

11th Edition

# THE BUSINESS PLAN WORKBOOK

A step-by-step guide to  
creating and developing  
a successful business

Colin Barrow



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*A step-by-step guide to creating and developing  
a successful business*

ELEVENTH EDITION

Colin Barrow



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## PREFACE

Research consistently highlights the critical role of business planning in driving the success in starting or growing a business. The Office for National Statistics (ONS) provides comprehensive data on business survival rates in the UK. According to their latest report businesses with a business plan have a significantly higher survival rate, with around 70 per cent of businesses that survive beyond five years having a plan. Conversely, 25 per cent of new businesses without a plan fail within just two years. The British Business Bank Impact Report 2024 shows that businesses with well-structured plans grow up to five times faster than those without.

This workbook distills the expertise of faculty from Cranfield School of Management and other top business schools in educating thousands of students, executives, entrepreneurs, public sector managers and leaders of charitable and social enterprises. These individuals have participated in enterprise programmes designed to enhance their skills and knowledge. The ScaleUp Institute, backed by, among others, Goldman Sachs and Google, track the success of business growth initiatives in the UK. Their research shows that more than 3,200 business leaders have participated in Cranfield's Business Growth Programme (BGP) since its launch in 1988. Participants report annual sales growth of 23 per cent and profit growth of 41 per cent post completion of the programme ([www.scaleupinstitute.org.uk/programmes/cranfield-school-of-management-business-growth-programme-2022/](http://www.scaleupinstitute.org.uk/programmes/cranfield-school-of-management-business-growth-programme-2022/)).

At no time is a business plan more critical than when a new business gets started. Unlike established firms, a start-up has no history and often no tangible product to whet an investor's appetite. In recent years, graduates from top business schools, including Cranfield, have collectively started an impressive number of companies and raised substantial capital. The top half a dozen European business schools claim that 1,664 of their graduate-founded companies have raised an astounding £50 billion in total.

Cranfield is among those at the forefront of business schools equipping their graduates with the skills and insights needed to create innovative and high-impact business plans. The unique strength of this book lies in the constantly refreshed base of case studies and examples. In common with the teaching at all great business schools, the *Business Plan Workbook* brings

the core disciplines to life through a rich base of diverse, topical case studies. This latest edition includes 50 such cases. There is updated information on Notonthehighstreet, Hotel Chocolat and Moonpig, all of which have made their founders multi-millionaires. New cases include Brompton Bicycle, a rare British manufacturing success, The Cambridge Satchel Company and Pip & Nut, a UK-based brand specializing in natural nut butter products. They raised £2 million from business angels, crowdfunding and venture capitalists (VCs). GoHenry, which pioneered a children's credit card, and Bumble, a dating app with a focus on empowering women to make the first move, are also included.

Business planning is at the core of organizational and business strategy and is the essential precursor whether you are starting a new business, expanding an existing one, gaining approval for funding for a project, securing a grant or even entering a competition such as *Dragons' Den*. Over the years we have developed and tested this method of helping people to research and validate their proposals, and then to write up a business plan themselves.

Towards the end of each programme we invite a distinguished panel of senior bankers, venture capital providers and others involved in appraising proposals for external support of various kinds to review and criticize each business plan presentation. Their valued comments have not only spurred our programme participants to greater heights, but have given the faculty at Cranfield a privileged insight into the minds and thought processes of the principal providers of capital for new and growing enterprises.

This workbook brings together the processes and procedures required by the relative novice to write a business plan. Also included throughout are examples from the business plans of entrepreneurs and others who for the most part have gone on to start up successful enterprises.

In addition, we have included criticisms, warnings and the experiences of backers, investors and of recently successful entrepreneurs when they have a direct bearing on writing and presenting a business plan.

We don't pretend to have made writing up business plans an easy task – but we do think we have made it an understandable one that is within the grasp of everyone with the determination to succeed.

Thousands of students have passed through Cranfield's business planning programmes going on to make their mark in business, charities and the public sector in this country and around the world.

## HOW TO USE THE WORKBOOK

The workbook contains 26 assignments that, once completed, should ensure that you have all the information you need to write and present a successful business plan. That is, one that helps to accomplish your objective, whether it is to gain a greater understanding of the venture you are proposing to start and its viability, to raise outside money or gain support for your proposals from senior levels of management. Throughout the book the term ‘entrepreneur’ has been used interchangeably with innovator, manager, champion and similar terms used in a wide range of organizations in both the profit and not-for-profit sectors. The definition of entrepreneur is that of someone who shifts resources from a low to a higher level of value added; this is the defining characteristic of almost everyone who writes a business plan regardless of the nature of their organization, actual or prospective.

The workbook does not set out to be a comprehensive textbook on every business and management subject – finance, marketing, law, etc. Rather, it gives an appreciation as to how these subjects should be used to prepare your business plan. The topics covered under each assignment will often pull together ingredients from different ‘academic’ disciplines. For example, elements of law and marketing will be assembled in the assignment in which you are asked to describe your service or product and its proprietary position (patents, copyright, design registration, etc).

For some of the assignments you will almost certainly need to research outside the material contained in this workbook. However, ‘technical’ explanations of such subjects as cash flow, market research questionnaire design and break-even analysis are included.

The assignments are contained in seven phases that, as well as having a practical logic to their sequence, will provide you with manageable ‘chunks’ either to carry out yourself at different times, or to delegate to partners and professional advisers. While it is useful to make use of as much help as you can get in preparing the groundwork, you should orchestrate the information and write up the business plan yourself. After all, it is your future that is at stake – and every prospective financier will be backing you and your ability to put this plan into action, not your scriptwriter.

The seven phases are:

## Phase 1: Strategy and purpose

Here you should describe your organization, innovation or business idea so far as you have already developed it. In particular, explain your aims, objectives and eventual aspirations.

Introduce your management team, yourself included, and show how your skills and experiences relate to this venture.

Describe your product or service, its current state of development or readiness for the market, and whether or not you have any proprietary rights such as a patent, copyright or registered design.

## Phase 2: Market research

This involves identifying the data needed both to validate the need for what you are proposing and to decide upon the best start-up or growth strategy. In this phase you will be encouraged to gather market research data from as many sources as possible. Particular emphasis will be laid on researching customer needs, market segments and competitors' strengths and weaknesses. The appropriate research methodology and data sources are also described.

## Phase 3: Competitive marketing strategies

This involves planning how you will operate each element of your business, based upon the information collected and analysed in earlier phases. In relation to your chosen product or service, the market segment(s) you plan to serve and the competitive situation, you will decide on such factors as price, promotion, location, and channels of distribution.

## Phase 4: Operations

This involves detailing all the activities required to make your strategy happen. It will include such subjects as manufacturing, purchasing, selling, legal matters and insurance. Your business plan must demonstrate that you have taken account of all the principal matters that concern the operations of your venture.

## Phase 5: Reviewing financing requirements

Based on the strategy evolved so far, in this phase you will carry out assignments enabling you to forecast the expected results of your venture. Projections will be made showing likely sales volume and value, pro forma profit and loss, cash-flow forecast and balance sheet, and a break-even analysis.

Although these first five phases are shown in sequence here and in the workbook, in practice you would expect to move backwards and forwards from phase to phase, as a result of new information or a modification of your earlier ideas.

## Phase 6: Business controls

Here you must demonstrate how you will keep track of your business, both as a whole and for each individual element. As well as a bookkeeping system you will need sales and marketing planning records, customer records, personnel files and production control information.

## Phase 7: Writing up and presenting your business plan

The workbook assignments, when completed, are not your business plan. They are intended to help you to assemble the information needed to write up your business plan. The plan will require substantial editing and rewriting; the way in which it is written up will undoubtedly influence the chances of getting a hearing, if you are seeking outside support for your venture.

Finally, you must give some thought as to how you will handle the meeting with your bank, venture capital house, other backers or the boss or organization to whom you have to 'sell' your ideas. Presentation skills and good planning will all help to make for a good 'production', and showbiz counts for a surprising amount when it comes to gaining support for new ideas.

## Assignment guidelines

Here are some guidelines to help you and your colleagues complete the business plan assignments:

- 1** Each assignment will contain:
  - a** An introduction or brief description of the content and purpose of the assignment, usually broken down into two or more stages.
  - b** Examples of how others preparing business plans have answered or commented on parts of the assignment.
  - c** An explanation or amplification of any technical topics that need to be understood immediately.

At the end there is an assignment worksheet with some specific questions for you to answer concerning your business. On this page you will also find suggestions for further reading on broader aspects of the subject of the assignment.

- 2** When tackling assignments the following work pattern has proved successful:
  - a** Read up on the assignment and draft your own answer to the questions.
  - b** Discuss your answers, and any problems concerning the assignment with your prospective business partner(s), colleagues or some other knowledgeable individual such as an adviser, bank manager or accountant. If you are on, or plan to go on, a business training programme, then your course tutor will also be able to help.
  - c** Revise your own answers in the light of these discussions – and then let your colleagues, and such other people as are involved, know your latest views on the assignment topic (you may need to go back and forth from steps (b) and (c) several times before you are entirely satisfied).
- 3** The contents of some assignments will suggest where and how to obtain the information needed to complete the assignment. However, don't expect to be told where to find all of the information about your business in these instructions. You will need to do some research yourself.
- 4** Example assignment completions taken from other business plans will also be presented to you in each assignment. These are presented only to give you a feel for the subject discussed. Your write-up of the assignment may need to be more or less elaborate, depending on your business.
- 5** The examples have been taken from actual business plans, but some have been changed in name and content, with some of the information purposely missing. Therefore do not copy a sample, however good it

may sound; use it to help you to understand the purpose of the business plan assignment only.

- 6 Try to write up as much information as possible after reading each assignment. In this way you will know what remains to be researched (and do not wait until your information flows in perfect English before recording it).
- 7 Try to strike a balance between qualitative and quantitative statements in writing up your assignments. That is, try to back up as many of your statements as possible with numbers and documented sources of information. However, do not include numbers just because you have them; make sure that they really serve a purpose.
- 8 *Finally*, before attempting to write up your business plan, make sure the answers to all the assignments are internally consistent – and if you have business partners, make sure you are all in substantive agreement both at each stage and with the final outcome.

### Index of key organizations and resources for business planning

These are the principle sources of help and advice for anyone writing a business plan, in alphabetical order. Some of these are referred to throughout the book.

## WHY PREPARE A BUSINESS PLAN?

Perhaps the most important step in launching any new venture or expanding an existing one is the construction of a business plan. Such a plan must include your goals for the enterprise, both short and long term; a description of the products or services you will offer and the market opportunities you have anticipated for them; and finally, an explanation of the resources and means you will employ to achieve your goals in the face of likely competition. Time after time, research studies reveal that the absence of a written business plan leads to a higher incidence of failure for new and small businesses, as well as inhibiting growth and development.

Preparing a comprehensive business plan along these lines takes time and effort. In our experience at Cranfield on our programmes, anything between 200 and 400 hours is needed, depending on the nature of your business and what data you have already gathered. Nevertheless, such an effort is essential if you are to crystallize and to focus your ideas, and test your resolve about entering or expanding your business or pursuing a particular course of action. Once completed, your business plan will serve as a blueprint to follow which, like any map, improves the user's chances of reaching his or her destination.

There are a number of other important benefits you can anticipate arising from preparing a business plan:

- This systematic approach to planning enables you to make your mistakes on paper, rather than in the marketplace. One potential entrepreneur made the discovery while gathering data for his business plan that the local competitor he thought was a one-man band was in fact the pilot operation for a proposed national chain of franchised outlets. This had a profound effect on his market entry strategy!

Another entrepreneur found out that, at the price he proposed charging, he would never recover his overheads or break even. Indeed, 'overheads' and 'break even' were themselves alien terms before he embarked on preparing a business plan. This naive perspective on costs is by no means unusual.

- Once completed, a business plan will make you feel more confident about your ability to set up and operate the venture. It may even compensate for



lack of capital and experience, provided of course that you have other factors in your favour, such as a sound idea and a sizeable market opportunity for your product or service.

- Your business plan will show how much money is needed, what it is needed for and when, and for how long it is required.

As under-capitalization and early cash-flow problems are two important reasons why new business activities fail, it follows that those with a soundly prepared business plan can reduce these risks of failure. They can also experiment with a range of alternative viable strategies and so concentrate on options that make the most economic use of scarce financial resources.

It would be an exaggeration to say that your business plan is the passport to sources of finance. It will, however, help you to display your entrepreneurial flair and managerial talent to the full and to communicate your ideas to others in a way that will be easier for them to understand – and to appreciate the reasoning behind your ideas. These outside parties could be bankers, potential investors, partners or advisory agencies. Once they know what you are trying to do, they will be better able to help you.

- Preparing a business plan will give you an insight into the planning process. It is this process that is important to the long-term health of a business, and not simply the plan that comes out of it. Businesses are dynamic, as are the commercial and competitive environments in which they operate. No one expects every event as recorded on a business plan to occur as predicted, but the understanding and knowledge created by the process of business planning will prepare the business for any changes that it may face, and so enable it to adjust quickly.

The empirical data also strongly supports the value of business planning. Studies consistently show that organizations with a strong planning ethos constantly outperform those who neglect this discipline.

A review of research articles on this subject has been written by Noah Parsons, *Business Planning Makes You More Successful, and We've Got the Science to Prove It* (2017).

The research concludes that people who prepare a business plan are twice as likely to actually start their business and, once started, grow 30 per cent faster. In addition they are much less likely to fail.

Those would-be entrepreneurs with funds of their own, or, worse still, borrowed from 'innocent' friends and relatives, tend to think that the time spent in preparing a business plan could be more usefully (and enjoyably)

spent looking for premises, buying a new car or designing a website. In short, anything that inhibits them from immediate action is viewed as time-wasting.

As most people's perception of their business venture is flawed in some important respect, it follows that jumping in at the deep end is risky – and unnecessarily so. Flaws can often be discovered cheaply and in advance when preparing a business plan; they are always discovered in the marketplace, invariably at a much higher and often fatal cost.

There was a myth at the start of the internet boom that the pace of development in the sector was too fast for business planning. The first generation of dot.com businesses and their backers seemed happy to pump money into what they called a 'business' or 'revenue' model. These 'models' were simply brief statements of intent supported by little more than wishful thinking. A few months into the new millennium, a sense of realism came to the internet sector. In any business sector only ventures with well-prepared business plans have any chance of getting off the ground or being supported in later-stage financing rounds. This is certainly proving to be the case with investment in artificial intelligence (AI). Start-ups in this sector took in 46 per cent of the \$209 billion venture capital funding in 2024.

Venture capitalists have stepped up their due diligence efforts in the AI sector. With the increasing complexity and potential risks associated with AI ventures, VCs are now employing more sophisticated methods to evaluate the business plans of potential investments, using four new techniques:

- 1 *Enhanced data analysis.* VCs are using AI tools to automate data analysis, which helps in quickly reviewing documents and assessing target companies. This includes analysing financial and commercial documents, as well as market trends.
- 2 *Predictive analytics.* AI is being used to forecast potential risks and opportunities, allowing VCs to make more informed decisions.
- 3 *Comparative analysis.* AI tools enable VCs to perform side-by-side assessments of multiple start-ups within the same industry, identifying strengths and weaknesses more efficiently.
- 4 *Risk management.* AI helps in identifying red flags and potential risks early in the due diligence process, ensuring better risk management.

Overall, the integration of AI into the due diligence process has made it even more essential for businesses to have a robust business planning process.

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## PHASE ONE

# Strategy and purpose

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# Introduction

Starting a new venture, whether it is a for-profit business, a social enterprise or public initiative, may seem a daunting task when you first start to gather ideas together and make tentative plans. Many would-be entrepreneurs after putting a toe in the water quickly pull back reckoning that either they don't have the skills, their business concept is not all that compelling or raising the money is going to be challenging, expensive and altogether too risky a proposition.

You may well still be experiencing shock waves from Covid-19 and think this is not a great time to be in business. But coronavirus was preceded by Avian Flu, Cholera, Crimean-Congo haemorrhagic fever, Dengue Fever, Ebola, HIV-Aids, Lassa fever, Marburg virus, Measles Rubella, MERS, SARS, Swine Flu, Nipah disease, Rift Valley fever and Zika, all causing significant disruption to many business organizations (Noy *et al*, 2019). Then of course there were other traumatic economic events – the 1973 oil crisis when the members of the Organization of Arab Petroleum Exporting Countries proclaimed an oil embargo against supporters of Israel, Black Monday (1987), the Dotcom Bubble (2000–02) and the 2008–09 global financial crises to name but a handful causing significant difficulties for businesses. Devastating slumps are nothing new: five, starting with America's first crash in 1792, preceded the Great Depression of 1929 (Lawrence, 2014).

The first useful fact to know is that the rumour of calamities awaiting most new ventures is just that – an unfounded and incorrect piece of oft-repeated misinformation. An exhaustive study by Bruce A Kirchoff of the eight-year destinations of all 814,000 US firms founded in a particular year revealed that just 18 per cent actually failed, meaning that the entrepreneurs were put out of business by their financial backers, lack of demand or competitive pressures (Kirchoff, 1994). True, some 28 per cent of businesses closed their doors voluntarily, their founders having decided for a variety of

reasons that either working for themselves or this particular type of business was just not for them. Walsh and Cunningham (2016) in their literature review of the subject of business failure also identified research endorsing Kirchoff's findings.

But the majority of the businesses studied in Kirchoff's mammoth and representative study survived and in many cases prospered. With a degree of preparation, a fair amount of perspiration and a modicum of luck you can get started and may even, as in the Moonpig real-world example, end up with a substantial, successful and growing enterprise. These first three chapters will help you shape up the framework of your venture. The chapter towards the end of the book – Stress testing your business projections – will show you how to prepare for the inevitable shocks that will come your way.

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# ASSIGNMENT 1

## Coming up with a winning idea for your business plan

In this first assignment you should introduce your ‘business’ proposition to the future readers of your business plan. Explain something of how you arrived at your business idea, why you think people have a need for your product or service, and what your goals and aspirations for the business are. If your proposition needs financing, you could give some preliminary idea of how much you may need and what you intend to do with those funds. Remember, all these ideas are likely to be significantly modified later on – some more than others – but you need to have some idea at the outset of where you are going if you are to have any chance at all of getting there.

Here are the proven routes to establishing the proposition around which to base your business plan.

### Recognizing a gap in the market

The classic way to identify an idea for a business is to see something that people would buy if only they knew about it. The demand is latent, lying beneath the surface, waiting to be recognized and met.

These are some of the ways to go about identifying a market gap:

- Adapting: Can you take an idea that’s already working in another part of the country or abroad and bring it to your own market?
- Locating: Do customers have to travel too far to reach their present source of supply? This is a classic route to market for shops, hairdressers and other retail-based businesses, including those that can benefit from online fulfilment.
- Size: If you made things a different size, would that appeal to a new market? Anita Roddick, founder of The Body Shop, found that she could



only buy the beauty products she wanted in huge quantities. By breaking down the quantities and sizes of those products and selling them, she unleashed a huge new demand.

- Timing: Are customers happy with current opening hours? If you opened later, earlier or longer, would you tap into a new market?

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## REAL-WORLD EXAMPLE

### *Bumble*

Whitney Wolfe Herd, an American entrepreneur, has left an indelible mark on the dating app landscape. As the founder, executive chair and former CEO of Bumble, she revolutionized online dating by empowering women to take the lead.

In 2014, Whitney pitched Bumble's unique proposition as flipping the script in a male-dominated industry where traditional norms often prevailed. The app's user base grew exponentially, reaching over 40 million profiles by 2021. Bumble expanded beyond dating, creating apps for friendship (Bumble BFF) and business networking.

