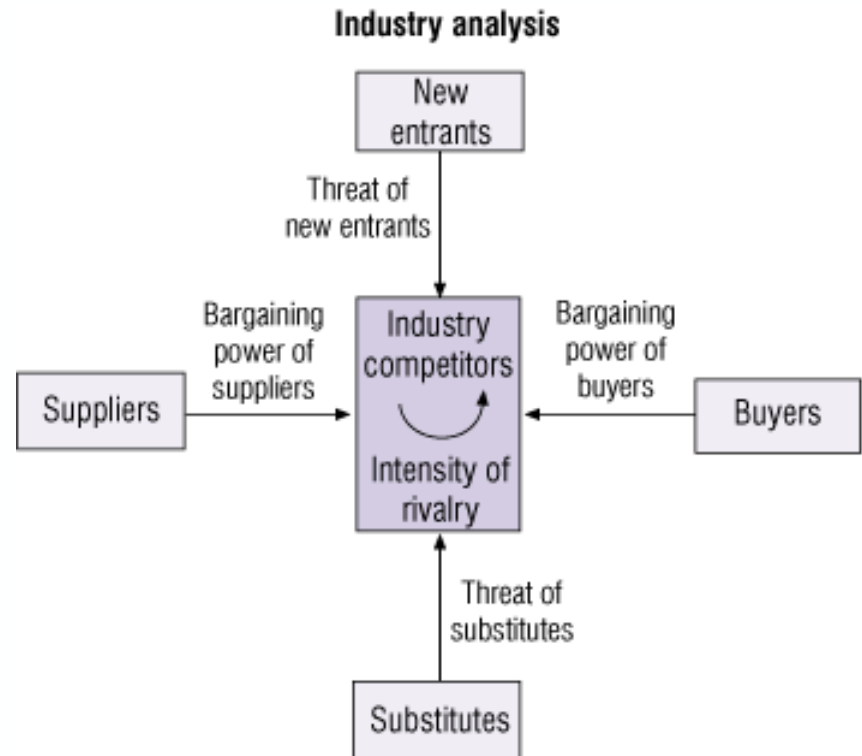
- Who is going to buy?
- Why?
- What needs do they want the product to meet?
- Is the customer reachable?
- Distribution
- Market new/mature?
- Growing /declining market
- How big is the market
- Is the product unique?
- Is the market highly concentrated or fragmented

Knowing your customers

- By doing this you will be able to estimate the sales potential of your market.
- Then you can determine the scale and nature of resources you need.
- ...not always easy if it is a totally new product i.e. iPad where customers could not initially foresee how it would be used.
- Or start the business small scale and carefully monitor outcomes.

A Model for Structural Analysis: PORTER'S "FIVE FORCES" MODEL OF COMPETITION

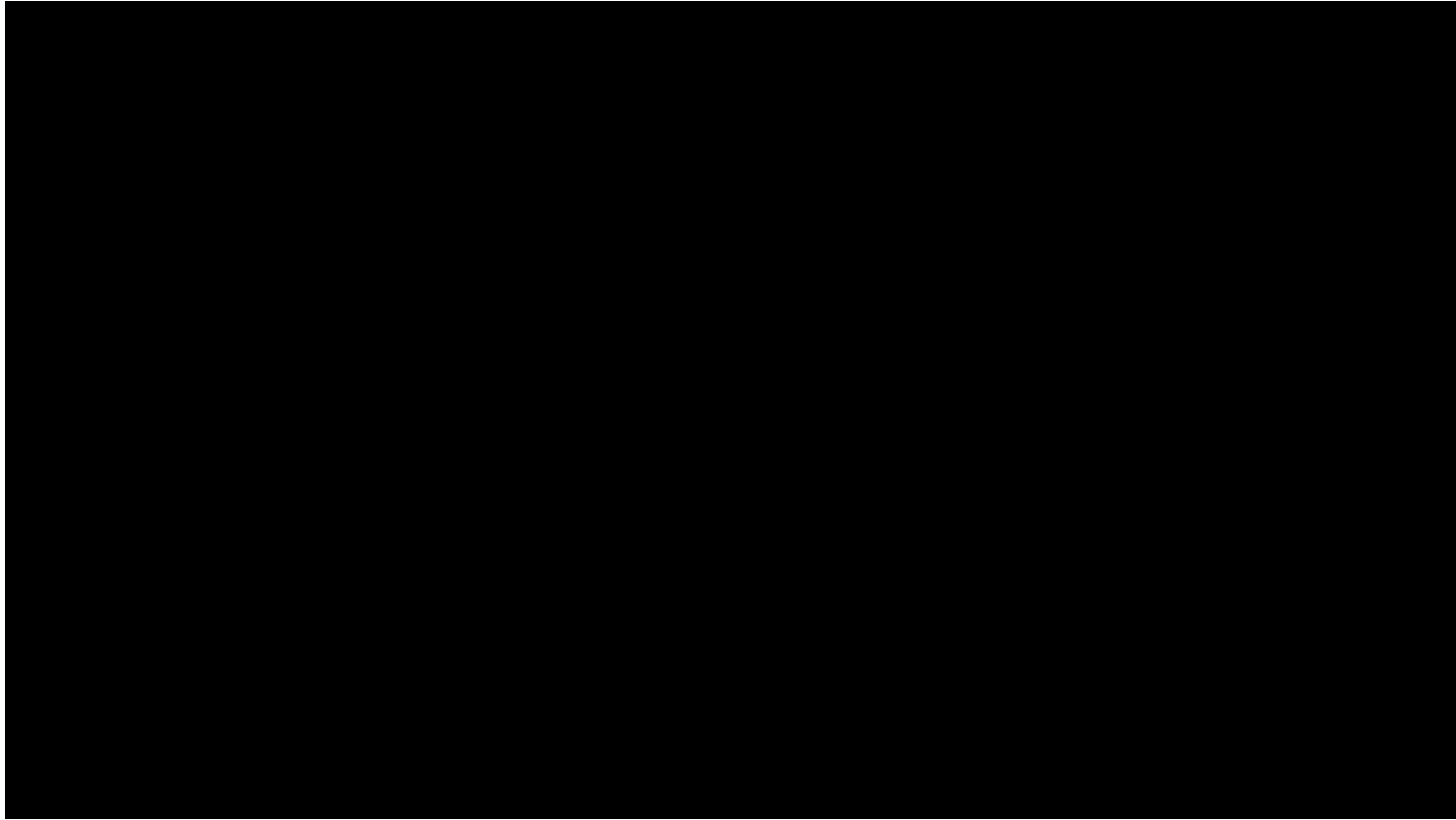
- Competition is the result of:
- the threat of new entrants
- the threat of substitute products
- the intensity of rivalry between competing firms
- the power of suppliers
- the power of buyers



The five "competitive forces" that shape strategy are:



Video



https://youtu.be/mYF2_FBCvXw

Threat of new entrants/ Barriers to Entry

- Economies of Scale: high fixed costs: high volumes of sales needed
- Product differentiation/brand loyalty
- Capital requirements
- Switching costs: financial, time and inconvenience.
- Access to distribution channels
- Cost advantages: patent rights, know-how, govt subsidies
- Access to resources of raw materials on favourable terms

Threat from substitute products

- Substitutes offer differing ways of meeting the same customer need. e.g. flying to France is a substitute for catching the Ferry.
- When firms are faced with threats from substitute products demand for their products is relatively sensitive to price.

Bargaining power of suppliers

- One or two dominant suppliers
- Other customers in different industries
- Supplier's products vital to the customers business
- Suppliers may produce a differentiated product which buyers need to obtain
- Switching costs for buyers may be high

Bargaining power of Customers/buyers

- Purchases are substantial % of sales: customers in a strong position
- Customer will be in a weaker position if most purchases come from one supplier
- Level of switching costs
- Strong brand which customers feel they must have.
- Customer knowledge
- Higher product quality, less price-sensitivity

Rivalry

- More intense the rivalry within an industry the more profitability is affected.
- Competitive action may take the form of price competition, advertising battles, sales promotion campaigns, new products, improving after sales service etc.

Marketing strategies

- 3 fundamental strategies to achieve sustainable competitive advantage.....

Marketing strategies

- Cost Leadership Strategy
 - Lowest cost
- Differentiation strategy
 - The customer may pay more for a particular characteristic of the product or service
- Focus strategy
 - Focus of particular segments or niches e.g. car insurance for women

Generic Strategies: How Organisations Compete

Competitive Advantage

Lower Cost

Differentiation

Broad Target

Cost Leadership

Differentiation

**Competitive
Scope**

Cost Focus

**Differentiation
Focus**

Narrow Target

(Porter, 1985)

Industry Analysis: Tutorial exercise

- Identify for main competitive forces in the following industries:
 - Trainer manufacture, e.g. Nike
- N.B. Think about:
 - Power of Buyers
 - Power of Suppliers
 - Threat of Entrants
 - Threat of Substitutes
 - Competitive Rivalry



Resources

- What resources do you need to start a business?