Building Bumble was not easy. Whitney faced scepticism and resistance. The dating app landscape was competitive, but she remained undeterred. Her commitment to empowering women fuelled her determination. Despite setbacks, she persisted, knowing that Bumble could change the game.

Bumble's success was not just about swipes and matches, it was about shifting dynamics. By allowing women to make the first move, Bumble challenged societal norms. It created a safer space for meaningful connections, emphasizing respect and consent. Bumble's initial public offering (IPO) in February 2021 catapulted Whitney into the billionaire club, making her the world's youngest female billionaire at the age of 31.

Bumble Inc. experienced a dynamic year in 2023, marked by significant leadership changes, marketing challenges and notable financial performance. In early February 2024, Bumble announced its fourth-quarter and full-year 2023 results. The company reported a 16 per cent increase in total revenue to \$1,051.8 million for the full year, with Bumble app revenue rising by 21.7 per cent to \$844.8 million. Despite these gains, Bumble faced a net loss of \$32.0 million for the fourth quarter, though this was an improvement from the \$159.2 million net loss in the same quarter of the previous year.

March 2024 saw Whitney return as CEO after the previous CEO, Lidiane Jones, stepped down for personal reasons. This leadership transition aimed to drive Bumble's next phase of transformation and growth.

In April 2024, Bumble faced backlash for a marketing campaign that included anti-celibacy messages, leading to an apology and the withdrawal of the ads. This incident highlighted the challenges of marketing in the sensitive dating app space.

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## Revamping an old idea

A good starting point is to look for products or services that used to work really well but have stopped selling. By finding out why they seem to have died out you can establish whether, and how, that problem can be overcome. Or you can search overseas or in other markets for products and services that have worked well for years in their home markets but have so far failed to penetrate into your area.

Sometimes with little more than a slight adjustment you can give an old idea a whole new lease of life. For example, the Monopoly game, with its emphasis on the universal appeal of London street names, has been launched in France with Parisian rues and in Cornwall using towns rather than streets.

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### REAL-WORLD EXAMPLE

#### *Resurrecting the steakhouse: Hawksmoor's remarkable revival*

When Will Beckett and Huw Gott founded Hawksmoor in Shoreditch, East London, in 2006 they were credited with helping to revive the steakhouse concept in Britain. Their Seven Dials steakhouse in London's Covent Garden has over 12,000 reviews on Open Table, the dining app, scoring 4.6 out of 5. The chain has since expanded to 13 branches, covering Dublin and the US, which is a stronghold of steakhouses. Hawksmoor's New York restaurant opened in 2021 and its Chicago venue in June 2024.

With consumers losing interest in fake meat alternatives amid questions about their health benefits, and an uptick in veganism seen during the pandemic fading fast, July 2024 seemed the right moment to put the business up for sale. Hawksmoor is expected to post a profit of £10 million for the year to the end of June 2024, compared to £7 million in 2022 and £2.9 million in 2021. The exit price being talked about is around £100 million.

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## Solving customer problems

Sometimes existing suppliers just aren't meeting customers' needs. Big firms very often don't have the time to pay attention to all their customers properly because doing so just isn't economical. Recognizing that enough people exist with needs and expectations that aren't being met can constitute an opportunity for a new small firm to start up.

Start by recalling the occasions when you've had reason to complain about a product or service. You can extend that by canvassing the experiences of

friends, relatives and colleagues. If you spot a recurring complaint, that may be a valuable clue about a problem just waiting to be solved.

Next you can go back over the times when firms you've tried to deal with have put restrictions or barriers in the way of your purchase. If those restrictions seem easy to overcome, and others share your experience, then you may well be on the trail of a new business idea.

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#### REAL-WORLD EXAMPLE

##### *Partners in Wine: finding a new way into a crowded market*

After years of success in the industry, Graham Johnson and Damian Wingate felt the time was right to bring their own creative vision to life. The arrival of Roz Cloke, just a month later, helped turn their plans into reality, and by March 2020, their business was ready – just as the world was shutting down.

Undeterred by the challenges of lockdown, they remained committed to making their venture stand out from traditional wine merchants. Their determination paid off, and on 14 August 2020 they officially launched, focusing on delivering quality, variety and unique experiences. A key feature of their business is the Sampling Lounge, a dedicated tasting space where customers can discover carefully selected wines, beers and spirits that are not found in supermarkets, with a strong emphasis on local producers.

Their commitment to supporting independent businesses is reflected in the selection of regional wines they stock. Among their offerings are rosé wines from Albourne Estate and Wiston Estate, two well-known Sussex vineyards. With 138 vineyards producing more wine than any other county in the UK, Sussex provides them with a wealth of choice.

Thanks to Damian's extensive experience and their shared expertise, they have built a reputation for selecting wines, beers and spirits based on quality and distinctiveness. Despite the difficult trading conditions of recent years, by 2023 the company had achieved a near six-figure profit, demonstrating the strength of their vision and dedication.

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## Inventions and innovation

Inventions and innovations are all too often almost the opposite of either identifying a gap in the market or solving an unsolved problem. Inventors usually start by looking through the other end of the telescope. They find an interesting problem and solve it. There may or may not be a great need for whatever it is they invent.

The Post-it note is a good example of inventors going out on a limb to satisfy themselves rather than to meet a particular need or even solve a burning problem. The story goes that scientists at 3M, a giant American company,

came across an adhesive that failed most of their tests. It had poor adhesion qualities because it could be separated from anything it was stuck to. No obvious market existed, but they persevered and pushed the product on their marketing department, saying that the new product had unique properties in that it stuck ‘permanently, but temporarily’. The rest, as they say, is history.

Be sure to check that someone else doesn’t already own your innovation, and that you can put a legal fence around it to keep competitors out. Copyrights, patents and the like are dealt with in Assignment 7.

## Network marketing

Network marketing, multilevel marketing (MLM) and referral marketing are the names used to describe selling methods designed to replace the retail outlet as a route to market for certain products. Although referral marketing has been around since the early part of the last century, for many people it’s still unfamiliar territory. This is one way of starting a profitable, full-time business with little or no investment. It’s also a method of starting a second or part-time business to run alongside your existing business or career. Network marketing is one of the fastest-growing business sectors. Utility Warehouse is a prime example. A prominent multi-service provider in the UK, it has experienced substantial growth and success. The company offers a diverse range of services, including landline telephony, mobile telephony, broadband, gas, electricity, home insurance and a cashback card. Operating under an MLM model, Utility Warehouse relies on independent distributors to acquire and serve customers.

In the financial year ending in March 2023, the company achieved a record-breaking turnover of £2.48 billion, a significant increase from £1.5 billion in the previous year. This impressive growth reflects the company’s ability to capitalize on the market’s demand for affordable utility services and the failures of some competitors.

This way into business provides a low-cost option for over 500,000 people in the UK to get into business, earn money and run a business with very little risk.

In most cases network marketing involves selling a product or service that a parent company produces and supplies. You take on the responsibilities of selling the products and introducing other people to the company. You get paid commission on the products/services you sell yourself and a

smaller commission on the products/services that the people you've introduced to the company sell. In addition to this, you often get a percentage commission based on the sales of the people that the people you introduced to the company also introduce, and on and on.

Advocates of network marketing maintain that, when given identical products, the one sold face to face (without the cost of maintaining a shop and paying employees and insurance) is less expensive than the same product sold in a store. Additionally, network marketing fans believe that buying a product from someone you know and trust makes more sense than buying from a shop assistant behind a retail counter.

A wide variety of good-quality network marketing companies from all over the world exist for you to choose from. They offer products and services from a wide range of industries including health, telecommunications, household products, technology, e-commerce, adult products and so on. Household names include Amway, Avon, Betterware, Herbalife, Kleeneze and Mary Kay Cosmetics. Choose a product or service that you're interested in because, when it comes to sales, nothing beats enthusiasm and confidence in the product. Check out the network company using trade associations such as the Direct Selling Association.

## Franchising

Franchising can be a good first step into planning their own business for those with no experience of running a business. Franchising is a marketing technique used to improve and expand the distribution of a product or service. The franchiser supplies the product or teaches the service to you, the franchisee, who in turn sells it to the public. In return for this, you pay a fee and a continuing royalty, based usually on turnover. The franchiser may also require you to buy materials or ingredients from it, which gives it an additional income stream. The advantage to you is a relatively safe and quick way of getting into business for yourself, but with the support and advice of an experienced organization close at hand.

Franchising isn't a path to great riches, nor is it for the truly independent spirit, because policy and profits still come from on high. The British Franchise Association website gives details of dates and venues of events around the country where you can meet franchisors and find out more about their propositions.

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## REAL-WORLD EXAMPLE

### *Unlocking adventure: the Travel Counsellors franchise journey*

Amid the pandemic's impact on travel, Travel Counsellors emerged as a beacon of opportunity. Their financial turnaround – from a £10.7 million loss in 2021 to a £12.7 million profit the following year – speaks volumes about their resilience and adaptability. At the heart of this success lies a network of over 2,000 franchisees, each arranging personalized travel experiences for clients worldwide.

In 2023 Sarah Mott, a former educator, decided to pivot her career. Her love for working with children clashed with the inflexibility of her teaching job. But Sarah's problem-solving and communications skills – honed during 18 months as a school secretary and seven years in higher education – proved transferable.

Sarah meticulously researched franchise options. Many felt like multilevel marketing schemes, but Travel Counsellors stood out. Their genuine commitment to franchisee success resonated with her. Equipped with IT proficiency (Excel, database management and social media), Sarah embarked on her journey.

The Travel Counsellors Training Academy became her ally. Their comprehensive courses – tailored for both corporate and leisure travel – empowered her. Existing Travel Counsellors shared insights, emphasizing the time investment required for business growth. This authenticity reassured Sarah: she wasn't promised instant riches but genuine support.

Starting a Travel Counsellors franchise required a minimum investment of £10,000. A modest monthly fee of £40 + VAT covered essential business needs. Two years in, average annual earnings hovered around £35,000, while top performers soared beyond £100,000.

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## Buying out a business

Buying out an existing business is particularly well suited to people who have extensive experience of general business management but lack detailed technical or product knowledge. When you buy an established business, you not only pay for the basic assets of the business, but also the accumulated time and effort that the previous owner spent growing the business to its present state. You can think of this extra asset as goodwill. The better the business, the more the 'goodwill' costs you.

Advantages of buying a business include:

- You acquire some of the experience and expertise you don't have.

- You gain both access to your potential customers and the credibility of a trading history from the outset, which can save months if not years of hard work in building relationships.
- If the business you buy is already profitable, you can pay yourself a living wage from the outset.
- Bank financing may be easier to acquire for an established business than for a riskier start-up business.

Disadvantages of buying a business include:

- You run the risk of acquiring the existing unsolved problems and mistakes of the person who's selling it.
- Identifying the right potential acquisition and negotiating a purchase can take a very long time, and there's no guarantee that you'll succeed at your first attempt.
- The professional fees associated with buying a business can be a significant, though necessary, cost.

Contact these organizations to find out more about buying a business and to see listings of businesses for sale:

- Businesses For Sale has over 68,000 businesses for sale in the UK, as well as listings of firms in Spain, the US, Australia, Canada, India, Ireland, New Zealand and France.
- Christie & Co claims to have the largest database of businesses for sale in Europe. It's the recognized market leader in the hotel, catering, leisure and retail markets and is also expanding into healthcare.
- Daltons has an online database of over 30,000 businesses for sale around the UK and some overseas countries.

#### WORKSHEET FOR ASSIGNMENT 1: COMING UP WITH A WINNING IDEA FOR YOUR BUSINESS PLAN

- 1 Explain briefly your business idea and how you arrived at it.
- 2 If you are still considering what business to plan to enter review the options outlined in this chapter in particular:
  - (a) Can you identify a market gap that you could meet?
  - (b) Is there a new twist that you could put onto an old business idea?

- (c) Do you have an idea for an innovation or novel product?
- (d) Is there a franchise or network marketing proposition that you could plan for?
- (e) Have you explored the possibility of buying out a business?

### Suggested further reading

- Aaker, D (2019) Winning in the sharing economy: Six keys to Airbnb's success, *Journal of Brand Strategy*, 7 (4), pp 310–17
- Ahmad, N A, Rasul, M S, Othman, N and Jalaludin, N A (2022) Generating entrepreneurial ideas for business development, *Sustainability*, 14, 4905, <https://doi.org/10.3390/su14094905> (archived at <https://perma.cc/25JS-PCRQ>)
- Hammond, R (2017) *Smart Retail: Winning ideas and strategies from the most successful retailers in the world*, 4th edn, Pearson Business, Harlow, UK
- Kakatkar, C, de Groote, J K, Fueller, J and Spann, M (2018) The DNA of Winning Ideas: A Network Perspective of Success in New Product Development, *Academy of Management Proceedings* (Vol 2018, No 1, p 11047), Briarcliff Manor, NY 10510: Academy of Management
- Kim, W C and Mauborgne, R (2000) Knowing a winning business idea when you see one, *Harvard Business Review*, 78 (5), pp 129–38



# ASSIGNMENT 2

## Strategy – the big picture

Credit for devising the most succinct and usable way to get a handle on the big picture has to be given to Michael E Porter, a professor at Harvard Business School. Porter determined that two factors above all influenced a business's chances of making superior profits. First, there was the attractiveness or otherwise of the industry in which it primarily operated. Second, and in terms of an organization's sphere of influence, more importantly, was how the business positioned itself within that industry.

### The five forces theory of industry structure

Porter postulated that the five forces that drive competition in an industry have to be understood as part of the process of choosing which strategy to pursue. The forces he identified are (see Figure 2.1):

- *Threat of substitution.* Can customers buy something else instead of your product? For example, Apple, and to a lesser extent Sony, have laptop computers that are distinctive enough to make substitution difficult. Dell on the other hand, faces intense competition from dozens of other suppliers with near-identical products competing mostly on price alone.
- *Threat of new entrants.* If it is easy to enter your market, start-up costs are low, and there are no barriers to entry – such as IP (intellectual property) protection – then the threat is high.
- *Supplier power.* The fewer the suppliers, usually the more powerful they are. Oil is a classic example where fewer than a dozen countries supply the whole market and consequently can set prices.

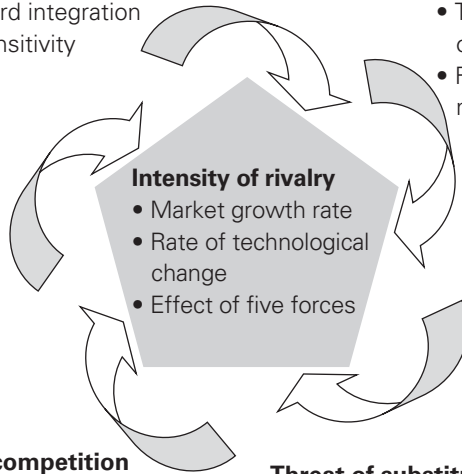
FIGURE 2.1 Five forces theory of industry analysis (after Porter)

**Buyer power**

- Buyer concentration
- Relative size; buyer much bigger
- Buyer's ability for backward or forward integration
- Price sensitivity

**Supplier power**

- Concentration of suppliers
- Not important customer to suppliers
- Threat of supplier backward or forward integration
- Relative size; suppliers much bigger

**Threat of new entrants**

- Economies of scale
- Capital intensity
- Access to marketing channels
- Brand loyalty
- Government regulations
- IP and other barriers to entry

**Industry competition**

- Many competitors
- Some powerful competitors
- High exit barriers
- Strong brands

**Threat of substitution**

- Cost of switching
- Relative price
- Relative performance
- Relative quality

- *Buyer power.* In the food market, for example, with just a few powerful supermarket buyers being supplied by thousands of much smaller businesses, the supermarkets are often able to dictate terms.
- *Industry competition.* The number and capability of competitors are one determinant of a business's power. Few competitors with relatively less attractive products or services lower the intensity of rivalry in a sector. Often these sectors slip into oligopolistic behaviour, preferring to collude rather than compete.

*Generic strategic options*

In Porter's view a business can only pursue one of three generic strategies (see Figure 2.2) if it is to deliver superior performance. It can have a cost advantage in that it could make a product or deliver a service for less than others. Or it could be different in a way that matters to consumers, so that its offer would be unique, or at least relatively so. Porter added a further

FIGURE 2.2 Strategic options

<i>Target scope</i>	<i>Advantage</i>	
	Low cost	Product uniqueness
<b>Broad (industry wide)</b>	<b>Cost leadership strategy</b>	<b>Differentiation strategy</b>
<b>Narrow (market segment)</b>	<b>Focus strategy (low cost)</b>	<b>Focus strategy (differentiation)</b>

twist to his prescription. Businesses could follow either a cost advantage path or a differentiation path industry wide, or they could take a third path – they could concentrate on a narrow specific segment either with cost advantage or differentiation. This he termed ‘focus’ strategy.

Start-ups need to pick one of these options only; however, an established venture can pursue different types of strategy for different parts of their business or in different markets.

*Cost leadership*

Low cost should not be confused with low price. A business with low costs may or may not pass those savings on to customers. Alternatively they could use that position alongside tight cost controls and low margins to create an effective barrier to others considering either entering or extending their penetration of that market. Low-cost strategies are most likely to be achievable in large markets, requiring large-scale capital investment, where production or service volumes are high and economies of scale can be achieved from long runs.

Low costs are not a lucky accident; they can be achieved through these main activities.

- *Operating efficiencies.* New processes, methods of working or less costly ways of working. Ryanair and easyJet are examples where analysing every component of the business made it possible to strip out major elements of cost, meals, free baggage and allocated seating, for example, while leaving the essential proposition – we will fly you from A to B – intact.
- *Product redesign.* This involves rethinking a product or service proposition fundamentally to look for more efficient ways to work, or cheaper substitute materials to work with. The motor industry has adopted this approach with ‘platform sharing’; that is where major players, including Citroën, Peugeot and Toyota, have rethought their entry car models to share major components, which has become common.
- *Product standardization.* A wide range of product and service offers claiming to extend customer choice invariably leads to higher costs. The challenge is to be sure that proliferation gives real choice and adds value. In 2008 the UK railway network took a long hard look at its dozens of different fare structures and scores of names, often for identical price structures, that had remained largely unchanged since the 1960s and reduced them to three basic product propositions. Adopting this and other common standards across the rail network they estimate will substantially reduce the currently excessive £500,000 transaction cost of selling £5 billion worth of tickets.
- *Economies of scale.* This can be achieved only by being big or bold. The same head office, warehousing network and distribution chain can support Tesco’s 3,800 stores against the 1,500 that its nearest rival has. Tesco has a lower cost base by virtue of having more outlets to spread its costs over as well as having more purchasing power.

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#### REAL-WORLD EXAMPLE

##### *Primark*

Any list of cost leadership examples will probably start with Walmart, cross the Atlantic to sweep in Ryanair and continue with Primark. Primark is an Irish fast-fashion retailer, owned by the British food processing company Associated British Foods (ABF). The company was founded in June 1969 in Dublin, Ireland, where it still operates under the name ‘Penneys’. As of 2024, Primark had expanded its global presence to 432 store locations across 14 countries, including the UK, Ireland, Portugal, the United States, Poland, Slovenia and the Czech

Republic. In its 2023 annual report, ABF reported that Primark had generated a revenue of approximately £9 billion.

With this strong foundation, Primark strengthens its cost leadership strategy by leveraging huge quantities of stock to achieve economies of scale, minimal branding and advertising expenses, an efficient supply chain, reduced time-to-market through computerized customs clearance and robust warehousing and distribution networks, and outsourcing manufacturing to countries with cheaper labour costs. These strategic choices have enabled Primark to maintain rock-bottom prices that significantly undercut competitors and have cemented its position as a leader in cost within the highly competitive fast-fashion industry. In the UK, Primark stands as the leading value clothing brand according to various measures, surpassing other budget-friendly apparel retailers such as TK Maxx and in-house supermarket labels like Asda's George.