Resources

- Money
- Employees
- Customers
- Landlord
- Suppliers

Resources: Capital

- Financial
- Human – managerial or industry experience plus training.
- Social – Networks: friends and commercial contacts.

What is the main obstacle to getting resources?

Credibility!

- How do you get it?

BUSINESS PLAN!

Business Plan

- Broadly the Business Plan will address:
- Viability- customers, competition, marketing strategy and profitability of the business
- Resources – people and other resources but most importantly money that's needed to finance the start-up and how it will be repaid. Cash flows.
- Credibility – track record and experience.



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Legal issues Entrepreneurs need to know

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Starting a business – do I need legal help?

- While a lot of entrepreneurs at least have a basic understanding of the law, most of them fail to think about the legal implications of starting a company.
- Many start-ups who are trying to save money on hiring lawyers are turning to online legal service companies who provide low cost “boilerplate” contracts.

Starting a business – do I need legal help?

- There are numerous unforeseen pitfalls with using these types of contracts when it comes to ensuring that a new business is legally sound.
- In general, a new business should be legally sound from the start and one of the best ways to ensure that is to consult with a lawyer.
- A good lawyer will be able to properly advise you and tailor their advice to your particular situation.
- Here are some common legal issues entrepreneurs will face:

Is my business compliant?

- Corporate compliance affects businesses in all types of industries. You will need to find out:
 - what type of records and other documents should be generated and maintained by your business.
 - the laws, which apply to your business, will vary depending on a range of different factors, such as what type of business you have.

What business structure is best for my business?

- There are multiple business structures available and using the best structure can be critical to ensuring that your business is successful.
 - Are you interested in having your business go public in the future or do you want to remain a privately owned business?
 - Are you planning on taking on investors or will you be privately funded?
 - What type of growth do you predict your business will have in the future?
- The answers to all of these questions will lead to structuring your business in a variety of ways.

How do I avoid legal problems with employees?

- Generally, every business should limit their liability as much as possible before taking on any new employees.
- Typically, business owners should have an employee handbook in place and ensure that all new employees sign an acknowledgement form stating that they received the handbook.
- The handbook should address everything from the business's sexual harassment policy to the office dress code.

Am I protecting my personal assets?

- It is always important for a business owner to keep their personal and business assets separate.
- The best way to do this is to maintain a separate business bank account and only pay for business-related items and expenses from your business account.
- In the event that a creditor sues you, they may be able to seize your business's assets if they were purchased using your personal funds.

How should I structure a partnership agreement?

- Many new businesses fail due to the fact that there never was a well-written partnership agreement in place that spelled out the duties and obligations of each partner and covered all issues that could have arisen in the future.
 - Will the partners agree on all business decisions unanimously or by majority rules?
 - How much equity will each partner have in the business?
 - How will business assets be split up in the event of dissolution?
- All of these issues and many more must be tackled and addressed in a comprehensive partnership agreement at the outset of forming the partnership.

Protecting my business name.

- A large amount of businesses begin using a name only to find out that another business has already been using that exact same name.
- A business should usually do a trademark search on the web to ensure that a business name is available.
- A lawyer can help you register your name as well as a logo and assist you with protecting against anyone infringing on your intellectual property.

What should I do if I get sued?

- In the event that your business is sued, it is ideal to try and settle a lawsuit prior to going to court.
- A lawyer can use their negotiating skills against an adverse party and work towards settling with them and saving your business the risk of going to court and potentially losing your case.
- In the event that a case cannot be settled, it's best to consult with a lawyer on the best strategy for winning your case in court.

Are oral contracts enforceable?

- Although it's a common misconception, oral contracts may be enforceable. However, there are certain contracts which have to be in writing. For instance agreements to pay another's debt, contracts for over a certain amount of money, and contracts that last longer than a party's life usually must be in writing.
- In general, while oral contracts may be enforced, contract law doesn't favour oral contracts since they're often difficult to prove.

Do I need a lawyer or can I do it on my own?