Cost leadership is a strategy that requires constant attention. In April 2024 the company announced that it was exploring how to use AI to address retail crime-related shrinkage and also looking at AI to support data-driven personalization in order to build a better picture of its customers both online and in-store.

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### *Differentiation*

The key to differentiation is a deep understanding of what customers really want and need, and more importantly, what they are prepared to pay more for. Apple's opening strategy was based around a 'fun' operating system based on icons, rather than the dull text of MS-DOS. This belief was based on their understanding that computer users were mostly young and wanted an intuitive command system, and the 'graphical user interface' delivered just that. Apple has continued its differentiation strategy, but adds design and fashion to ease of control in the ways in which it delivers extra value. Sony and BMW are also examples of differentiators. Both have distinctive and desirable differences in their products and neither they nor Apple offer the lowest price in their respective industries; customers are willing to pay extra for the idiosyncratic and prized differences embedded in their products.

Differentiation doesn't have to be confined to just the marketing arena, nor does it always lead to success if the subject of that differentiation goes out of fashion without much warning. Northern Rock, the failed bank that had to be nationalized to stay in business, thought its strategy of raising most of the money it lent out in mortgages through the money markets was a sure winner. It allowed the bank to grow faster than its competitors who place

more reliance on depositors for their funds. As long as interest rates were low and the money market functioned smoothly it worked. But once the differentiators that fuelled its growth were reversed, its business model failed.

### *FOCUS*

Focused strategy involves concentrating on serving a particular market or a defined geographic region. IKEA, for example, targets young, white-collar workers as its prime customer segment, selling through 235 stores in more than 30 countries. Ingvar Kamprad, an entrepreneur from the Småland province in southern Sweden, who founded the business in the late 1940s, offers home furnishing products of good function and design at prices young people can afford. He achieves this by using simple cost-cutting solutions that do not affect the quality of products.

Businesses often lose their focus over time and periodically have to rediscover their core strategic purpose. Procter & Gamble is an example of a business that had to refocus to cure weak growth. In 2000, the company was losing share in seven of its top nine categories, and had lowered earnings expectations four times in two quarters. This prompted the company to restructure and refocus on its core business: big brands, big customers and big countries. They sold off non-core businesses, establishing five global business units with a closely focused product portfolio.

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### REAL-WORLD EXAMPLE

#### *Specsavers*

In 2024, Specsavers marked its 40th anniversary, boasting an impressive network of 2,600 business outlets across 11 countries. With nearly 43 million customers worldwide, Specsavers has become a household name. Dame Mary Perkins, a visionary entrepreneur, reshaped the optometry industry. Prior to Specsavers, eyewear shopping lacked choice and transparency. Opticians would retreat into back rooms, emerging with a handful of frames for customers to try on. Mary envisioned a better approach – one that emphasized value, choice and respectful service.

Together with her husband, Doug Perkins, Mary founded Specsavers, maintaining a family-owned ethos. Her key lesson was clear: differentiation matters. Instead of merely imitating major players, she tackled major industry issues head-on. Glasses were expensive, but Mary believed she could bring prices

down without compromising quality. She negotiated directly with factories, bypassing wholesalers' hefty mark-ups. The result? Affordable eyecare for all. Mary attributes much of Specsavers' success to preserving its founding culture and ideals, always prioritizing real value and choice for consumers.

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## Strategic framework

The strategic framework shown in Figure 2.3 should put the whole strategic process clearly in view and help you to formulate a clear course of action.

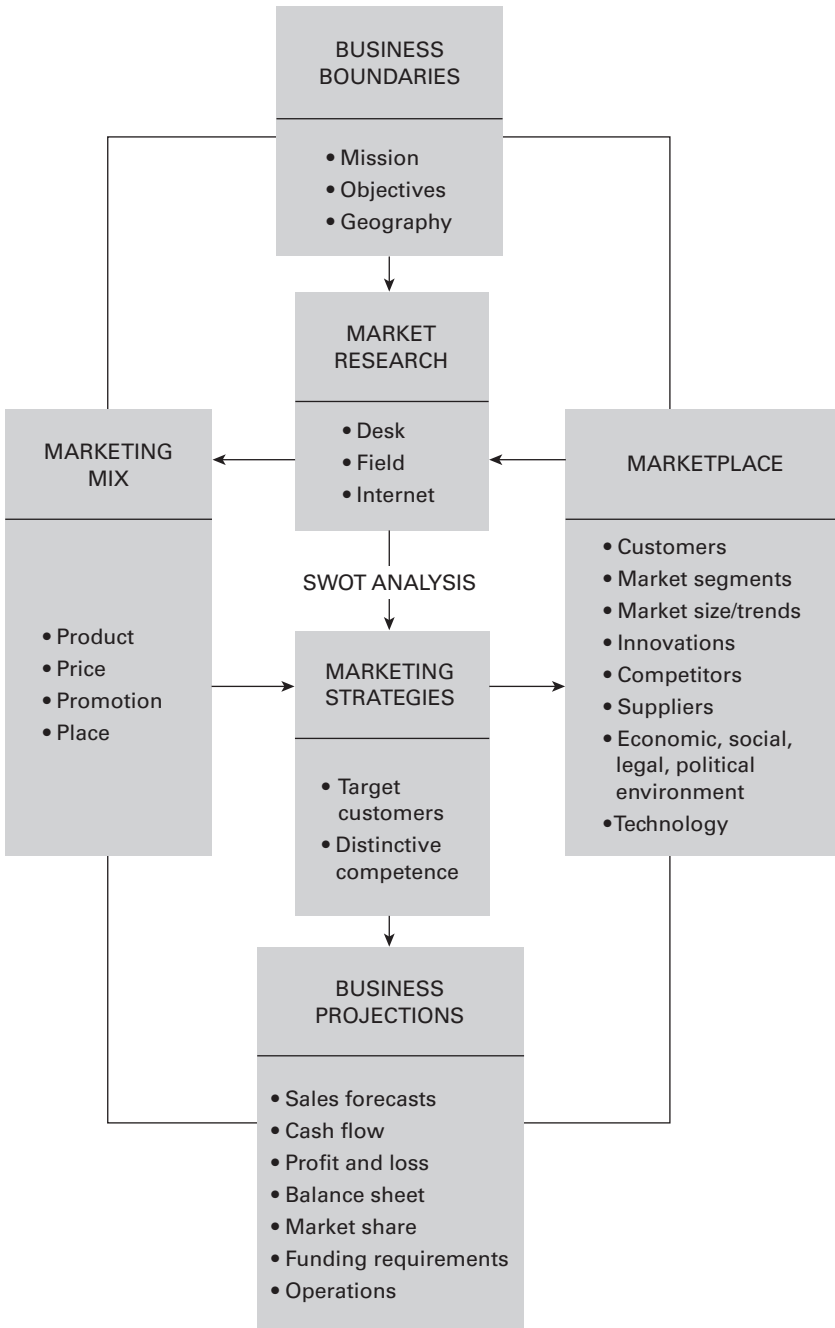
The foundation of this process is a clear statement of the mission of your venture, your objectives and the geographic limits you have set yourself, at least for the time being. These issues were addressed in the first assignment and until they are satisfactorily resolved, no meaningful strategy can be evolved.

Market research data is then gathered on customers, competitors and the business environment, for example, to confirm that your original perception of your product or service is valid. More than likely this research will lead you to modify your product in line with this more comprehensive appreciation of customer needs. You may also decide to concentrate on certain specific customer groups. Information on competitors' prices, promotional methods and location/distribution channels should then be available to help you to decide how to compete.

No business can operate without paying some regard to the wider economic environment in which it operates. So a business plan must pay attention to factors such as:

- The state of the economy and how growth and recession are likely to affect such areas as sales, for example. During a time of economic recession, start-ups sometimes benefit from increased availability of premises, second-hand equipment, etc, and find they develop sales strongly as the economy and markets recover. For example, Cranfield MBA Robert Wright developed ConnectAir at the end of one recession and was able to sell to Air Europe at the height of the Lawson boom – a trick that he subsequently repeated for 10 times that value (£75 million) a decade later!
- Any legislative constraints or opportunities. One Cranfield enterprise programme participant's entire business was founded solely to exploit recent laws requiring builders and developers to eliminate asbestos from existing properties. His business was to advise them how to do so.

FIGURE 2.3 Elements of a business strategy





- Any changes in technology or social trends that may have an impact on market size or consumer choice. For example, the increasing number of single-parent families may be bad news at one level, but it's an opportunity for builders of starter unit housing.
- Any political pressures, either domestic or pan-European, that are likely to affect your business. An example was New Labour's law against late payment of bills. The government's aim was to help small firms get paid more quickly by large firms. However, experience elsewhere, where such legislation is in force, showed clearly that large firms simply alter their terms of trade. In that way many small firms actually ended up taking longer to collect money owed them, rather than just the unlucky or the inefficient ones.

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## REAL-WORLD EXAMPLES

### *SWOT (Strengths, Weaknesses, Opportunities and Threats)*

The process by which all this data is examined is called the SWOT analysis: your company's strengths and weaknesses are analysed and compared with the perceived environment, opportunities and threats. Its purpose is to allow you to develop a strategy using areas in which you are more able than the competition to meet the needs of particular target customer groups.

Our experience with new starters at Cranfield has emphasized the importance for the small company of the second and third of these generic strategies, sometimes judiciously mixed, particularly bringing into play the four major elements of the marketing mix (product, price, promotion and place) to emphasize your differentiation and focus.

Many new start-ups at the turn of the millennium sought to benefit from the newly available internet technology and vigorously pursued a cost leadership strategy. The low margins often implicit in this strategy left little room for manoeuvre when things went awry. For example, Cranfield MBA Dexter Kirk, with 12 traditional clothing stores, noted: 'My heart is only gladdened by the final reality that has set in on dot.com apparel marketing. Funny, we old lags called it "mail order" and knew that you should allow for 30 per cent returns. When I told Boo.com that at a meeting before Christmas, they thought I was mad. I also warned my daughter who is in dot.com PR that "brown boxes" would be the problem, i.e. fulfilment is the most unsexy part of the job. Sure enough, one of her B2C clients delivered all their Christmas trees on January 5th!'

Needless to say, neither company survived. Hence the need to emphasize differentiation and focus with better margins in the early learning phase of start-up and business growth.

## PESTEL

A PESTEL analysis is a strategic management framework used to assess six major external macro-environmental factors that impact a business. Conducting both PESTEL and SWOT analysis leads to more informed and robust strategic decisions.

- *Political factors.* These relate to government policies, stability, tax regulations, trade policies, labour laws and industry-specific regulations. Understanding political dynamics helps businesses anticipate changes and adapt to new regulations.
- *Economic factors.* These encompass aspects like economic growth, inflation, exchange rates and consumer spending. They influence operations, profitability and growth potential.
- *Social factors.* Consider demographics, cultural trends, social attitudes and lifestyle changes. Businesses need to align with societal shifts to remain relevant and responsive.
- *Technological factors.* Assess technological advancements, innovation and digital disruption and adapt to stay competitive and leverage emerging technologies.
- *Environmental factors.* These include sustainability, climate change and ecological concerns. Businesses need to address environmental impact and comply with regulations.
- *Legal factors.* Evaluate legal frameworks, intellectual property rights and compliance requirements. Legal changes can affect business operations and strategy.

By analysing these factors, organizations can make informed decisions, anticipate challenges and capitalize on opportunities in strategic planning.

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### *First-to-market fallacy*

‘Gaining first mover advantage’ are words used like a mantra to justify skipping the industry analysis and strategy formulation stages in preparing a business plan. This myth is one of the most enduring in business theory and practice. Entrepreneurs and established giants are always in a race to be first, believing that it is necessary for success. Research from the 1980s which showed that market pioneers had enduring advantages in distribution, product-line breadth, product quality and, especially, market share, underscored this principle.

Beguiling though the theory of first-mover advantage is, it is probably wrong. Gerard Tellis, of the University of Southern California, and Peter

Golder, of New York University's Stern business school, argued in their book, *Will and Vision: How latecomers grow to dominate markets* (2001, McGraw-Hill Inc, US) and subsequent research, that previous studies on the subject were deeply flawed. In the first instance earlier studies were based on surveys of surviving companies and brands, excluding all the pioneers that failed. This helps some companies to look as though they were first to market even when they were not. Procter & Gamble (P&G) boasts that it created America's disposable-nappy (diaper) business. In fact, a company called Chux launched their product a quarter of a century before P&G entered the market in 1961.

Also, the questions used to gather much of the data in earlier research were at best ambiguous, and perhaps dangerously so. For example the term 'one of the pioneers in first developing such products or services' was used as a proxy for 'first to market'. The authors emphasize their point by listing popular misconceptions of who were the real pioneers across the 66 markets they analysed. Online book sales – Amazon (wrong), Books.com (right); Copiers – Xerox (wrong), IBM (right); PCs – IBM/Apple (both wrong). Micro Instrumentation Telemetry Systems (MITS) introduced its PC, the Altair, a \$400 kit, in 1974, followed by Tandy Corporation (Radio Shack) in 1977.

In fact the most compelling evidence from all the research was that nearly half of all firms pursuing a first-to-market strategy were fated to fail, while those following fairly close behind were three times as likely to succeed. Tellis and Golder claim the best strategy is to enter the market 19 years after pioneers, learn from their mistakes, benefit from their product and market development and be more certain about customer preferences.

### *Vision*

A vision is about stretching the organization's reach beyond its grasp. Few now can see how the vision can be achieved, but can see that it would be great if it could be. Microsoft's vision of a computer in every home, formed when few offices had one, is one example of a vision that has nearly been reached. Stated as a company goal back in 1990, it might have raised a wry smile: after all it was only a few decades before then that IBM had estimated the entire world demand for its computers as seven! Their updated vision to 'Create experiences that combine the magic of software with the power of Internet services across a world of devices' is rather less succinct! Apple, Microsoft's arch rival, has the vision to: 'make things that make an impact'. They do this by using the latest technology, investing in packaging and design, making their products easier to use and more elegant than anything else

around, and selling them at a premium price. Personal computers, music players, smartphones and tablet computers – and now cloud-based services – have all been treated to the Apple visionary touch with considerable success. By 2011 Apple overtook Microsoft in terms of its stock market value.

Ocado, the online grocer floated on the stock market in 2010, was established with a clear vision: to offer busy people an alternative to going to the supermarket every week. IBM's vision is to package technology for use by businesses. Starting out with punch-card tabulators, IBM adapted over its 100 year+ history to supply magnetic-tape systems, mainframes, PCs and consulting (since it bought the consulting arm of PricewaterhouseCoopers, an accounting firm, in 2002). Building a business around a vision, rather than a specific product or technology, makes it easier to get employees, investors and customers to buy into a long-term commitment to a business, seeing they could have opportunities for progression in an organization that knows where it is going.

### *Mission*

A mission is a direction statement, intended to focus your attention on the essentials that encapsulate your specific competence(s) in relation to the market/customers you plan to serve. First, the mission should be narrow enough to give direction and guidance to everyone in the business. This concentration is the key to business success because it is only by focusing on specific needs that a small business can differentiate itself from its larger competitors. Nothing kills off a business faster than trying to do too many different things too soon. Second, the mission should open up a large enough market to allow the business to grow and realize its potential. You can always add a bit on later. In summary, the mission statement should explain:

- what business you are in and your purpose;
- what you want to achieve over the next one to three years, i.e. your strategic goal.

Above all, mission statements must be realistic, achievable – and brief.

Nestlé's mission is captured in these words: 'Good Food, Good Life'. Their claim here is to provide consumers with the best tasting, most nutritious choices in a wide range of food and beverage categories and eating occasions, from morning to night.

Amazon's mission – 'We seek to be Earth's most customer-centric company for three primary customer sets: consumer customers, seller customers and

developer customers’ – though punchy enough, doesn’t provide much guidance to the rank and file on what to do every day.

### *Values*

A business faces tough choices every day and the bigger it gets the greater the number of people responsible for setting out what you ultimately stand for – profits alone, or principled profits. Defining your values will make it possible for everyone working for you to know how to behave in any situation. Your values should be seen to run through the business – a common thread touching every decision. Southwest Airlines, the first and arguably the best low-cost airline, has cultivated a reputation for being the ‘nice’ airline. A past CEO, James Parker, tells a story that sums up their values (‘we want people to consistently do the right thing because they want to’): One evening flight landed in Detroit and all the passengers, bar one, a young girl, disembarked. She should have got off at Chicago, an earlier stop, but failed to do so. Despite this being the night before Thanksgiving, the pilot and crew knew they had to get the passenger back to her anxious parents. Without asking for company permission they just took off and returned the girl to her correct destination. They knew what should be done, regardless of the additional cost and inconvenience, and just got on with it.

### *Objectives*

The milestones on the way to realizing the vision and mission are measured by the achievement of business objectives. Your business plan should set out the primary goals in terms of profit, turnover and business value, particularly if you want to attract outside investment. Marks & Spencer announced their goal to reduce food waste by 20 per cent within one year in July 2022. This was part of their broader commitment to halve food waste by 2030 and reach net zero by 2040. Majestic Wine announced an expansion plan to increase the number of their stores in 125 potential locations across the UK. They opened seven new stores in FY23/24 and planned to open six more in FY24/25.

Make sure that your business plan contains SMART objectives:

- **Specific:** Relate to specific tasks and activities, not general statements about improvements.
- **Measurable:** It should be possible to assess whether or not they have been achieved.

- **Attainable:** It should be possible for the employee to achieve the desired outcome.
- **Realistic:** Within the employee's current or planned-for capability.
- **Timed:** To be achieved by a specific date.

#### WORKSHEET FOR ASSIGNMENT 2: STRATEGY – THE BIG PICTURE

- 1 Using Porter's five forces, analyse the factors at work in your industry.
- 2 If you are expecting to be first to market, what other advantages for your proposition can you expand on in your business plan?
- 3 Describe the strategic direction being pursued by the business you are/will be competing with, i.e. focus, differentiation, cost.
- 4 What strategic option will you be going for and why?
- 5 Explain how you arrived at your proposition.
- 6 What makes you believe it will succeed?
- 7 Write a mission statement linking your product or service to the customer needs it is aimed at.
- 8 Write vision and values statements.
- 9 What are your principal objectives:
  - short term?
  - long term?
- 10 List your tasks and action plans as you see them at present.

### Suggested further reading

- Grundy, T (2014) *Demistifying Strategic Thinking*, Kogan Page, London
- Hague, P (2019) *The Business Models Handbook: Templates, theory and case studies*, Kogan Page, London
- Johnson, S and Van de Ven, A H (2017) A framework for entrepreneurial strategy, in *Strategic Entrepreneurship: Creating a new mindset*, eds. M A Hitt, R D Ireland, S M Camp and D L Sexton, 66–85, Blackwell, Oxford
- Porter, M E (2004) *Competitive Strategy Techniques for Analyzing Industries and Competitors*, Free Press, New York
- Spitz, R (2024) *Disrupt With Impact: Achieve business success in an unpredictable world*, Kogan Page, London
- Wootton, S (2010) *Strategic Thinking: A nine-step approach to strategy and leadership for managers and marketers*, Kogan Page, London

# ASSIGNMENT 3

## You and your team

The two essential ingredients for success in any new venture are a good proposition and the right people to turn that idea into a business. Your business plan must therefore not only include a description of your purpose or mission, but give full details of your and your prospective partners' experience and 'suitability' for this venture.

You also need to explain the name of your business, why you chose it, and under what legal form you propose to trade. If your business has been trading for some time, you should give a brief description of achievements to date and a summary of financial results. Full accounts can be included in an appendix to your business plan. Let's look at each in turn.

### You and your team

#### *The right stuff*

To launch a new venture successfully, you have to be the right sort of person, your business idea must be right for the market and your timing must be spot on. The world of business failures is full of products that are ahead of their time.

The entrepreneur is frequently seen as someone who is always bursting with new ideas, is highly enthusiastic, hyperactive and insatiably curious. But the more you try to create a picture of the typical entrepreneur, the more elusive he or she becomes.

Peter Drucker, the international business guru, captured the problem clearly with this description:

Some are eccentrics, others painfully correct conformists; some are fat and some are lean; some are worriers, some relaxed; some drink quite heavily, others are total abstainers; some are men of great charm and warmth, some have no more personality than a frozen mackerel.

That said, there are certain characteristics that successful newcomers to business do have in common, and you should emphasize these in respect of yourself in the business plan.

### *Self-confident all-rounders*

Entrepreneurs are rarely geniuses. There are nearly always people in their business who have more competence, in one field, than they could ever aspire to. But they have a wide range of ability and a willingness to turn their hands to anything that has to be done to make the venture succeed. They can usually make the product, market it and count the money, but above all they have self-confidence that lets them move comfortably through uncharted waters.

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#### REAL-WORLD EXAMPLE

##### *Sir Paul Smith*

Sir Paul Smith, who left school at 15, launched his clothing business and within a decade had opened three shops in London – one of which was in Covent Garden – and a further one in Tokyo, and turnover was above £2 million pa. Now ‘Paul Smith’ is an internationally recognized fashion brand.

Explaining his success, Sir Paul states, ‘It’s not that I’m a particularly brilliant designer or businessman, but I can run a business and I can design. There are so many excellent designers or excellent people but so often the designers can’t run the business and businessmen do not have the right product.’

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### *Resilient*

Rising from the ashes of former disasters is also a common feature of many successful entrepreneurs.

Henry Ford had been bankrupted twice before founding the Ford Motor Corporation with a loan of \$28,000 in his 40th year.



### REAL-WORLD EXAMPLE

#### *Timothy Waterstone's resilience*

Timothy Waterstone, founder of bookshop chain Waterstone's, faced significant adversity when he was fired from WH Smith's US operation. Despite this setback, he channelled his passion for books into creating one of the fastest-growing bookshop chains. Waterstone's resilience shone through as he navigated financial challenges, pledging his house and personal savings to start the business.

Three months later, he opened the first Waterstone's, focusing on a consumer-led approach with a wide selection of books, long opening hours and bonus schemes for staff. His innovative strategies led to dazzling sales and significant growth, ultimately allowing him to sell the company back to WH Smith for £50 million. Waterstone's journey is a testament to his resilience and entrepreneurial spirit. Motto: Don't get mad, start your own bookshop!

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#### *Innovative skills*

Almost by definition, entrepreneurs are innovators who either tackle the unknown, or do old things in new ways. It is this inventive streak that allows them to carve out a new niche, often invisible to others.

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### REAL-WORLD EXAMPLE

#### *Canva: how a living room start-up became a unicorn*

Founded in 2013, Canva had emerged as the market-leading graphic design platform by 2025, with over 60 million monthly active users across 190 countries. This success is a testament to the resilience and innovation of co-founder and CEO Melanie Perkins and her partners, Cliff Obrecht and Cameron Adams. Starting in 2007, Perkins pitched her idea to more than 100 venture capitalists before securing \$3 million in seed funding in March 2013. Her perseverance paid off further in July 2014 when Canva received an additional \$3.6 million from Shasta Ventures and Founders Fund.

Perkins began working on Canva from her mum's living room in Perth, Australia. The daughter of a teacher and an engineer, Perkins initially aimed to be a professional figure skater, enduring early morning practices before attending the University of Western Australia. It was there, while teaching computer design, that she conceived the idea of simplifying the design process into one online tool.

Driven by the fear that someone else might execute her vision first, Perkins hired freelancers to build a website for school yearbooks. Despite starting small, the business grew to serve 400 schools, but further expansion required venture funding, which was scarce in Perth.

In 2011, Perkins seized an opportunity when venture capitalist Bill Tai visited Perth. She pitched her idea at a dinner Tai hosted, which led to connections with prominent tech investors. Perkins' relentless pursuit and networking through Tai's kitesurfing gatherings paid off, attracting investors like Bond Capital, T. Rowe Price, Franklin Templeton, Sequoia Capital Global Equities and more.

Alongside her co-founders, Perkins transformed Canva into a global success. The company had achieved a valuation of approximately €40 billion by January 2022, becoming one of Australia's most successful start-ups. Canva's journey underscores the power of resilience and innovation in turning a simple idea into a global powerhouse.

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### *Results oriented*

Successful people set themselves goals and get pleasure out of trying to achieve them. Once a goal has been reached, they have to get the next target in view as quickly as possible. This restlessness is very characteristic. Sir James Goldsmith was a classic example, moving the base of his business empire from the United Kingdom to France, then the United States – and finally into pure cash, ahead of a stock market crash.

### *Professional risk-taker*

The high failure rate shows that small businesses are faced with many dangers. An essential characteristic of someone starting a business is a willingness to make decisions and to take risks. This does not mean gambling on hunches. It means carefully calculating the odds and deciding which risks to take and when to take them.

### *Having total commitment*

You will need complete faith in your idea. How else will you convince all the doubters you are bound to meet that it is a worthwhile venture? You will also need single-mindedness, energy and a lot of hard work to get things started; working 18-hour days is not uncommon. This can put a strain on

other relationships, particularly within your family, so they too have to become involved and committed if you are to succeed.

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### REAL-WORLD EXAMPLE

#### *Innocent*

In the summer of 1998 when Richard Reed, Adam Balon and Jon Wright had developed their first smoothie recipes but were still nervous about giving up their jobs, they bought £500 worth of fruit, turned it into smoothies and sold them from a stall at a London music festival. They put up a sign saying 'Do you think we should give up our jobs to make these smoothies?' next to bins saying 'YES' and 'NO', inviting people to put the empty bottle in the appropriate bin. At the end of the weekend the 'YES' bin was full, so they went to work the next day and resigned. The rest, as they say, is history. Virtually a household name, Innocent Drinks has experienced a decade of rapid growth.

But the business stalled in 2008, with sales slipping back and their European expansion soaking up cash at a rapid rate. The founders, with an average age of 28, decided that they needed some heavy-weight advice and talked to Charles Dunstone, Carphone Warehouse founder, and Mervyn Davies, chairman of Standard Chartered. The strong advice was to get an investor with deep pockets and ideally something else to bring to the party to augment the youthful enthusiasm of the founders. They launched their search for an investor the day that Lehman Brothers filed for bankruptcy. In April 2009 the Innocent team accepted Coca-Cola as a minority investor in their business, paying £30 million for a stake of between 10 and 20 per cent. They chose Coca-Cola because as well as providing the funds, the company can help get Innocent products out to more people in more places. They'll also be able to learn a lot from Coca-Cola, who have been in business for over 120 years.

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All too often budding entrepreneurs believe themselves to be the right sort of person to set up a business. Unfortunately, the capacity for self-deception is enormous. When a random sample of male adults were asked recently to rank themselves on leadership ability, 70 per cent rated themselves in the top 25 per cent; only 2 per cent felt they were below average as leaders. In an area in which self-deception ought to be difficult, 60 per cent said they were well above average in athletic ability and only 6 per cent said they were below.

A common mistake made in assessing entrepreneurial talent is to assume that success in big business management will automatically guarantee success in a small business.

### *Checking out your entrepreneurial strengths*

You can find out more about your likely strengths and weakness as an entrepreneur by taking one or more of the many online entrepreneurial IQ-type tests. A couple of sources can be found in the Index of key organizations and resources for business planning at the end of the book, but an entry in Google will produce a small torrent!

### Building the team

Not surprisingly, an investor's ideal proposal includes an experienced and balanced management team, who have all worked together for a number of years. That will ensure management in depth, thus providing cover for everything from illness to expansion, and guaranteeing some stability during the turbulent early years. For this reason management buy-outs are a firm favourite.

At the other end of the scale is the lone inventor whose management skills may be in doubt, and who is anyway fully stretched getting his or her product from the drawing board to the production line. This type of proposal is unlikely to attract much investment capital. It has obvious risks beyond those every company expects to experience in the marketplace. In any case, without a management team in place the business is ill-prepared for the rapid growth required to service an investor's funds.

In practice, most business proposals lie somewhere between these extremes. Your business plan should explain clearly what the ideal composition of key managers should be for your business; who you have identified, or recruited so far; and last but certainly not least, how you will motivate them to remain with you and perform well for at least the first few all-important years.

Certainly investors will look for reassurance in this respect and will expect to see more reference to the steps you will take to encourage loyalty.

### Your business name

A good name can, in effect, become a one- or two-word summary of your business strategy. Jeff Bezos originally chose Cadabra as the name for his business – as in abracadabra – summing up the magic of being able to find any book online. After a few phone calls to canvas opinions, he ditched Cadabra as it was too easily confused with 'Cadaver'! He settled on Amazon,

figuring that most people thought it to be the largest river in the world, and he wanted to convey the image of having the 'Earth's Biggest Book Store'.

PayPal, Body Shop, Toys R Us and Kwik-Fit are other good examples of names that sum up the essence of their businesses. Google, though a colossally successful venture, struggled in arriving at a meaningful business name. They started with 'BackRub', as their algorithms checked backlinks to estimate the importance of a site, but moved on to use Google, a misspelling of the word 'googol' – the number one followed by 100 zeros. This was chosen to convey the idea of large quantities of information being sifted for useful data. It's unlikely that many people outside the Stanford University campus (where the founders developed their business idea) would have any idea what a googol was or why it would help describe the biggest search engine. But at the time, 'geeks' populated the internet, and the name caught on.

Your business name is almost always the first way people get to hear about your venture and it needs to convey the essence of the business quickly and clearly. Once you have to start explaining what you do, the job of communicating gets harder. As you are going to have to put some effort into creating this name and that of your web presence (domain name) if you plan to have one, it makes good sense to take some steps to protect your investment.

Your company name can be the starting and sustaining point in differentiating you from your competitors, and as such it should be carefully chosen, be protected by trademarks where possible and be written in a distinctive way. It follows therefore that the main consideration in choosing a business name is its commercial usefulness.

When you choose a business name, you are also choosing an identity so it should reflect:

- who you are;
- what you do;
- how you do it.

Given all the marketing investment you will make in your company name, you should check with a trademark agent whether you can protect your chosen name (descriptive words, surnames and place names are not normally allowed except after long use).

First, anyone wanting to use a 'controlled' name will have to get permission. There are some 80 or 90 controlled names, which include words such as 'International', 'Bank' and 'Royal'. This is simply to prevent a business implying that it is something that it is not.

Second, all businesses that intend to trade under names other than those of their owner(s) must state who does own the business and how the owner

surnames with or without forenames or initials, you are not affected. Companies are also not affected if they simply use their full corporate name.

If any name other than the ‘true’ name is to be used, then you must disclose the name of the owner(s) and an address in the United Kingdom to which business documents can be sent. This information has to be shown on all business letters, orders for goods and services, invoices and receipts, and statements and demands for business debts. Also, a copy has to be displayed prominently on all business premises. The purpose of the Companies Act requirements is simply to make it easier to ‘see’ who you are doing business with.

If you are setting up as a limited company you will have to submit your choice of name to the Companies Registration Office along with the other documents required for registration. It will be accepted unless there is another company with that name on the register or the Registrar considers the name to be obscene, offensive or illegal.

### *Changing your name*

It’s not the end of the world if you decide after a year or so that your business name is not quite right. But you will have largely wasted any earlier marketing effort in building up awareness.

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#### REAL-WORLD EXAMPLE

##### *Tesla*

Elon Musk, the visionary entrepreneur behind Tesla, made strategic decisions in five areas when choosing a business name that contributed to the company’s global impact.

- *Innovation.* The name ‘Tesla’ pays homage to Nikola Tesla, the brilliant inventor and engineer. By associating with Tesla’s legacy, Elon Musk positioned his electric car company as a symbol of innovation and forward-thinking technology.
- *Simplicity.* The name is short, memorable and easy to pronounce. It stands out in an industry dominated by complex automotive brand names.
- *Positive connotations.* Tesla evokes positive associations related to electricity, clean energy and sustainability. It aligns perfectly with the company’s mission to accelerate the world’s transition to sustainable energy.
- *Differentiation.* In a market where traditional automakers dominated, Tesla’s name signalled disruption. It represented a departure from gasoline-powered vehicles and emphasized electric mobility.

- *Global appeal.* The name works internationally without translation issues. Tesla's global expansion was helped by a universally recognizable brand.

Elon Musk's choice of the name 'Tesla' encapsulated innovation, simplicity and a commitment to a greener future.

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## Deciding the legal form of your business

Before you start trading you will need to consider what legal form your business will take. There are four main forms that a business can take, and the one you choose will depend on a number of factors: commercial needs, financial risk and your tax position. Each of these forms is explained briefly below, together with the procedure to follow on setting them up.

### *Relative business populations*

As of early 2024, there were approximately 5.5 million active businesses in the UK, a slight decrease from the peak of 6 million in 2020. The UK private sector business population comprised 3.1 million sole proprietorships (56 per cent of the total), 2.1 million actively trading companies (38 per cent) and 356,000 ordinary partnerships (6 per cent). Most new businesses start as sole traders and, if successful, transition to limited liability companies to benefit from legal protections. In 2009, limited companies made up 26 per cent of the business population, partnerships 12 per cent and sole traders 62 per cent. By the end of 2024, these proportions had shifted to 30 per cent, 64 per cent and 6 per cent respectively.

### *Sole trader*

The vast majority of new businesses set up each year in the United Kingdom choose to do so as sole traders. This has the merit of being relatively formality-free, and unless you intend to register for VAT, there are few rules about the records you have to keep. There is no requirement for your accounts to be audited, or for financial information on your business to be filed at Companies House.

As a sole trader there is no legal distinction between you and your business – your business is one of your assets, just as your house or car is. It follows from this that if your business should fail, your creditors have a right not only to the assets of the business, but also to your personal assets,

subject only to the provisions of the Bankruptcy Acts (these allow you to keep only a few absolutely basic essentials for yourself and family).

It is possible to avoid the worst of these consequences by ensuring that your private assets are the legal property of your spouse, against whom your creditors have no claim. (You must be solvent when the transfer is made, and that transfer must have been made at least two years prior to your business running into trouble.) However, to be effective such a transfer must be absolute and you can have no say in how your spouse chooses to dispose of his or her new-found wealth!

The capital to get the business going must come from you – or from loans. There is no access to equity capital, which has the attraction of being risk-free. In return for these drawbacks you can have the pleasure of being your own boss immediately, subject only to declaring your profits on your tax return. (In practice you would be wise to take professional advice before doing so.)

### *Partnerships*

Partnerships are effectively collections of sole traders, and as such, share the legal problems attached to personal liability. There are very few restrictions to setting up in business with another person (or persons) in partnership, and several definite advantages. By pooling resources you may have more capital; you should be bringing several sets of skills to the business; and if you are ill the business can still carry on.

There are two serious drawbacks that merit particular attention. First, if your partner makes a business mistake, perhaps by signing a disastrous contract, without your knowledge or consent, every member of the partnership must shoulder the consequences. Under these circumstances your personal assets could be taken to pay the creditors even though the mistake was no fault of your own.

Second, if your partner goes bankrupt in his or her personal capacity, for whatever reason, his or her share of the partnership can be seized by creditors. As a private individual you are not liable for your partner's private debts, but having to buy him or her out of the partnership at short notice could put you and the business in financial jeopardy. Even death may not release you from partnership obligations, and in some circumstances your estate can remain liable. Unless you take 'public' leave of your partnership by notifying your business contacts and legally bringing your partnership to an end, you could remain liable.

The legal regulations governing this field are set out in the Partnership Act 1890, which in essence assumes that competent businesspeople should know what they are doing. The Act merely provides a framework of agreement that



applies ‘in the absence of agreement to the contrary’. It follows from this that many partnerships are entered into without legal formalities – and sometimes without the parties themselves being aware that they have entered a partnership!

The main provisions of the Partnership Act state that:

- All partners contribute capital equally.
- All partners share profits and losses equally.
- No partner shall have interest paid on his/her capital.
- No partner shall be paid a salary.
- All partners have an equal say in the management of the business.

It is unlikely that all these provisions will suit you, so you would be well advised to get a ‘partnership agreement’ drawn up in writing by a solicitor at the outset of your venture.

One possibility that can reduce the more painful consequences of entering a partnership as a ‘sleeping partner’ is to have your involvement registered as a limited partnership. It means you (or your partner) can play no active part in running the business, but your risks are limited to the capital that you put in.

Unless you are a member of certain professions (e.g. law, accountancy) you are restricted to a maximum of 20 partners in any partnership.

### *Cooperative*

A cooperative is an enterprise owned and controlled by the people working in it. Once in danger of becoming extinct, the workers’ cooperative is enjoying a resurgence, with over 9,000 operating in the United Kingdom as of January 2024, employing 1.3 million people. They are growing at a rate of 2.8 per cent per annum.

Cooperatives are governed by the Industrial and Provident Societies Act 1965, whose main provisions state:

- Each member of the cooperative has equal control through the principle of ‘one person one vote’.
- Membership must be open to anyone who satisfies the stipulated qualifications.
- Profits can be retained in the business or distributed in proportion to members’ involvement, e.g. hours worked.
- Members must benefit primarily from their participation in the business.

- Interest on loan or share capital is limited in some specific way, even if the profits are high enough to allow a greater payment.

It is certainly not a legal structure designed to give entrepreneurs control of their own destiny and maximum profits. However, if this is to be your chosen legal form you can pay from £90 to register with the Chief Registrar of Friendly Societies, and must have at least seven members at the outset. They do not all have to be full-time workers at first. Like a limited company, a registered cooperative has limited liability (see under 'Limited liability companies') for its members and must file annual accounts, but there is no charge for this. Not all cooperatives bother to register, as it is not mandatory, in which case they are treated in law as a partnership with unlimited liability.

### *Limited liability companies*

In the United Kingdom, before the 1895 Companies Act it was necessary to have an Act of Parliament or a Royal Charter in order to set up a company. Now, out of the 5.5 million businesses trading in the UK, over 1.4 million are limited companies. As the name suggests, in this form of business your liability is limited to the amount you state that you will contribute by way of share capital (although you may not actually have to put that money in!).

A limited company has a legal identity of its own, separate from the people who own or run it. This means that, in the event of failure, creditors' claims are restricted to the assets of the company. The shareholders of the business are not liable as individuals for the business debts beyond the paid-up value of their shares. This applies even if the shareholders are working directors, unless of course the company has been trading fraudulently. (In practice, the ability to limit liability is severely restricted these days as most lenders, including the banks, often insist on personal guarantees from the directors.) Other advantages include the freedom to raise capital by selling shares.

Disadvantages include the cost involved in setting up the company and the legal requirement in some cases for the company's accounts to be audited by a chartered or certified accountant. As of 2024, UK businesses with assets approaching £5.1 million generally qualify for audit exemptions. However, if shareholders owning more than 10 per cent of the company request an audit in writing, the company must comply with the request. You can find out the latest information on auditing small firms either from your accountant or by searching for 'running a limited company' on the GOV.UK website.

A limited company can be formed by two shareholders, one of whom must be a director. A company secretary must also be appointed, who can be a shareholder, director or an outside person such as an accountant or lawyer.

The company can be bought ‘off the shelf’ from a registration agent, then adapted to suit your own purposes. This will involve changing the name, shareholders and articles of association, and will cost about £250 and take a couple of weeks to arrange. Alternatively, you can form your own company, using your solicitor or accountant. This will cost around £500 and take six to eight weeks.