- Sometimes, you might perceive a legal problem to be small when in fact the problem can potentially impact your business in ways that only a lawyer can foresee.
- While you can certainly read up on a particular legal issue if you have the time, it's best to consult with a lawyer who can anticipate various legal pitfalls your business might encounter.

Areas to be aware of!

- Health and safety
- Fire precautions
- The environment
- Employee rights
- Buildings
- Providing services to disabled people
- Intellectual property (for example business names, inventions and copyrights)
- Fair trading (consumer credit, consumer protection and competition law)
- Keeping information about people
- Licences
- Insurance

Health and safety

- You are responsible for the effect your business may have on the health and safety of your employees and members of the public.
- You may need to register with the Health & Safety Executive (HSE) or with your Local Authority.
- For further information, visit the Health & Safety Executive website at www.hse.gov.uk or Tel: 08701545500.

Fire Precautions.

- You may need a fire certificate, particularly if you're running a guest house, hotel or residential nursing home.
- For general advice on fire precautions, talk to your local fire service.

The Environment

- There are environmental regulations that may apply if your business:
- uses refrigeration or air-conditioning equipment, fire equipment or solvents for cleaning
- produces, imports, exports, stores, transports, treats, disposes of or recovers waste
- produces, imports or exports packaging
- produces packaging waste

The Environment Agency

- The Environment Agency provides advice for business and industries.

Visit www.environment-agency.gov.uk/epns/ or call 0845 9333 111 (in Northern Ireland call 028 90 540 540).

Employees

- You must protect the legal rights of your employees. If you take over an existing business, you must usually keep the existing terms and conditions of employment.

Buildings

- You must take action if:
 - a new building or change of use is involved
 - plant or machinery is installed within an industrial site, but outside a building
 - existing premises require structural alterations
- Contact your Local Authority for further information, these may be found in the Business Services section under Legal & Premises

Intellectual property

- 'Intellectual property' describes things such as business names, patents and inventions. You should protect your own company name and logo, along with any inventions, product designs or copyrights.
- You should also respect other people's intellectual property rights. For example, you can't use the same name for your business as someone else doing similar work in your town.

Intellectual Property

- The Patent Office can provide lots of useful information and advice. Visit their websites at www.patent.gov.uk and www.intellectual-property.gov.uk or telephone 08459 500 505.

Fair Trading

- The Office of Fair Trading (OFT) is responsible for protecting consumers by promoting effective competition, removing trading malpractice and publishing appropriate guidance. The OFT also issues consumer credit licences.
- To check whether your business is affected, see the OFT's website at www.oft.gov.uk or call 08457 224499. For information about consumer credit licences, call 020 7211 8608.

Keeping information about people

- If your business involves keeping information about people, you will have to be careful about the sort of information you keep and how it is used in relation to the Data Protection Act 2018 (an implementation of the General Data Protection Regulations)
- You may have to register if you keep such information on computer. The Data Protection Act 1984 grew out of public concern about personal privacy in the face of rapidly developing computer technology.
- The act covers personal data about living, identifiable people that can be automatically processed.
- To keep such information on your computer legally, you may have to register.

Keeping information about People

- Information Commissioner's Office
- For further information visit <https://ico.org.uk> or call on 0303 123 1113.



Providing services to disabled people

- Under the Disability Discrimination Act 1995, you must do everything you can to make sure that disabled people can benefit from the services you provide.
- For further information, call the Disability Rights Commission Helpline on 08457 622 633, or visit www.disability.gov.uk/

Licences

- A licence is required for many businesses, not just the obvious ones like casinos or public houses.
- For example, you need a licence to run a hotel, a guesthouse, a mobile shop or to be a hairdresser.
- You should always check whether your business requires a licence to trade.

Insurances

- It's good practice to have insurance to cover the loss or theft of your business property, as well as other types of possible losses.
- It's also compulsory to have public liability insurance, which will often come as part of your contents insurance policy.

Further information

<http://www.fastlinksolutions.co.uk/legalasp.htm>



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Finances

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Finances

- Why do you need a finance section in a
 - Business plan
 - Business pitch?

How do you finance your business?

- Your own finances
- Borrow the money from a bank or investor
- Crowdfunding

Creating a Crowdfunding Video

- Introduction
- Vision
- Marketing
- Operations
- Finances
- Conclusion

Creating a Crowdfunding Video

- You are trying to persuade investors/stakeholders to invest or recommend your business.
 - How much money do you need?
 - What do you need the money for?