The behaviour of companies and their directors is governed by the various Companies Acts that have come into effect since 1844, the latest of which came into effect in November 2006.

## Past achievements

If your business has already been trading for some time, your business plan should include a summary of past results and achievements. Annual reports, audited accounts, etc, if voluminous, can be included in an appendix, and referred to in this section of your business plan. Otherwise they can be shown in detail. You should emphasize what you have learnt so far that convinces you that your strategies are soundly based.

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### REAL-WORLD EXAMPLE

#### *Notonthehighstreet Enterprises Limited*

When Holly Tucker and Sophie Cornish decided that a business selling well-designed, high-quality products that cannot easily be found on the high street was a good business idea, choosing a name for their venture was the easy bit. Notonthehighstreet was distinct and captured the essence of their proposition. The aim was to bring together businesses that lacked the resources to have an effective presence on the high street and put them all under one roof, spreading the cost base accordingly. The ‘one roof’ as a physical concept was ditched in favour of the internet at the early planning stage.

Their first draft of the business plan called for a £40,000 investment, but within months of starting up that grew to £140,000. After scrabbling around family, loans and bank overdrafts to fund the first year’s growth they pitched to Spark Ventures, an early-stage venture capital company that includes Brent Hoberman, co-founder of Lastminute.com, in its portfolio.

Spark pumped in a sizeable six-figure sum, taking a minority stake in the business which allowed it to plan to more than double sales in its third year of operations (see Table 3.1).

TABLE 3.1 Sales history of Notonthehighstreet

Year	Sales (£000)
1	100
2	1,000
3	2,500 (forecast)

For a joining fee of £450 suppliers can promote their products on Notonthehighstreet’s website for five years. Notonthehighstreet also takes a 20 per cent slice of any sales generated. It offers a tailored audience and a professional web presence that small firms would find hard if not impossible to emulate without spending tens of thousands of pounds. The site has been voted a top 50 website by the *Independent* magazine.

It’s hardly surprising then that the business hit £6.4 million turnover in year two and in 2010 they reached £14 million. The business hired Jason Weston, formerly of Amazon, as COO and Mark Hodson from PayPal in 2011. The company’s latest accounts filed in March 2019 show turnover had reached £139 million.

WORKSHEET FOR ASSIGNMENT 3: YOU AND YOUR TEAM

- 1 How did you arrive at your new idea?
- 2 What is your business name and why have you chosen it?
- 3 What experience and skills do you have that are particularly relevant to this venture?
- 4 Who else will be working with you and what relevant experience and skills do they have?
- 5 What professional advisers (accountant, lawyer, patent agent, etc) have you used, or do you plan to use?
- 6 Under what legal form will you trade and why?
- 7 If your business is already trading, give a brief summary of financial and marketing results and achievements to date.

### Suggested further reading

- Adair, J (2007) *The Art of Creative Thinking: How to be innovative and develop great ideas*, Kogan Page, London
- Bridge, R (2009) *How I Made It: 40 successful entrepreneurs reveal how they made millions*, Kogan Page, London
- Pullan, P and Archer, J (2013) *Business Analysis and Leadership*, Kogan Page, London
- Watkins, A (2015) *4D Leadership: Competitive advantage through vertical leadership development*, Kogan Page, London
- Widdowson, L and Barbour, P J (2025) *Building Top-Performing Teams: A practical guide to team coaching for organizational success*, Kogan Page, London

## PHASE TWO

# Market research

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# Introduction

Assignments 4–6 are intended to help you to bring your customers, competitors and the marketplace more sharply into focus, and to identify areas you have yet to research. The research should be done before the business is started or a new strategy is pursued, so saving the time and cost incurred if expensive mistakes are made. Obviously, the amount of research undertaken has to be related to the sums at risk. If a venture calls for a start-up investment of £/\$/€1,000, spending £/\$/€5,000 on market research would be a bad investment. However, new and small businesses that do not want to join the catastrophically high first-year failure statistics would be prudent to carry out some elementary market research, whatever level their start-up capital is to be.

As a President of the Harvard Business School said: ‘If you think knowledge is expensive, try ignorance.’

The starting point in any market research has to be a definition of the scope of the market you are aiming for. A small general shop may only service the needs of a few dozen streets. A specialist restaurant may have to call on a much larger catchment area to be viable.

You may eventually decide to sell to different markets. For example, a retail business can serve a local area through the shop and a national area by mail order. A small manufacturing business could branch out into exporting.

People all too often flounder in their initial market research by describing their markets too broadly: for example, saying that they are in the motor industry when they really mean they sell second-hand cars in Perth; or saying they are in health foods, when they are selling wholemeal bread from a village shop. While it is important to be aware of trends in the wider market, this must not obscure the need to focus on the precise area that you have to serve.

The purpose of gathering the market research data is to help you decide on the right marketing strategy when it comes to such factors as setting your



price, deciding on service and quality levels and choosing where and how much to advertise. Assignments 4 and 5 pose the main questions you need to answer concerning your customers and competitors, and Assignment 6 covers the principal ways in which basic market research can be conducted, and where such data can be found.

# ASSIGNMENT 4

## Researching customers

Without customers no business can get off the ground, let alone survive. Some people believe that customers arrive after the firm ‘opens its doors’. This is nonsense. You need a clear idea in advance of who your customers will be, as they are a vital component of a successful business strategy, not simply the passive recipients of new products or services.

Knowing something about your customers and what you plan to sell to them seems so elementary it is hard to believe that any potential businessperson could start a business without doing so. But it is all too common, and one of the reasons many new businesses fail.

### Recognizing customer needs

The founder of a successful cosmetics firm, when asked what he did, replied, ‘In the factories we make perfume, in the shops we sell dreams.’

Those of us in business usually start out defining our business in physical terms. Customers on the other hand see businesses having as their primary value the ability to satisfy their needs. Even firms that adopt customer satisfaction, or even delight, as their maxim often find it a more complex goal than it at first appears. Take Ella’s Kitchen, the real-world example that follows, for example. Their end customer, babies, were carefully considered when designing their product, though they were not the actual purchasers. They were the parents concerned.

Until you have clearly defined the needs of your market(s) you cannot begin to assemble a product or service to satisfy them.

## REAL-WORLD EXAMPLE

### *Ella's Kitchen*

Paul Lindley, aged 50, had no experience in the baby food industry or in running a business. Formerly a UK director at Nickelodeon, he ambitiously decided to tackle the UK's big supermarket chains. Within a decade, he had built the UK's bestselling baby food company, with an annual global turnover exceeding £100 million, which he sold in May 2013 to US food company Hain Celestial for \$103.5 million (£66 million).

Lindley's idea for baby food in squeezable pouches was inspired by the difficulties he experienced in feeding his daughter, Ella, while travelling. Traditionally, baby food was sold in glass jars because parents wanted to see the food. However, this meant parents had to control the feeding process, which children often resisted. Lindley envisioned using pouches, like those in French supermarkets for mayonnaise and salad dressings, allowing kids to feed themselves and making feeding on the go easier.

Pouches offered several advantages over glass jars. They targeted babies and toddlers with brightly coloured, cartoon-covered packaging named after his daughter. Pouches also allowed for pasteurization instead of high-temperature sterilization, preserving colour, taste, texture and vitamins, making the food healthier.

Despite growth in the US, Lindley faced competition from rivals with deeper pockets, some willing to make losses to gain market share. He had three options: exit the US, make losses or find a partnership to mitigate risk. He chose the latter. Under the deal with Hain Celestial, Lindley remained in charge of Ella's Kitchen and split his time between the UK and the US.

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Fortunately help is at hand when it comes to getting an inside track on your customers' thought process. The US psychologist Abraham Maslow demonstrated in his research that 'all customers are goal seekers who gratify their needs by purchase and consumption'. He then went a bit further and classified consumer needs into a five-stage pyramid he called the hierarchy of needs:

- *Self-actualization*. This is the summit of Maslow's hierarchy in which people are looking for truth, wisdom, justice and purpose. It's a need that is never fully satisfied, and according to Maslow only a very small percentage of people ever reach the point where they are prepared to pay

much money to satisfy such needs. It is left to the like of Bill Gates and Sir Tom Hunter to give away billions to form foundations to dispose of their wealth on worthy causes. The rest of us scrabble around further down the hierarchy.

- *Esteem.* Here people are concerned with such matters as self-respect, achievement, attention, recognition and reputation. The benefits customers are looking for include the feeling that others will think better of them if they have a particular product. Much of brand marketing is aimed at making consumers believe that conspicuously wearing the maker's label or logo so that others can see it will earn them 'respect'. Understanding how this part of Maslow's hierarchy works was vital to the founders of Responsible Travel. Founded in 2001 with backing from Anita Roddick (Body Shop) in his front room in Brighton, and with his partner Harold Goodwin, Justin Francis set out to create the world's first company to offer environmentally responsible travel and holidays. It was one of the first companies to offer carbon offset schemes for travellers, and Responsibletravel.com boast that they turn away more tour companies trying to list on their site than they accept. They appeal to consumers who want to be recognized in their communities as being socially responsible. In 2010 they launched their US business, Responsible Vacation, and now have over 350 specialist tour operators on their books.
- *Social needs.* The need for friends, belonging to associations, clubs or other groups and the need to give and get love are all social needs. After 'lower' needs have been met, these needs that relate to interacting with other people come to the fore. Hotel Chocolat, founded by Angus Thirlwell and Peter Harris in their kitchen, is a good example of a business based on meeting social needs. They market home-delivered luxury chocolates but generate sales by having 'tasting clubs' to check out products each month. The concept of the club is that you invite friends round and using the firm's scoring system, rate and give feedback on the chocolates.
- *Safety.* The second most basic need of consumers is to feel safe and secure. People who feel they are in harm's way either through their general environment or because of the product or service on offer will not be over interested in having their higher needs met. When Charles Rigby set up World Challenge to market challenging expeditions to exotic locations

around the world with the aim of taking young people up to around 19 years old out of their comfort zones and teaching them how to overcome adversity, he knew he had a challenge of his own on his hands: how to make an activity simultaneously exciting and apparently dangerous to teenagers, while being safe enough for the parents writing the cheques to feel comfortable. Six full sections on the website are devoted to explaining the safety measures the company takes to ensure that unacceptable risks are eliminated as far as is humanly possible.

- *Physiological needs.* Air, water, sleep and food are all absolutely essential to sustain life. Until these basic needs are satisfied higher needs such as self-esteem will not be considered.

You can read more about Maslow's needs hierarchy and how to take it into account in understanding customers on the NetMBA website.

### *Segmenting the market*

That customers have different needs means that we need to organize our marketing effort so as to address those individually. However, trying to satisfy everyone may mean that we end up satisfying no one fully. The marketing process that helps us deal with this seemingly impossible task is market segmentation. This is the name given to the process whereby customers and potential customers are organized into clusters or groups of 'similar' types. For example, a carpet/upholstery cleaning business has private individuals and business clients running restaurants and guest houses as its clients. These two segments are fundamentally different, with one segment being more focused on cost and the other more concerned that the work is carried out with the least disruption to the business. Also, each of these customer groups is motivated to buy for different reasons, and the selling message has to be modified accordingly.

These are some of the ways by which markets can be segmented:

- *Psychographic segmentation* divides individual consumers into social groups such as 'Yuppies' (young, upwardly mobile professionals), 'Bumps' (borrowed-to-the-hilt, upwardly mobile, professional show-offs) and 'Jollies' (jet-setting oldies with lots of loot). These categories try to show how social behaviour influences buyer behaviour. Forrester Research, an internet research house, claims when it comes to determining whether

consumers will or will not go on the internet, how much they will spend and what they will buy, demographic factors such as age, race and gender don't matter anywhere near as much as the consumers' *attitudes towards technology*. Forrester (nd) uses this concept, together with its research, to produce Technographics® market segments as an aid to understanding consumers' behaviour as digital consumers.

Forrester has used two categories: technology optimists and technology pessimists, and has used these alongside income and what it calls 'primary motivation' – career, family and entertainment – to divide up the whole market. Each segment is given a new name – 'Techno-strivers', 'Digital Hopefuls' and so forth – followed by a chapter explaining how to identify them, how to tell whether they are likely to be right for your product or service and providing some pointers as to what marketing strategies might get favourable responses from each group.

- *Benefit segmentation* recognizes that different people can get different satisfaction from the same product or service. Lastminute.com claims two quite distinctive benefits for its users. First, it aims to offer people bargains that appeal because of price and value. Second, the company has recently been laying more emphasis on the benefit of immediacy. This idea is rather akin to the impulse-buy products placed at checkout tills, which you never thought of buying until you bumped into them on your way out. Whether 10 days on a beach in Goa or a trip to Istanbul are the types of things people 'pop in their baskets' before turning off their computers, time will tell.
- *Geographic segmentation* arises when different locations have different needs. For example, an inner-city location may be a heavy user of motorcycle dispatch services, but a light user of gardening products. However, locations can 'consume' both products if they are properly presented. An inner-city store might sell potatoes in 1kg bags, recognizing that its customers are likely to be on foot. An out-of-town shopping centre may sell the same product in 20kg sacks, knowing its customers will have cars.
- *Industrial segmentation* groups together commercial customers according to a combination of their geographic location, principal business activity, relative size, frequency of product use, buying policies and a range of other factors.

- *Multivariant segmentation* is where more than one variable is used. This can give a more precise picture of a market than using just one factor.

These are some useful rules to help decide whether a market segment is worth trying to sell into:

- *Measurability*. Can you estimate how many customers are in the segment? Are there enough to make it worth offering something ‘different’?
- *Accessibility*. Can you communicate with these customers, preferably in a way that reaches them on an individual basis? For example, you could reach the over-50s by advertising in a specialist ‘older people’s’ magazine with reasonable confidence that young people will not read it. So if you were trying to promote Scrabble with tiles 50 per cent larger, you might prefer that young people did not hear about it. If they did, it might give the product an old-fashioned image.
- *Open to profitable development*. The customers must have money to spend on the benefits that you propose to offer.
- *Size*. A segment has to be large enough to be worth your exploiting it, but perhaps not so large as to attract larger competitors.

Segmentation is an important marketing process, as it helps to bring customers more sharply into focus, and it classifies them into manageable groups. It has wide-ranging implications for other marketing decisions. For example, the same product can be priced differently according to the intensity of customers’ needs. The first- and second-class post is one example, off-peak rail travel another. It is also a continuous process that needs to be carried out periodically, for example when strategies are being reviewed.

### *Business to Business (B2B) buyer criteria*

There is a popular theory that business buyers are hard-nosed, cold-hearted Scrooges, making entirely rational choices with the sole goal of doing the best they can for their shareholders. If this were really the case an awful lot of promotional gift suppliers would be out of business. Pharmaceutical companies could fire their sales forces, slashing costs by billions. All doctors and pharmacists would have to do is read up the research proof on drugs

and prescribe accordingly. That probably wouldn't take any more time than listening to a rep make their pitch.

At the end of the day, people buy from people and that's where Maslow's needs swing back into play. 'No one ever got fired buying IBM' was a much-quoted phrase in buying departments in the days when IBM's main business was selling computers. This simply meant that the buyer could feel secure in making that decision, as IBM's reputation was high. Buying anywhere else, even if the specification was better and the price lower, was personally risky. IBM's sales force could use the buyer's need to feel safe to great advantage in their presentations.

When understanding the needs of business buyers it is important to keep in mind that there are at least three major categories of people who have a role to play in the B2B buying decision and so whose needs have to be considered in any analysis of a business market.

#### THE USER, OR END CUSTOMER

This is the recipient of any final benefits associated with the product or service, much as with an individual consumer. Functionality will be vital for this group.

#### THE SPECIFIER

Though specifiers may not use or even see their purchases, they will want to be sure the end users' needs are met in terms of performance, delivery and any other important parameters. Their 'customer' is both the end user and the budget holder of the cost centre concerned. There may even be conflict between the two (or more) 'customer' groups. For example, in the case of, say, hotel toiletries, those responsible for marketing the rooms will want high-quality products to enhance their offer – while the hotel manager will have cost close to the top of their concerns, and the people responsible for actually putting the product in place will be interested mostly in any handling and packaging issues.

#### THE NON-CONSUMING BUYER

This is the person who actually places the order. They will be basing their decision on a specification drawn up by someone else, but they will also have individual needs. Some of their needs are similar to those of a specifier, except they will have price at – or near – the top of their needs.



## REAL-WORLD EXAMPLE

### *Flowcrete*

In just 18 years, Dawn Gibbins MBE, co-founder of Flowcrete, took the company from a 400 sq ft unit (the size of a double garage) with £2,000 capital to a plc with a turnover of €52 million in the field of floor screeding technology, and clients including household names such as Cadbury, Sainsbury's, Unilever, Marks & Spencer, Barclays and Ford. Part of Flowcrete's success was down to a continuing focus on technical superiority. This attribute was engendered by Dawn's father, a well-respected industrial chemist with an interest in resin technology.

But arguably Dawn's skills contributed as much if not more to the firm's success. 'We want to be champions of change,' Gibbons claims. 'We have restructured a dozen times, focusing on new trends.' Markets and market segmentation are a vital part of any restructuring process – indeed, the best companies restructure around their customers' changing needs.

The first reappraisal came after seven years in business when Flowcrete realized that its market was no longer those firms that laid floors; it now had to become an installer itself. Changes in the market meant that to maintain growth Flowcrete had to appoint proven specialist contractors, train their staff, write specifications and carry out audits to ensure quality. The business now has a global presence.

The largest, most visited shopping centre in the world, the Dubai Mall, used over 540,000 m<sup>2</sup> of Flowcrete's Deckshield carpark decking to refurbish its huge parking facility.

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## Defining the product in the customers' terms

Once you know what you are selling and to whom, you can match the features of the product (or service) to the benefits customers will get when they purchase. *Features* are what a product has or is, and *benefits* are what the product does for the customer. For example, cameras, SLR or lens shutters, even film, are not the end product that customers want; they are looking for good pictures. Finally, as in Table 4.1, include 'proof' that these benefits can be delivered.

Remember, the customer pays for the benefits and the seller for the features. So the benefits will provide the 'copy' for most of your future advertising and promotional efforts.

TABLE 4.1 Example showing product features, benefits and proof

Features	Benefits	Proof
We use a unique hardening process for our machine	Our tools last longer and that saves you money	<div><div>– We have a patent on the process</div><div>– Independent tests carried out by the Cambridge Institute of Technology show our product lasts longest</div></div>
Our shops stay open later than others in the area	You get more choice when to shop	<div><div>– See customer reviews</div></div>
Our computer system is fault tolerant using parallel processing	You have no downtime for either defects or system expansion	<div><div>– Our written specification guarantees this</div><div>– Come and talk to satisfied customers operating in your field</div></div>

Who will buy first?

Customers do not sit and wait for a new business to open its doors. Word spreads slowly as the message is diffused throughout the various customer groups. Even then it is noticeable that generally it is the more adventurous types who first buy from a new business. Only after these people have given their seal of approval do the ‘followers’ come along. Research shows that this adoption process, as it is known, moves through five distinct customer characteristics, from ‘innovators’ to ‘laggards’, with the overall population being different for each group (see Table 4.2).

Let’s suppose you have identified the market for your internet gift service. Initially your market has been constrained to affluent professionals within five miles of your home to keep delivery costs low. So if market research shows that there are 100,000 people that meet the profile of your ideal customer and they have regular access to the internet, the market open for exploitation at the outset may be as low as 2,500, which is the 2.5 per cent of innovators.

TABLE 4.2 The product/service adoption cycle

Innovators	2.5% of the overall market
Early adopters	13.5% of the overall market
Early majority	34.0% of the overall market
Late majority	34.0% of the overall market
Laggards	16.0% of the overall market
Total market	100%

This adoption process, from the 2.5 per cent of innovators who make up a new business’s first customers, through to the laggards who won’t buy from anyone until they have been in business for 20 years, is most noticeable with truly innovative and relatively costly goods and services, but the general trend is true for all businesses. Until you have sold to the innovators, significant sales cannot be achieved, so an important first task is to identify these customers. The moral is: the more you know about your potential customers at the outset, the better your chances of success.

One further issue to keep in mind when shaping your marketing strategy is that innovators, early adopters and all the other sub-segments don’t necessarily use the same media, websites, magazines and newspapers, or respond to the same images and messages. So they need to be marketed to in very different ways.

At the minimum, your business plan should include information on:

- Who your principal customers are or, if you are launching into new areas, who they are likely to be. Determine in as much detail as you think appropriate the income, age, sex, education, interests, occupation and marital status of your potential customers, and name names if at all possible.
- What factors are important in the customer’s decision to buy or not to buy your product and/or service, how much they should buy and how frequently?
- Many factors probably have an influence, and it is often not easy to identify all of them. These are some of the common ones that you should consider investigating:
  - (a) Product considerations
    - (i) price
    - (ii) quality

- (iii) appearance (colour, texture, shape, materials, etc)
    - (iv) packaging
    - (v) size
    - (vi) fragility, ease of handling, transportability
    - (vii) servicing, warranty, durability
    - (viii) operating characteristics (efficiency, economy, adaptability, etc)
  - (b) Business considerations
    - (i) location and facilities
    - (ii) reputation
    - (iii) method(s) of selling
    - (iv) opening hours, delivery times, etc
    - (v) credit terms
    - (vi) advertising and promotion
    - (vii) variety of goods and/or services on offer
    - (viii) appearance and/or attitude of company's property and/or employees
    - (ix) capability of employees
  - (c) Other considerations
    - (i) weather, seasonality, cyclicalities
    - (ii) changes in the economy – recession, depression, boom
- Since many of these factors relate to the attitudes and opinions of the potential customers, it is likely that answers to these questions will only be found through interviews with customers. It is also important to note that many factors that affect buying are not easily researched and are even less easy to act upon. For example, the amount of light in a shop or the position of a product on the shelves can influence buying decisions.  
 You could perhaps best use the above list to rate what potential customers see as your strengths and weaknesses. Then see if you can use that information to make your offering more appealing to them.
  - As well as knowing something of the characteristics of the likely buyers of your product or service, you also need to know how many of them there are, and whether their ranks are swelling or contracting. Overall market size, history and forecasts are important market research data that you need to assemble – particularly data that refer to your chosen market segments, rather than just to the market as a whole.

## REAL-WORLD EXAMPLE

### *Victoria's Secret's success: a masterclass in customer insight*

As of 2024, operating out of 1,350 stores worldwide, Victoria's Secret remains a recognized brand among close on 90 per cent of US fashion shoppers. Gen Z and Gen X shoppers especially favour it. The business was founded by Roy Raymond, an alumnus of Tufts University, Massachusetts, who took his MBA at Stanford Graduate School of Business. He opened his first Victoria's Secret store in 1977 at the Stanford Shopping Center with an \$80,000 loan, half provided by a bank and the remainder borrowed from relatives. It was an immediate success, exceeding \$500,000 sales in its first trading year. The first UK store opened in August 2012 in London's New Bond Street.

So, what is the secret of Victoria's success? The business was born, so the story goes, out of Raymond's embarrassment at trying to buy lingerie for his wife in the less-than-comfortable environment of a public shopping floor in a department store. Without men, Raymond reckoned, the lingerie business was missing out on half its potential customer base. Men were in fact a major untapped market segment. He reckoned they would be more comfortable if the decor of the stores were along the lines of a Victorian drawing room, complete with Oriental rugs and antique armoires housing lingerie displays.

Victoria's Secret was founded on a simple demographic market segmentation criterion: the sex of the buyer, not the user. The company today still segments its market demographically, but in much greater detail. They know the age, gender, income and social class of their target market in every area in which they operate and deliver specific messages, refining their strategy along the way. They pioneered a sophisticated algorithm called Recency, Frequency and Monetary Value (RFM), based on the theory that recent shoppers were more responsive to catalogue mailings, as were more frequent shoppers and those with higher recent order sizes. The RFM algorithm used each customer's transaction history to determine which customers should receive the largest number of mailings based on their calculated propensity to buy as evidenced by their scores across each of those variables.

In 1982 Raymond sold the Victoria's Secret company together with its six stores and 42-page catalogue, grossing \$6 million per year, to Leslie Wexner, founder of The Limited, for \$4 million. In 2021, Limited brands separated and Victoria's Secret & Co once again became an independent, public company.

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**WORKSHEET FOR ASSIGNMENT 4: RESEARCHING CUSTOMERS**

- 1** What is the geographic scope of the market you intend to serve and why have you so chosen?
- 2** What customer needs will your product or service satisfy?
- 3** List and describe the main different types of customer for your product/service.
- 4** Which of these market segments will you concentrate on and why?
- 5** Match the features of your product/service to the benefits on offer to customers in each of your chosen market segments. Provide proof, where possible.
- 6** Who are the innovators in each of your market segments?
- 7** What factors are important in the customer's decision to buy or not to buy your product/service?
- 8** Is the market you are aiming at currently rising or falling? What is the trend over the past few years?
- 9** What share of this market are you aiming for initially?

**Suggested further reading**

Barrow, C (2023) *The 30 Day MBA in Marketing*, Kogan Page, London

Hague, P N (2021) *Market Research in Practice: An introduction to gaining greater market insight*, 4th edn, Kogan Page, London

**Reference**

Forrester (nd) Consumer Technographics, [go.forrester.com/analytics/consumer-data/](https://go.forrester.com/analytics/consumer-data/)  
(archived at <https://perma.cc/T5PP-GD4Q>)

# ASSIGNMENT 5

## Researching competitors

Researching the competition is often a time-consuming and frustrating job, but there are important lessons to be learnt from it. Some of the information that would be of most value to you will not be available. Particularly hard to find is information relating to the size and profitability of your competitors. Businesses, and particularly smaller businesses, are very secretive about their finances. Because of this, you may have to make estimates of the size and profitability of various firms.

### Research on competitors

When you begin your research, it is crucial that you make an accurate determination of your competitors. Remember, just because someone sells a similar product or service, that does not necessarily make him or her a competitor. Perhaps he or she makes the same product but sells it in an entirely different market. (By different market, we mean that it could be sold in a different geographical market, or to a different demographic market, etc.) Conversely, just because someone sells a product or service that is different from yours does not mean that he or she is *not* a competitor. Completely dissimilar products are often substitutable for each other.

Once you have identified your competitors, you need to classify them further as to 'primary', 'secondary', 'potential', etc. There are two reasons for doing this. First, you need to limit the number of firms that you will do your research on to a workable number. If you try to research 25 firms in depth, you won't have time to do anything else. If you end up with more than 10 or 12 primary competitors, you should probably do your research on only a sample. Second, you may want to classify competitors into primary and secondary because your marketing strategy may be different for each group.

As mentioned previously, finding out the size and profitability of your competitors may be difficult. You may be able to get some valuable information from the annual accounts that each company has to file at Companies House. However, you should be aware that these are often not filed when required, or they may be incomplete, or contain information of no value.

Further sources of information are business directories, such as Keynote, Yell.com, 192.com, Google My Business, Bing Places for Business, Freedirectory.co.uk, Hotfrog UK, Thomson Local Directory, UK Small Business Directory (UK SBD), and Intently.co, which provide profiles and customer reviews of businesses you may be competing with.

Another way to find out size and profitability totals is to read the publications that cover the business scene. The financial section of your newspaper and trade magazine often contains stories that can be used for research.

If you have been unable to get the necessary information from published sources, try doing some primary research. Contact the company directly and ask them your questions. Usually you will not get the information that you want, but occasionally this approach does work. Next, contact the firm's suppliers, or other individuals who are in a position to know or estimate the information. Sometimes you can get a ballpark figure, if not an exact one, from a wholesaler or other supplier.

Finally, you may be able to make a reasonable estimate from the bits and pieces of information that you were able to collect. This is commonly done with the use of operating ratios. To illustrate, let us assume that you are researching a large restaurant. You are unable to find out its annual sales volume but after striking up a conversation with one of the employees you find out that the restaurant employs 40 full-time people. Because of your knowledge of the restaurant industry, you feel confident in estimating the restaurant's payroll at £/\$/€240,000 a year. From a book that lists operating ratios for the restaurant industry (published by the trade association) you find that payroll expenses, as a percentage of sales, average 40 per cent. With these facts you are able to estimate the annual sales volume of the restaurant at around €600,000.

Several points should be noted here. First, operating ratios are published by a variety of trade associations and businesses. For most types of business they are not that difficult to obtain. Second, this approach is not limited to employment ratios. You can make estimates based upon inventory levels, rent or other expenses. Third, learning to use this technique is not difficult. Once you understand the use and logic of ratio analysis, you should be able to make estimates like the above. These estimates are derived by doing the



ratio analysis in reverse. Instead of taking figures and working out the ratio, you start with the ratio and work out the figures. Fourth, the use of estimates resulting from this technique should be only a last resort, or used in conjunction with estimates derived in some other way. The reason for this is not that the ratio you found in the books may be ‘average’ but that the particular business may, for a variety of reasons, be far from average. (See Assignment 23, ‘Financial controls’, for a description of the key operating and financial ratios.)

## Analysing the competition

The following are some of the areas that you should cover in this section of your business plan.

### *Description of competitors*

Identify those businesses that are or will be competing with you. If the number is few, list them by name. If there are many, then describe the group without naming them individually (‘47 charter fishing boat operators’). List any expected or potential competitors.

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### REAL-WORLD EXAMPLE

#### *Catalant*

Rob Biederman, Peter Maglathlin and Patrick Petitti co-founded Hourly Nerd (rebranded as Catalant in 2016) in 2013 while completing their MBA programme at Harvard Business School. They took the ‘Entrepreneurial Manager’ course, which equips students with skills to create and evaluate business plans and develop strategies for new ventures. Some \$750,000 of seed capital went in at the outset, followed by a further \$41 million in 2017 and \$35 million in 2020. The latest round in 2021, led by Goldfinch Partners with participation by Salesforce Ventures, which specialise in supporting enterprise cloud companies, took their funding past the \$100 million mark.

Catalant was designed to disrupt traditional consulting models. The founders identified two key issues in the consulting industry: the invisible nature of the product and the fact that most work was done by junior consultants, not the senior consultants who sold the services. Additionally, the high fees of top consultancy firms like Bain, McKinsey and BCG limited their clientele to large organizations with

substantial budgets. Over the period of the pandemic, the founders pioneered what they call 'Consulting 2.0', providing flexible and right-sized consulting solutions, online.

Catalant can take on projects that are not viable for traditional firms due to their fee structures and project sizes. They address these issues by matching MBA students from top business schools with businesses in need of consulting services. This model ensures quality through the rigorous admissions standards of the universities and offers services at a fraction of the cost. Catalant has rapidly scaled its platform, boasting 100,000 consultants, including many former employees of major consulting firms. Over its history, Catalant has completed more than 16,000 projects, working with over 30 per cent of the Fortune 500 and numerous private equity firms and their portfolio companies. Their smaller project ticket sizes enable them to serve clients and challenges that traditional firms might not. One example they cite is where in 2021 they stripped \$ 1million out of costs for just \$9,185 – an ROI of 21,675 per cent (<https://catalant.com/case-study/perch/>).

Catalant's innovative approach and strategic funding have positioned it as a formidable player in the consulting industry, offering scalable and flexible solutions to a broader range of clients.

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### *Size of competitors*

Determine the assets and sales volume of the major competitors. Will you be competing against firms whose size is similar to yours or will you be competing against giant corporations? If assets and sales volume cannot be determined, try to find other indications of size, such as number of employees, number of branches, etc.

### *Profitability of competitors*

Try to determine how profitable the business is for those companies already in the field. Which firms are making money? Losing money? How much?

### *Operating methods*

For each of the major competitors, try to determine the relevant operating methods. For example, what pricing strategy does each firm use? Other issues, besides price, that you may consider are:

- quality of product and/or service;
- hours of operation;

- ability of personnel;
- servicing, warranties and packaging;
- methods of selling, distribution channels;
- credit terms, volume discounts;
- location, advertising and promotion;
- reputation of company and/or principals;
- inventory levels.

Many of the above items will not be relevant to all businesses. Location will not be relevant, perhaps, to a telephone-answering service. On the other hand, there are many items that are not listed above that may be very relevant to your business. In the motor trade, trade-in value and styling may be as relevant as the price. So it is very important for you to determine the relevant characteristics on which you will do your research.

### *Summary of analysis of competitors*

After you have completed your research it is useful to summarize your findings in tabular form, such as shown in Table 5.1. Keep in mind that the characteristics listed are for illustration only. You must decide the relevant characteristics that will go into your own table.

When the table is complete, analyse the information contained in it to reach your conclusions. Is there a correlation between the methods of operation and other characteristics, and the size and/or profitability of the competitors? A thoughtful analysis is essential because there may be many patterns shown. For instance, you may find that all the profitable companies are large, and all the unprofitable companies are small. That would be an easy pattern to spot (and an important one, as well) because it involves only two factors, profitability and size. However, it is more common that success and failure correlate with a number of factors that are not always so easy to discern, even when your findings are summarized on one page.

Looking for patterns is not the only type of analysis that is needed. You may find that a company is very successful, even though its characteristics are completely different from those of the other profitable firms. What factors apparently contribute to its success? Or you may find that a company is failing despite the fact that its operational characteristics are similar to those of the profitable firms. Can you identify the reason?

Once you have reached conclusions about the competition, relate them to your business. What is the competitive situation in the market? Is everyone

making money and expanding, or is it a dog-eat-dog situation? Are your competitors likely to be much larger than you? If so, what effect will this have? Are there some operating methods that appear critical to success in this market? If so, will you be able to operate in the necessary fashion? Are there operating methods or characteristics not being widely used in the market which you think have merit? If so, why are they not found at present? Is it because they have been overlooked, or because they have problems that you have not foreseen?

The above are some of the questions you will want to address. You will probably have many others. The important thing, though, is for you to decide the general outlook for your business. At this point in your research, does it appear that you will be able to compete successfully in this market? Do you now feel that you know what it will take in order to compete successfully? If you can answer these two questions to your satisfaction, you have probably done an adequate job of research, like the Brighton Furniture Co Ltd researcher looking into bulk furniture sales, whose results are shown in the example below.

#### EXAMPLE

##### Brighton Furniture

###### *Market overview*

Brighton has over 100 furniture dealers, but six firms dominate new flats and town house developments, selling 80–99 per cent of furniture packages.

- *Firm performance.* High price, high quality: Rattan Imports excels here with high profits (25 per cent) and a focus on rattan furniture.
- *Moderate price, high quality.* Georgian Furniture stands alone, serving mid-priced developments with moderate success.
- *Low price, varying quality.* Four firms, including AAA Furniture and Apartment Furniture, compete in this segment. Profits are lower, especially for manufacturers.
- *Product insights:*
  - Rattan Imports serves expensive developments.
  - Georgian Furniture targets mid-range developments.
  - Lower-priced firms offer casual or bamboo furniture, with Bamboo Things having the best trade-in value.
- *Company characteristics:*
  - Only Georgian Furniture operates solely as a retailer.

- There is no clear correlation between business longevity and performance.
- Higher-price firms have smaller sales but higher profit margins.
- Manufacturers have the lowest profit margins.

Competitive analysis

- *High price, high quality.* Profitable and less competitive, Rattan Imports has potential for growth with more aggressive marketing.
- *Moderate price, high quality.* One competitor, Georgian Furniture, shows potential despite inefficiencies.
- *Low price.* Highly competitive with low-profit margins due to self-manufacturing by AAA and Apartment Furniture.

Conclusion

Brighton Furniture Co Ltd should target the high-price, high-quality segment due to its profitability and less aggressive competition from Rattan Imports. Competing in the lower-price segment is not advisable without unique products or an established reputation.

TABLE 5.1 Summary of key firms

Name	Sales (£000)	Profit (£000)	Year started	Credit terms	Sales method	Make or buy in
Condo Supplies	750	125	2000	50% deposit	Web	Buy in
Georgian Furniture	300	60	2004	50% deposit	Retail	Buy in
AAA Furniture	1,250	75	2015	COD	Web/Retail	Manufacture
Rattan Imports	500	125	2000	COD	Web/Retail	Buy in
Bamboo Things	600	150	2020	50% deposit	Web/Retail	Buy in
Apartment Furniture	400	10	1999	COD	Web/Retail	Manufacture

The purpose of your competitive analysis is twofold:

- to determine where your competitor is weak and how he or she might retaliate to your activity;
- to help you define what should be your product's point of difference, based on your understanding of the key factors for success in your industry sector.

## Deciding on advantage

The outcome of your research into customers and competitors is a clear idea of the market niche you are going to sell into first, and what will be different or better about your product or service. For a business planning to offer a local gardening service, the outcome of its research should allow it to make the following kind of analysis.

We have two local competitors:

- Thompson's with six employees has been around for 10 years and has a small number of larger domestic clients but mostly does work for schools and business premises. It charges £20 an hour, for a minimum of 4 hours a week, and doesn't take away garden refuse from homes. It covers the whole county.
- Brown is a one-man band that has been operating for three years but he offers a limited service – he doesn't do hedge trimming, tree pruning or take away garden refuse, and charges out at £12 an hour, with no minimum. He claims to cover a radius of 20 miles, but doesn't seem to want to go more than 5 miles.

My initial strategy will be to concentrate on larger domestic clients within 5 miles who need hedges trimmed and trees pruned and would appreciate having their garden refuse removed for them. I will set out to make these clients feel important in a way that Thompson's does not, as they appear to only take on domestic customers as a 'favour'. I will charge out at £15 an hour with a minimum of 2 hours a week per client, and will target a limited number of quality areas with high-value houses. My goal will be to get at least two clients in an area, and stick to areas that are easily accessible from my home.

The easiest way to find out what your competitors are doing right or wrong is to try them out. Even if you don't actually buy or even need what they sell, there is nothing in the rules that says you can't enquire. Suppose for example you intend to set up a bookkeeping service. First search out

local small businesses, using if necessary one of the sources described above. Then ‘enquire’ about their services with a list of questions, some of which you may find answers to in their leaflet or on their website.

#### WORKSHEET FOR ASSIGNMENT 5: RESEARCHING COMPETITORS

- 1 List and briefly describe the businesses with which you will be competing directly.
- 2 Analyse their size, profitability and operating methods, as far as you can.
- 3 What are their relative strengths and weaknesses compared both with each other and with your business?
- 4 What, in the light of this competitive analysis, do you believe to be the critical factors for success in your business sector?
- 5 What is unique about your proposition that makes it stand out from the competition?

#### Suggested further reading

Brace, I and Bolton, K (2022) *Questionnaire Design: How to plan, structure and write survey material for effective market research*, 5th edn, Kogan Page, London

Hague, P (2021) *Market Research in Practice: An introduction to gaining greater market insight*, 4th edn, Kogan Page, London

Morley, M (2014) *Understanding Markets and Strategy*, Kogan Page, London

# ASSIGNMENT 6

## A plan for market research

It is unlikely that you will already have the answers to all the important questions concerning your marketplace. The purpose of the market research element of the workbook is to ensure you have sufficient information on customers, competitors and markets so that your market entry or expansion strategy is at least on the target, if not the bullseye itself. In other words, enough people want to buy what you want to sell at a price that will give you a viable business. If you miss the target completely, you may not have the resources for a second shot.