Creating a Crowdfunding Video

- work out your profit and loss
- work out your costs
- work out your takings from sales
- work out how much money you'll need to run your business
- set up and manage your cash flow
- understand what financial records the law requires you to keep.

Key elements of Finance section

- What do you need to include?

Key financial statements:

- Sales Forecast
- Profit and Loss Statement
- Cash flow statement
- These 3 are a must for a business plan and should be considered in your pitch

Realistically forecasting Sales:

- your sales – how much you're likely to sell
- your costs – how much you'll need to start up and what the running costs will be
- your profit – how much you'll need to break even and make a profit.
- It doesn't have to be complicated. You simply need to work out what you're likely to earn and spend, based on the market research you've done and your realistic judgement.

Forecasting sales

- How?

Forecasting Sales

- Begin by listing the number of customers you think you could have in your first three years.
- Then put a realistic sales figure against each one, bearing in mind that a few larger customers are likely to account for a greater share of sales than the rest - although this depends on your type of business.
- You will need to estimate how much each will buy and at what price.

Calculating your costs

- Costs are the amount you spend on selling a product, running a production process, or delivering a service.
- Typically, your business will have three kinds of costs:

Calculating your costs

- Variable costs: Cost items that vary depending on the level of your sales. These could include, for example, the raw materials for making your product and staff overtime.
- Fixed costs: Things that always have to be paid however much you sell such as rent, rates, utilities, salaries, travel, stationery, insurance, advertising and promotion.
- Capital costs: One-off costs such as buying computer equipment or premises.

Start-up Costs

Working out your start-up and running costs will enable you to see how much of your own money you'll need to put in, and how much finance you'll want to raise.

	Expected numbers of customers	Sales figure per customer £	Expected total sales £
Year 1	x	=	
Year 2	x	=	
Year 3	x	=	

You will use your total sales figures later in section 5.3.

Start-up costs

Calculate how much money you need before you start trading	£
IT and computers	
Telephones and broadband	
Equipment	
Stock	
Tools	
Vehicles	
Professional fees	
Insurance	
Rent/rent deposit	
Stationery	
Marketing	
Consumables	
Licences	
Training	
Association fees	
Wages/recruitment	
Security/health and safety equipment	
Market research costs	
Other: (please specify)	

Start-up costs

- As well as establishing what your start-up costs will be, you'll need to work out what it will cost to run your business each year, and to produce a realistic forecast of how much money you'll need to survive until your business starts making money.

Costs

- Your variable and fixed running costs
- Getting a firm idea of your different costs will help you plan financially for your business.

Discuss

- List as many costs as you can identify in each section:
 - Variable costs
 - Fixed costs

Variable costs



Item	Year 1		Year 2		Year 3	
	One-off	Ongoing	One-off	Ongoing	One-off	Ongoing
Goods						
Materials						
Extra labour						
Transport						

Fixed costs

What are your estimated fixed costs?

Item	Ongoing annual costs
Premises (incl. rent, rates, utilities)	
Telephone and broadband	
Printing, post and stationary	
Advertising and promotion	
Bank charges	
Professional services	
Insurance	
Bank interest	
Equipment and vehicle leasing	
Other (please specify)	

Example

- Let's say that you produce 10,000 ice picks. The factory overhead (rent) is £3,000 a year.
- Other costs are materials at £2 per ice pick and labour at £5 per ice pick.
- Calculate total variable costs.

- Add all costs that vary with ice pick production.
- This includes materials and labour. The total variable cost is £7 per pick.
- The total variable cost of the 10,000 ice picks is £70,000 ($£7 \times 10,000$)
- The total fixed cost are £3,000 (fixed overhead)

Working out your profit

- No matter what type of business you are in, a primary objective of business is to make money.
- It is the profit from your business that will allow you to realise your personal financial goals of owning your own business.
- Even if you are operating a not-for-profit or social enterprise, making money to put back into the business or community will be key to your success.

Profit and loss forecast

- One of your most important financial tools is the profit and loss forecast.
- This shows your sales, expenditure and what level of profit you expect your business to produce by the end of the forecast period, usually at monthly, quarterly and annual reporting points.

Profit and loss forecast

- A profit and loss forecast allows you to manage your business on an on going basis. It will also be important if you apply for funding.