One of the sad aspects of new business starts is that often the one-in-three failure rate for businesses in the first three years of life involves someone investing a lump-sum payment received from a previous redundancy, through taking early retirement or from an inheritance. It is one of the paradoxes of small businesses that whereas you cannot start without investing some time and money, it may be safer to have more time than money. Those with their own money frequently have less pressure from banks or financial investors to research their ideas thoroughly first, simply because they do not have to go to see the bank manager in the early stages to obtain support before starting. Those with time but inadequate resources always have to seek advice before starting, and inevitably this will include researching the market as widely as possible before commencing. You do not have to open a shop to prove there are no customers for your goods or services; frequently some modest DIY market research beforehand can give clear guidance as to whether your venture will succeed or not.

The purpose of practical DIY market research for entrepreneurs investigating or seeking to start a new business is, therefore, twofold:

- To build *credibility* for the business idea; the entrepreneur must demonstrate first to his or her own satisfaction, and later to outside financiers, a thorough



understanding of the marketplace for the new product or service. This will be vital if resources are to be attracted to build the new venture.

- To develop a *realistic* market entry strategy for the new business, based on a clear understanding of genuine customer needs and ensuring that product quality, price, promotional methods and the distribution chain are mutually supportive and clearly focused on target customers.

Otherwise, ‘fools rush in, where angels fear to tread’; or, as they say in the army, ‘time spent in reconnaissance is rarely time wasted’. The same is certainly true in starting a business, where you will need to research in particular:

- *Your customers*: who will buy your goods and services? What particular customer needs will your business meet? How many of them are there?
- *Your competitors*: which established companies are already meeting the needs of your potential customers? What are their strengths and weaknesses?
- *Your product or service*: how should it be tailored to meet customer needs?
- *What price* should you charge to be perceived as giving value for money?
- *What promotional material* is needed to reach customers; which newspapers, journals do they read and which websites and blogs are they likely to visit?
- *Where should you locate* to reach your customers most easily, at minimum cost?

Research, above all else, is not just essential in starting a business, but once it is launched, must become an integral part in the ongoing life of the company. Customers and competitors change; products have life cycles. Once started, however, ongoing market research becomes easier, as you will have existing customers (and staff) to question. It is important that you monitor regularly their views on your business (as the sign in a barber shop stated: ‘We need your head to run our business’) and develop simple techniques for this purpose (e.g. touch screens, questionnaires for customers beside the till, suggestion boxes with rewards for employees).

### The seven steps to effective market research

Researching the market need not be a complex process, nor need it be very expensive. The amount of effort and expenditure needs to be related in some way to the costs and risks associated with the business. If all that is involved

with your business is simply getting a handful of customers for products and services that cost little to put together, then you may spend less effort on market research than you would for, say, launching a completely new product or service into an unproven market that requires a large sum of money to be spent up front.

However much or little market research you plan to carry out, the process needs to be conducted systematically. These are the seven stages you need to go through to make sure you have properly sized up your business sector.

### *Step 1: Formulate the problem*

Before embarking on your market research you should first set clear and precise objectives, rather than just setting out to find interesting general information about the market. The starting point for a business idea may be to sell clothes, but that is too large and diverse a market to get a handle on. So, that market needs to be divided into, say, clothes for men, women and children, then further divided into clothes for working, leisure, sport and social occasions. This process is known as segmenting the market.

So, for example, if you are planning to open a shop selling to young fashion-conscious women, among others, your research objective could be: to find out how many women aged 18 to 28, with an income of over £30,000 a year, live or work within two miles of your chosen shop position. That would give you some idea whether the market could support a venture such as this.

### *Step 2: Determine the information needs*

Knowing the size of the market, in the example given above, may require several different pieces of information. For example, you would need to know the size of the resident population, which might be fairly easy to find out, but you might also want to know something about people who come into the catchment area to work, for leisure purposes, on holiday or for any other major purpose. There might, for example, be a hospital, library, railway station or school nearby that also pulls potential customers to that particular area.

### *Step 3: Where you can get the information*

This will involve either desk research in libraries or on the internet, or field research, which you can do yourself or get help in doing. Some of the most important of these areas were covered earlier in this chapter.

Field research – that is, getting out and asking questions yourself – is the most fruitful way of gathering information for a home-based business.

#### *Step 4: Decide the budget*

Market research will not be free even if you do it yourself. At the very least there will be your time. There may well be the cost of journals, phone calls, letters and field visits to plan for. At the top of the scale could be the costs of employing a professional market research firm.

Starting at this end of the scale, a business-to-business survey comprising 200 interviews with executives responsible for office equipment purchasing decisions cost one company £/\$/€15,000. Twenty in-depth interviews with consumers who are regular users of certain banking services cost £/\$/€10,000. Using the internet for web surveys is another possibility, but that can impose too much of your agenda onto the recipients and turn them away from you.

Check out companies such as Free Online Surveys and Zoomerang which provide software that lets you carry out online surveys and analyse the data quickly. Many such organizations offer free trials.

Whatever the cost of research, you need to assess its value to you when you are setting your budget. If getting it wrong would cost £/\$/€100,000, then £/\$/€5,000 spent on market research might be a good investment.

#### *Step 5: Select the research technique*

If you cannot find the data you require from desk research, you will need to go out and find the data yourself. The options for such research are described in the next section, under 'Field research'.

#### *Step 6: Construct the research sample population*

It is rarely possible or even desirable to include every possible customer or competitor in your research. So you have to decide how big a sample you need to give you a reliable indication how the whole population will behave.

#### *Step 7: Process and analyse the data*

The raw market research data needs to be analysed and turned into information to guide your decisions on price, promotion and location, and the shape, design and scope of the product or service itself.

## First steps

There are two main types of research in starting a business:

- *Secondary, or desk research*, or the study of published information;
- *Primary, or field research*, involving fieldwork in collecting specific information for the market.

Both activities are vital for the starter business.

### *Desk research*

There is increasingly a great deal of secondary data available in published form, and accessible either online or via business sections of public libraries throughout the United Kingdom to enable new home-business starters to quantify the size of market sectors they are entering and to determine trends in those markets.

### USING THE INTERNET

The internet is a goldmine of market data, much of it free and immediately available. However, it's essential to ensure the information is reliable and free of bias, as it can be challenging to determine the credibility of the sources. Despite this, the internet can provide valuable insights into whether your product has a market, how big that market is and who your competitors are. Here are some key resources to get you started.

- 1 *Blogs*. Blogs are platforms where individuals, both knowledgeable and not, discuss various topics. While the information on blogs can be more anecdotal than factual, they offer valuable insights into consumer opinions and emerging trends.
- 2 *Google Scholar*. Google Scholar is a powerful tool for finding academic literature and research. It provides access to a wealth of scholarly articles, theses, books and conference papers, often available for free. This is particularly useful for gaining in-depth insights and data-backed information.
- 3 *Google News*. Google News aggregates newspaper articles from around the world on any given topic. Searching for information on baby clothes, for example, will reveal recent articles on average spending on baby clothes, new thrift stores specializing in second-hand baby clothes and the launch of organic baby clothes catalogues.

- 4 *Google Trends*. Google Trends offers a snapshot of what the world is interested in at any moment. For instance, if you're considering starting a bookkeeping service, entering that keyword into Google Trends will produce a graph showing how interest has fluctuated since data collection began in January 2004. This can help you identify growing or declining trends.
- 5 *Trade Association Forum*. The Trade Association Forum provides a directory of trade associations with links to industry-relevant online research sources. For example, you can find the Baby Products Association listed, which provides details of the companies operating in the sector along with their contact information.
- 6 *Online surveys and questionnaires*. Creating and distributing online surveys and questionnaires through platforms like SurveyMonkey or Google Forms can help you gather specific market data directly from potential customers. This approach allows for targeted questions and real-time data collection.
- 7 *Social media analytics*. Platforms like Facebook, Instagram and X (formerly Twitter) offer analytics tools that can provide insights into your target audience's demographics, interests and engagement levels. These insights can help refine your marketing strategies and understand consumer behaviour.
- 8 *Competitor analysis tools*. Tools like Semrush, Ahrefs and Similarweb allow you to analyse your competitors' online presence, including their website traffic, keywords and backlink profiles. This information can help you identify market opportunities and optimize your online strategy.

By leveraging these resources, you can obtain a comprehensive understanding of your market and make informed decisions for your new business. Remember, while the internet provides a vast amount of data, it's crucial to verify the accuracy and credibility of the information you gather.

### *Field research*

If you are contemplating opening a classical music shop in Exeter focused on the young, while desk research might reveal that out of a total population of 250,000 there are 25 per cent of under-30-year-olds, it will not state what percentage are interested in classical music or how much they might spend on classical CDs. Field research (questionnaires in the street) provided

the answer of 1 per cent and £2 a week spend, suggesting a potential market of only £65,000 a year ( $250,000 \times 25 \text{ per cent} \times 1 \text{ per cent} \times £2 \times 52$ ). The entrepreneurs decided to investigate Birmingham and London instead! But at least the cost had only been two damp afternoons spent in Exeter, rather than the horrors of having to dispose of the lease of an unsuccessful shop.

Fieldwork is big business in the United Kingdom, where market research companies pull in around £1 billion a year from survey work. Most fieldwork carried out consists of interviews, with the interviewer putting questions to a respondent. We are all becoming accustomed to it, whether being interviewed while travelling on a train, or resisting the attempts of enthusiastic salespeople posing as market researchers on doorsteps ('sugging', as this is known, is illegal, though you might be forgiven for believing otherwise). The more popular forms of interview are currently:

- personal (face-to-face) interview: 55 per cent (especially for the consumer markets);
- telephone and email: 32 per cent (especially for surveying companies);
- post: 6 per cent (especially for industrial markets);
- test and discussion group: 7 per cent.

Personal interviews and postal surveys are clearly less expensive than getting together panels of interested parties or using expensive telephone time. Telephone interviewing requires a very positive attitude, courtesy and an ability to not talk too quickly and listen while sticking to a rigid questionnaire. Low response rates on postal services (less than 10 per cent is normal) can be improved by including accompanying letters explaining the questionnaire's purpose and why respondents should reply, by offering rewards for completed questionnaires (a small gift), by sending reminder letters and, of course, by providing prepaid reply envelopes. Personally addressed email questionnaires have secured higher response rates – as high as 10–15 per cent – as recipients have a greater tendency to read and respond to email received in their private email boxes. However, unsolicited emails ('spam') can cause vehement reactions. The key to success is the same as with postal surveys – the mailing should feature an explanatory letter and incentives for the recipient to 'open' the questionnaire.

All methods of approach require considered questions. In drawing up the questionnaire attention must be paid first to these issues:

- Define your research objectives; what exactly is it that you need vitally to know (e.g. how often do people buy, how much)?

- Who are the customers to sample for this information (e.g. for DIY products, an Ideal Home Exhibition crowd might be best)?
- How are you going to undertake the research (e.g. face to face in the street)?

When you are sure of the above, and only then, you are ready to design the questionnaire. There are six simple rules to guide this process:

- Keep the number of questions to a minimum.
- Keep the questions simple! Answers should be either ‘Yes/No/Don’t know’ or offer at least four alternatives.
- Avoid ambiguity – make sure the respondent really understands the question (avoid ‘generally’, ‘usually’, ‘regularly’).
- Seek factual answers, avoid opinions.
- Make sure at the beginning you have a cut-out question to eliminate unsuitable respondents (e.g. those who never use the product/service).
- At the end, make sure you have an identifying question to show the cross-section of respondents.

The introduction to a face-to-face interview is important; make sure you are prepared, either carrying an identifying card (e.g. student card, Association of Market Researchers watchdog card) or have a rehearsed introduction (e.g. ‘Good morning, I’m from Manchester University [show card] and we are conducting a survey and would be grateful for your help’). You may also need visuals of the product you are investigating (samples, photographs), to ensure the respondent understands. Make sure these are neat and accessible. Finally, try out the questionnaire and your technique on your friends, prior to using them in the street. You will be surprised at how questions that seem simple to you are incomprehensible at first to respondents!

The size of the survey undertaken is also important. You frequently hear of political opinion polls taken on samples of 1,500–2,000 voters. This is because the accuracy of your survey clearly increases with the size of sample, as Table 6.1 shows.

So if on a sample size of 600, your survey showed that 40 per cent of women in the town drove cars, the true proportion would probably lie between 36 and 44 per cent. For small businesses, we usually recommend a minimum sample of 250 completed replies.

TABLE 6.1 Survey sampling

Size of random sample	95 per cent of surveys are right within ... percentage points
250	6.2
500	4.4
750	3.6
1,000	3.1
2,000	2.2
6,000	1.2

Remember above all, however, that questioning is by no means the only or most important form of fieldwork. Sir Terence Conran, when questioned on a radio programme, implied that he undertook no market research fieldwork (i.e. formal interviews) at all. Later in the programme he confessed, nonetheless, to spending nearly ‘half of his time visiting competitors, inspecting new and rival products, etc’. Visiting exhibitions and buying and examining competitors’ products (as the Japanese have so painfully done, in disassembling piece-by-piece competitor cars, deciding in the process where cost-effective improvements could be made) are clearly important fieldwork processes. Ian Brace’s 2018 book on questionnaire design covers this subject comprehensively (see Suggested further reading).

Interpreting data using statistics can be difficult for the uninitiated. The Index of key organizations and resources for business planning at the end of the book has help with statistics.

#### TESTING THE MARKET

The ultimate form of market research is to find some real customers to buy and use your product or service before you spend too much time and money in setting up. The ideal way to do this is to sell into a limited area or small section of your market. In that way if things don’t quite work out as you expect you won’t have upset too many people.

This may involve buying in as small a quantity of the product as you need to fulfil the order so that you can fully test your ideas. Once you have found a small number of people who are happy with your product, price, delivery/execution and have paid up, then you can proceed with a bit more confidence than if all your ideas are just on paper.

Pick potential customers whose demand is likely to be small and easy to meet. For example if you are going to run a bookkeeping business, select 5



to 10 small businesses from an area reasonably close to home and make your pitch. The same approach would work with a gardening, babysitting or any other service-related venture. It is a little more difficult with products, but you could buy a small quantity of similar items in from a competitor or make up a trial batch yourself.

Selling from stalls on a Saturday, or taking part in an exhibition, gives an opportunity to question interested customers and can be the most valuable fieldwork of all. All methods are equally valid, and the results of each should be carefully recorded for subsequent use in presentation and business plans.

Once the primary market research (desk and field research) and market testing (stalls and exhibitions) are complete, pilot testing of the business should be undertaken in one location or customer segment, prior to setting targets and subsequently measuring the impact of a full regional launch.

### Doing online questionnaires

Web questionnaires play a crucial role in collecting valuable insights from customers, actual or prospective. They have several advantages over traditional paper surveys.

- *Cost-effective distribution.* There are no physical materials to produce or mail. You can distribute web questionnaires to as many users as needed without incurring additional expenses.
- *Instant feedback.* Web questionnaires enable rapid data collection. You can access them online, eliminating delays associated with mailing and processing paper forms. Real-time feedback lets you respond promptly to emerging trends or issues.
- *Automated analysis.* By linking questionnaires to spreadsheets or databases, you can automatically process responses. Basic statistical analyses, such as calculating averages, identifying trends and creating visualizations, can be performed without manual intervention.
- *Customization and personalization.* Questionnaires can be tailored to specific segments. You can create personalized surveys based on user profiles, behaviour or preferences. Customization enhances engagement and ensures that questions are relevant to each respondent.

- *Multimedia integration.* Unlike paper forms, web questionnaires can incorporate multimedia elements. Images, videos or interactive components can be embedded to enhance the survey experience. Rich media can clarify questions, provide context or capture user sentiments more effectively.
- *Data security and privacy considerations.* Collecting personal data through web questionnaires means you must adhere to data protection laws. In Europe and other regions, regulations like the General Data Protection Regulation (GDPR) require transparency regarding data usage. You should clearly communicate data practices and obtain informed consent.
- *Survey providers.* You have plenty of choice when it comes to conducting online surveys. These are some of the market leaders. Each has its unique strengths and weaknesses, so it is essential to choose the one that aligns best with your specific needs.
  - QuestionPro ([questionpro.com](https://questionpro.com)): Features include survey logic, correlation analysis, multilingual surveys, customizable reports, scalability, automated analysis and global reach.
  - SurveyMonkey ([uk.surveymonkey.com](https://uk.surveymonkey.com)): Global leader in survey software. Features include hundreds of templates, expert-written questions and resources.
  - SurveySparrow ([surveysparrow.com](https://surveysparrow.com)): Focuses on creating engaging, conversational surveys. Features include conversational surveys, multilingual support and smart dashboards.
  - Typeform ([typeform.com](https://typeform.com)): Specializes in interactive and people-friendly forms. Features include AI, templates and logic for creating personalized surveys.
  - Zoho Survey ([www.zoho.com/survey](https://www.zoho.com/survey)): Features include customizable templates, mobile optimization and integration with Google Sheets.

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#### EXAMPLE

##### *Julian Talbot-Brady*

Julian Talbot-Brady, Cranfield MBA and qualified architect, investigated launching 'EU-architect.com', an internet-based start-up company targeted at the United Kingdom's 30,000 registered architects. The aim was to provide a 'one-stop', all-in-one service to meet the needs of busy architects by providing easily accessible

online sources for all their information needs. He designed a questionnaire to be emailed directly to the top 100 architectural practices in the UK, as well as to the leading 500 construction product suppliers. He chose to use Zoomerang.com, which at the time provided a free 30-day trial. Despite an accompanying letter (offering possible equity sharing), the resulting response rate of only 12 per cent made him realize that the potential for his service was much smaller than he had anticipated, leading him to accept a post with an industry supplier to develop a similar site for its own products.

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*Understanding the data*

The most common way statistics are considered is around a single figure that claims in some way to be representative of a population at large. This is usually referred to as an average. There are three principal ways of measuring an average and these are the most often confused and frequently misrepresented set of numbers in any business plan.

To analyse any information gathered from market research you first need a ‘data set’ such as that in Table 6.2 below.

THE MEAN (OR AVERAGE)

This is the most common measure to express information and is used as a rough and ready check for many types of data. In the example below, adding up the prices: 105 and dividing by the number of competitors: 5, you arrive at a mean, or average, selling price of 21.

THE MEDIAN

The median is the value occurring at the centre of a data set. Recasting the figures in the table below puts company 4’s selling price of 15 in that position, with two higher and two lower prices. The median comes into its own in situations where the outlying values in a data set are extreme, as they are

TABLE 6.2 Competitor selling prices

Competitors	Selling price £/\$/€
1	30
2	40
3	10
4	15
5	10

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in our example, where in fact most of our competitors sell for well below 21. In this case the median would be a better measure of the central tendency. You should always use the median when the distribution is skewed. You can use either the mean or the median when the population is symmetrical as they will give very similar results.

#### THE MODE

The mode is the observation in a data set appearing the most; in this example it is 10. So if we were surveying a sample of customers across the whole market we would expect more of them to say they were paying 10 for their products, though as we know the average price is 21.

#### RANGE

As well as measuring how values cluster around a central value, to make full use of the data set we need to establish how much those values could vary. The range helps here and is calculated as the maximum figure minus the minimum figure. In the example being used here, that is:  $40 - 10 = 30$ . This figure gives us an idea of how dispersed the data is and so how meaningful the average figure alone might be.

#### WORKSHEET FOR ASSIGNMENT 6: A PLAN FOR MARKET RESEARCH

- 1 What information do you currently have on customers, competitors, markets, etc?
- 2 What information do you still need to find, and why specifically do you need it?
- 3 What desk research will you have to carry out to answer this question?
- 4 What field research will you have to carry out?
- 5 How much time and money will be needed to carry out this market research?
- 6 Who will be responsible for each element of the research?
- 7 When will all the key market research information be available?