Gross and Net Profit

- Your profit and loss forecast calculates your gross and net profit.
- Gross profit is the amount you have after subtracting variable (direct) costs from your sales. This is an important figure as it shows if you are making enough sales to cover the basic costs associated with your goods or service.
- The profit and loss forecast then deducts your fixed (indirect) costs from the gross profit to calculate your net profit:
 - This includes any loan repayments you need to make as well as depreciation on your capital expenses. If you have a positive net profit this means your company is making money after all your expenses are accounted for.
 - It is your net profit on which you will pay tax.

Profit and Loss

	Year 1 (£)	Year 2 (£)	Year 3 (£)
Total expected sales (worksheet pg4)			
Less variable costs (worksheet pg5)			
Gross profit (sales less variable costs) =			
Calculate your gross profit margin (gross profit ÷ total sales x 100)	%	%	%

Your annual projected fixed costs (worksheet pg5):

Salaries/wages (survival income + any staff)			
Premises (including rent, rates, utilities)			
Telephone and broadband			
Printing, post and stationery			
Advertising and promotion			
Bank charges			
Professional fees			
Insurances			
Bank/HP/interest (payable to your bank)			
Equipment and vehicle leasing			
Depreciation			
Other			
	+		
Total fixed costs	=		
Net profit (gross profit less total fixed costs)	=		
Calculate your net profit margin (net profit ÷ total sales x 100)		%	%

Calculate your break-even

	Year 1 (£)	Year 2 (£)	Year 3 (£)
Total variable costs + total fixed costs			

Cashflow

- What is it?
- What is it so important?

Cashflow

- Cash flow is all about managing how much cash you have immediately available for running your business.
- If you don't have enough cash, or assets you can quickly turn into cash, to pay your bills you may be legally insolvent and will have to take immediate action.
- Don't forget that if you don't pay all your outstanding debts, you may make another small business bankrupt as well. Having a positive cashflow is therefore very important.

Cashflow

- A cash flow forecast shows the income and expenditure you expect in the business and the resulting surplus or shortfall that will occur each month.
- Your cash flow shows how much money you have in the bank and what is coming in and going out. It's vital that you know the state of your cash flow – that is, where your money is, where it's coming from and where it's going

Cashflow

- Managing your cash flow is an important aspect of your business activities:
 - Ensuring you are getting paid on time and that you are able to pay your suppliers is essential to keeping your finances healthy.
 - Even businesses that show a good profit on their profit and loss statement can fail because they do not manage their cash flow properly.

Investment

- Banks and investors will want to see your cash flow forecast if you apply for finance from them.
- It is important to allocate the income or expenditure to the month in which it is received or paid.

Cashflow forecast

		Start-up 0	Month 1	Month 2	Month 3	Month 4
Income						
Cash from sales (incl. VAT)						
Cash received from debtors (see glossary)						
Capital/loans received						
Other	+					
Total income	=					
Expenditure						
Wages to staff (incl. PAYE & NIC)						
Premises (rent, rates & utilities)						
Telephone & broadband						
Printing, post & stationery						
Advertising & promotion						
Bank charges						
Professional fees						
Insurances						
Bank/HP						
Equipment & vehicle leasing						
Payments relating to variable costs (worksheet pg5)						
Capital expenditure						
Other payments						
VAT						
Owner's wages/salary						
Owner's National Insurance						
Loan repayments (incl. interest)	+					
Total expenditure	=					
Income less expenditure						
Opening bank balance	+	0				
Closing bank balance	=					

Assignment 2 – Due 1st July 2020

You, and a group of fellow students, will investigate the potential to set up a business. You will be required to:

- Write a Business Plan to create a sustainable and viable business
- You will need to develop a persuasive business idea to gain funding from potential investors
- Your Business Plan should include financial information relating to 'start-up' funding and show how resources are allocated throughout the Business Plan
- You must show evidence that you have researched your concept using primary and secondary methods. Potential shareholders will require this information as part of your detailed Business Plan.
- Within your group (maximum of 5) you will form your own management team. You should detail the tasks each member has been allocated, minute all meetings and note attendance all meetings. Minutes should be comprehensive and professionally presented.
- The group can hire and fire team members
- All primary research (e.g. questionnaires) should be included in the final presentation with appendices
- All sources of information should be referenced (primary and secondary) within a bibliography

N.B. All assessments will be scored on the performance of the individual and not the group performance.