### Suggested further reading

- Brace, I and Bolton, K (2022) *Questionnaire Design: How to plan, structure and write survey material for effective market research*, 5th edn, Kogan Page, London
- Higham, W (2009) *The Next Big Thing: Spotting and forecasting consumer trends*, Kogan Page, London
- Kaden, R (2007) *Guerrilla Marketing Research*, Kogan Page, London
- Lawes, R (2023) *Using Semiotics in Marketing: How to achieve consumer insight for brand growth and profits*, 2nd edn, Kogan Page, London
- Marsh, S (2022) *User Research: A practical guide to designing better products and services*, 2nd edn, Kogan Page, London
- Struhl, S (2017) *Artificial Intelligence Marketing and Predicting Consumer Choice*, Kogan Page, London

### PHASE THREE

# Competitive marketing strategies

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# Introduction

Marketing is defined as the process that ensures the right products and services get to the right markets at the right time, and at the right price. The challenge in that sentence lies in the use of the word ‘right’. The deal has to work for the customer, because if they don’t want what you have to offer the game is over before you begin. You have to offer value and satisfaction, otherwise people will either choose an apparently superior competitor or, if they do buy from you and are dissatisfied, they won’t buy again. With online review websites such as Trustpilot and TripAdvisor there is now no hiding place for shoddy trading practices. Worse still, they may bad-mouth you to a lot of other people. For you the marketer, being right means that there have to be enough people wanting your product or service to make the venture profitable; and ideally those numbers should be getting bigger rather than smaller. So inevitably marketing is something of a voyage of discovery for both supplier and consumer, from which both parties learn something and hopefully improve.

The boundaries of marketing stretch from inside the mind of the customer, perhaps uncovering emotions they were themselves barely aware of, out to the logistic support systems that get the product or service into customer’s hands. Each part of the value chain from company to consumer has the potential to add value or kill the deal. For example, at the heart of the Amazon business proposition are a superlatively efficient warehousing and delivery system and a simple zero-cost way for customers to return products they don’t want and get immediate refunds. These factors are every bit as important as elements of Amazon’s marketing strategy as are its product range, website structure, Google placement or its competitive pricing.

Marketing is also a circuitous activity. As you explore the topics below, you will see that you need the answers to some questions before you can move on, and indeed once you have some answers you may have to go back a step to review an earlier stage.



The marketing mix describes the tools available to win business in your chosen market. The term ‘marketing mix’ has a pedigree going back to the late 1940s when marketing managers referred to mixing ingredients to create strategies. The concept was formalized by E Jerome McCarthy, a marketing professor at Michigan State University, in 1960. The mix of ingredients with which marketing strategy can be developed and implemented was originally the 4 Ps – price, product (or/and service), promotion and place. That has been extended with a focus on the more subtle and less tangible elements that comprise the marketing arena. It is now generally accepted that 7 Ps have to be considered, with the final three being: the people we use to communicate and deliver our product, the process customers have to go through to get the product and the suitability of the physical environment from which a business operates.

Just as with cooking, taking the same or similar ingredients in different proportions can result in very different ‘products’. A change in the way these elements are put together can produce an offering tailored to meet the needs of a specific market segment.

# ASSIGNMENT 7

## Products and/or services

Here you should describe what products or services you propose to market, what stage of development they are at and why they are competitive with existing sources of supply. Part of the information in this section is for the benefit of outside readers who may not be familiar with your business. It should also be useful to you since the research and analysis required will encourage you to examine your offering compared with your competitors'.

Explore these topics in this section of your business plan.

### Description of products and/or services

Explain what it is you are selling. Be specific and avoid unnecessary jargon. The reader should end up with more than just a vague idea about your products and/or services. Obviously, some products and services will require much more explanation than others. If you have invented a new process for analysing blood, you will need to provide the reader with many details. On the other hand, if you are selling your services as a bookkeeper, you may need to do little more than list the services you will provide. A danger of this section is in assuming that the reader can easily understand your products without you providing sufficient detail and description.

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#### REAL-WORLD EXAMPLE

##### *Eat 17*

Eat 17 take pride in being more than your typical store. Their collaboration with top local food companies ensures that they do things conscientiously, prioritize local products, offer excellent value and, above all, serve quality food. Founded in 2006, by 2024 their annual turnover was close to £8 million. In 2021 coming out of the

pandemic period, the company recorded a profit of £1,690,989, quite an achievement for a business in their sector.

The company was founded by Siobhan O'Donnell with her partner Chris O'Connor, his brother Dan and their stepbrother James Brundle in Walthamstow, north-west London. It may look at first glance like a run-of-the-mill convenience store, but once inside it rapidly becomes evident that the product range on offer is vastly different. First off, Chris is a trained chef and he brings the expertise that ensures their products are fresh and appealing for the whole of the working day.

As well as offering independent, artisan and local produce made by small suppliers, they have a bakery and pizza restaurant on site and create their own range of ready meals. Each week they try a score or so of new products, adding those that sell to their core product range.

This strategy keeps repeat customer visits high and pulls in new ones bored with the more conventional ranges on offer in neighbouring supermarkets. Their latest creation, a bacon-based condiment, which they called 'Bacon Jam', flies off the shelves, alongside more conventional products. The jam is taking the business in a slightly different direction as it has become a product in its own right, now stocked in 3,000 outlets nationwide, including Selfridges, Waitrose and Tesco. It has even expanded to a range of five different flavours.

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In addition to listing and describing your products and/or services, you should note any applications or uses of your products that are not readily apparent to the reader. For instance, a photocopier can also produce overhead transparencies, as well as its more mundane output. When you make your list, show the proportion of turnover you expect each product or service to contribute to the whole.

### Readiness for market

Are your products and/or services available for sale now? If not, what needs to be done to develop them? If you are selling a product, does it require more design work or research and development? Have you actually produced one or more completed products?

### Proprietary position

Do your products or services have any special competitive advantage? If so,

to last. You should state any other factors that give you a competitive advantage, even though the advantage is not protected by contractual agreements of the law. Examples could include a special skill or talent not easily obtainable by others. (If you have none of these, and many businesses do not, do not just make something up!)

Getting inventions to market can be an expensive and time-consuming business, as James Dyson is only too eager to confirm. It took five years and 5,127 prototypes before the world's first bagless vacuum cleaner arrived on the scene. It's hardly surprising then that the Dyson story includes a legendary but victorious 18-month battle with Hoover, based in the UK, over patent infringement (Dyson, 2001).

If, like Dyson, you have a unique business idea, you should investigate the four categories of protection: *patenting*, which protects 'how something works'; *trademark registration*, which protects 'what something is called'; *design registration*, which protects 'how something looks'; and *copyright*, which protects 'work on paper, film and CD'. Some products may be covered by two or more categories, e.g. the mechanism of a clock may be patented while its appearance may be design-registered.

Each category requires a different set of procedures, offers a different level of protection and extends for a different period of time. They all have one thing in common, though: in the event of any infringement your only redress is through the courts, and going to law can be wasteful of time and money, whether you win or lose.

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## REAL-WORLD EXAMPLE

### *Meta/Facebook*

On 10 May 2024, Meta Platforms announced they had resolved a trademark lawsuit filed by investment firm Metacapital Management over the tech giant's name change from Facebook. Meta ranks among the largest American information technology companies, alongside other Big Five corporations Alphabet (Google), Amazon, Apple and Microsoft. The company is fighting at least four other battles over its name change and has been banned from using the name 'Meta' in Brazil.

When Mark Zuckerberg, then aged 20, started Facebook from his college dorm back in 2004 with two fellow students, he could hardly have been aware of how the business would pan out. Zuckerberg, wearing jeans, Adidas sandals and a fleece, at the time looked a bit like a latter-day Steve Jobs, Apple's founder. He also shared

something else in common with Jobs: he had a gigantic intellectual property legal dispute on his hands from the outset. Until it was settled in May 2011, he had to deal with a lawsuit brought by three fellow Harvard students who claimed, in effect, that he stole the Facebook concept from them. The Winklevoss twins, along with Divya Narendra, argued that Zuckerberg stole their idea while he was hired to work for them. The settlement amount was \$65 million.

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### *Patents protect 'how something works'*

A patent can be regarded as a contract between an inventor and the state. The state agrees with the inventor that if he or she is prepared to publish details of the invention in a set form and if it appears that he or she has made a real advance, the state will then grant the inventor a 'monopoly' on the invention for 20 years: 'protection in return for disclosure'. The inventor uses the monopoly period to manufacture and sell his or her innovation; competitors can read the published specifications and glean ideas for their research, or they can approach the inventor and offer to help to develop the idea under licence.

What inventions can you patent? The basic rules are that an invention must be new, must involve an *inventive* step and must be capable of *industrial exploitation*. You cannot patent scientific/mathematical theories or mental processes, computer programs or ideas that might encourage offensive, immoral or anti-social behaviour. New medicines are patentable but not medical methods of treatment. Neither can you have just rediscovered a long-forgotten idea (knowingly or unknowingly).

If you want to apply for a patent, it is essential not to disclose your idea in non-confidential circumstances. If you do, your invention is already 'published' in the eyes of the law, and this could well invalidate your application.

There are two distinct stages in the patenting process:

- from filing an application up to publication of the patent;
- from publication to grant of the patent.

Two fees are payable for the first part of the process and a further fee for the second part. The whole process takes some two and a half years. Forms and details of how to patent are available free from the Patent Office.

It is possible – and cheaper – to make your own patent application, but this is not really recommended. Drafting a specification to give you as wide a monopoly as you think you can get away with is the essence of patenting and this is the skill of professional patent agents. They also know the tricks

of the trade for each stage of the patenting procedure. A list of patent agents is available from the Chartered Institute of Patent Agents.

What can you do with your idea? If you have dreamt up an inspired invention but don't have the resources, skill, time or inclination to produce it yourself, you can take one of three courses once the idea is patented:

- *Outright sale.* You can sell the rights and title of your patent to an individual or company. The payment you ask should be based on a sound evaluation of the market.
- *Sale and royalty.* You can enter into an agreement whereby you assign the title and rights to produce to another party for cash but under which you get a royalty on each unit sold.
- *Licensing.* You keep the rights and title but sell a licence for manufacturing and marketing the product to someone else. The contract between you and the licensee should contain a performance clause requiring the licensee to sell a minimum number of units each year or the licence will be revoked.

Whichever option you select, you need a good patent agent/lawyer on your side.

### *Trademarks protect 'what something is called'*

A trademark is the symbol by which the goods or services of a particular manufacturer or trader can be identified. It can be a word, a signature, a monogram, a picture, a logo or a combination of these.

To qualify for registration the trademark must be distinctive, must not be deceptive and must not be capable of confusion with marks already registered. Excluded are misleading marks, national flags, royal crests and insignia of the armed forces. A trademark can only apply to tangible goods, not services (although pressure is mounting for this to be changed).

The Trade Marks Act of 1938 and the Copyright, Designs and Patents Act of 1988 and subsequent amendments offer protection of great commercial value since, unlike other forms of protection, your sole rights to use the trademark continue indefinitely.

To register a trademark you or your agent should first conduct preliminary searches at the trademarks branch of the Patent Office to check there are no conflicting marks already in existence. You then apply for registration on the official trademark form and pay a fee (currently £200 for one class of goods or services, then £50 for each additional class). Registration is initially for 10 years. After this, it can be renewed for periods of 10 years at a time, with no upper time limit.

It is not mandatory to register a trademark. If an unregistered trademark has been used for some time and could be construed as closely associated with a product by customers, it will have acquired a 'reputation', which will give it some protection legally, but registration makes it much simpler for the owners to have recourse against any person who infringes the mark.

### *Design registration protects 'how something looks'*

You can register the shape, design or decorative features of a commercial product if it is new, original, never published before or – if already known – never before applied to the product you have in mind. Protection is intended to apply to industrial articles to be produced in quantities of more than 50. Design registration applies only to features that appeal to the eye – not to the way the article functions.

To register a design, you should apply to the Design Registry and send a specimen or photograph of the design plus a registration fee (currently £90). The specimen or photograph is examined to see whether it is new or original and complies with other requirements of the Registered Designs Act 1949 and the Copyright, Designs and Patents Act 1988 and subsequent amendments to the Act. If it does, a certification of registration is issued which gives you, the proprietor, the sole right to manufacture, sell or use in business articles of that design.

Protection lasts for a maximum of 25 years. You can handle the design registration yourself, but, again, it might be preferable to let a specialist do it for you. There is no register of design agents but most patent agents are well versed in design law.

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### REAL-WORLD EXAMPLE

#### *Notonthehighstreet*

From the very beginning Holly Tucker and Sophie Cornish recognized that safeguarding their intellectual property (IP) was not just important – it was fundamental to their business's success. When they conceived the idea for a company specializing in high-quality, uniquely designed products that were hard to find on the high street, selecting a name was effortless. Notonthehighstreet was distinct, memorable and perfectly encapsulated their vision.

Their business model sought to unite small independent sellers under a single platform, giving them access to a broader market while reducing individual overhead costs. Initially, they considered a physical retail space, but quickly pivoted to the online marketplace model, allowing for wider reach and scalability.

Early funding proved challenging, with their initial £40,000 estimate rapidly increasing to £140,000. After securing loans, family contributions and overdrafts, they pitched to Spark Ventures, an early-stage VC firm with Brent Hoberman (co-founder of Lastminute.com) among its portfolio investors. Spark invested a significant six-figure sum, taking a minority stake and setting the business on a path to double its sales by its third year. By 2011, the company had Jason Weston (Amazon) as COO and Mark Hodson (PayPal) in its leadership team, ensuring continued growth.

From day one, intellectual property protection was at the heart of their business strategy. Holly and Sophie understood that without strong IP safeguards, their brand, products and platform could be at risk. Their commitment to this is clearly stated on their website, where they explicitly assert ownership over all rights related to the service, including patents, copyrights, trade secrets and trademarks, ensuring full legal control over their assets:

We own, or are the licensee to, all rights, title and interest in and to the Service, including all rights under patent, copyright, trade secret or trademark law, and any and all other proprietary rights, including all applications, renewals, extensions and restorations thereof.

Their dedication to innovation, small business support and IP protection earned them MBEs for services to enterprise in 2011. After 15 years of growth, Notonthehighstreet was sold to Great Hill Partners, a US-based investment firm, in February 2021, securing its future while maintaining the integrity of the brand they built.

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### *Copyright protects 'work on paper, film and CD'*

Copyright is a complex field and since it is unlikely to be relevant to most business start-ups we only touch on it lightly here. Basically, the Copyright, Designs and Patents Act 1988 gives protection against the unlicensed copying of original artistic and creative works – articles, books, paintings, films, plays, songs, music, engineering drawings. To claim copyright the item in question should carry this symbol: © (author's name) (date). At a diplomatic conference in Geneva in December 1996, new international copyright and performances and phonograms treaties, which govern the protection of databases, were agreed on and came into force in January 1998.

You can take the further step of recording the date on which the work was completed for a moderate fee with the Registrar at Stationers' Hall. This, though, is an unusual precaution to take and probably only necessary if you anticipate an infringement.

Copyright protection in the UK lasts for 70 years after the death of the person who holds the copyright, or 50 years after publication if this is the



later. Copyright is infringed only if more than a ‘substantial’ part of your work is reproduced (i.e. issued for sale to the public) without your permission, but since there is no formal registration of copyright the question of whether or not your work is protected usually has to be decided in a court of law.

- *Digital age and copyright.* With the rise of digital content, copyright laws have been adapted to protect works distributed online, including e-books, digital music and streamed content. The Digital Economy Act 2017 introduced measures to combat online copyright infringement.
- *Artificial intelligence and copyright.* As AI-generated works become more common, there is ongoing debate about copyright protection for these creations. Currently, copyright laws primarily protect works created by human authors, but this may evolve as AI technology advances.

### Protecting internet assets

Now that you have gone to so much trouble to develop a business model incorporating your mission, vision, objectives and culture so that you are all set for meteoric growth, it would be an awful pity if someone were to come along and steal it.

Even when times are hard, this is probably not an area to include in any cost-cutting exercise. In the internet world, where all the value is placed in the anticipation of profits from day one, intellectual property may be all that’s really worth saving.

The advent of softer terms, such as ‘sharing’ music, rather than stealing it, doesn’t alter the fact that all the usual intellectual property laws apply to the internet, it is just harder to enforce them. You can find out more about protecting internet assets in the output of the Digital Curation Centre (DCC) where the practical issues in setting up digital rights management systems (DRM) are examined.

#### *Additional considerations*

By taking the following additional steps, you can further safeguard your internet assets and ensure the long-term success and security of your business:

- *Cybersecurity.* Ensuring robust cybersecurity measures is essential to protect your digital assets. This includes implementing strong passwords,

using encryption, and regularly updating software to prevent unauthorized access and data breaches.

- *Intellectual property protection.* In addition to copyright, consider registering trademarks and patents for your unique products, services and branding elements. This adds an extra layer of protection for your intellectual property.
- *Legal agreements.* Draft clear legal agreements, such as Terms of Service and Privacy Policies, to outline the rules and expectations for users of your site. This helps protect your business from legal disputes and ensures compliance with regulations.
- *Regular audits.* Conduct regular audits of your digital assets to ensure they are adequately protected and that any potential vulnerabilities are addressed promptly.
- *Employee training.* Educate your employees about the importance of protecting intellectual property and cybersecurity best practices. This helps create a culture of awareness and vigilance within your organization.

### *Further information on protecting your products*

The UK Intellectual Property Office has all the information needed to patent, trademark, copyright or register a design.

For information on international intellectual property see these organizations: European Patent Office, US Patent and Trade Mark Office and the World Intellectual Property Association.

The Chartered Institute of Patents and Attorneys and the Chartered Institute of Trade Mark Attorneys, despite their specialized-sounding names, can help with every aspect of intellectual property, including finding you a local adviser.

The British Library links to free databases for patent searching to see whether someone else has registered your innovation. The library is willing to offer limited advice to enquirers.

Their IP Centre supports small business owners, entrepreneurs and inventors. Their team is on hand all day, six days a week, to help you take the right steps to start up, protect and grow your business.

## Comparison with competitive products and services

Identify those products and/or services that you think will be competing with yours. They may be similar products/services or they may be quite

different, but could be substituted for yours. An example of the latter is a business that sells copying machines, which competes not only against other copying machines, but also against carbon paper and copy shops.

Once you have identified the major competing products, compare yours with them. List the advantages and disadvantages of yours compared with the competition. Later on, when you do your market research, you will probably want to address this question again and revise this section.

After making the comparison, draw your conclusions. If your products/services will compete effectively, explain why. If not, explain what you plan to do to make them compete.

Remember also that some products differentiate themselves from competitors by their service or warranty terms. For example, KIA claims to be the only car manufacturer to offer a fully transferrable seven-year, 100,000-mile warranty.

Additionally, all retailers in the distribution network are offered extended payment terms, finance for display stock and inventory as well as dealer support for advertising.

Similarly, most management consultants in the 'service' sector ensure that their 'products', their final reports, are faultless and immaculately presented, as are the premises and facilities of the best restaurants and fast food chains.

### *Guarantees and warranties*

Will you be providing either of these with your product or service? Describe the scope of the warranty or guarantee, what it may cost, the benefits you expect from providing it, and how it will work in practice.

### *Possible future developments*

If your product or service lends itself to other opportunities, with relatively minor alteration, which can be achieved quickly and will enhance your business, briefly describe these ideas.

## Some product turn-offs

### *Is one product enough?*

One-product businesses are the natural output of the inventor, but they are extremely vulnerable to competition, changes in fashion and to technological obsolescence. Having only one product can also limit the growth

potential of the enterprise. A question mark must inevitably hang over such ventures until they can broaden out their product base into, preferably, a ‘family’ of related products or services.

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#### REAL-WORLD EXAMPLE

##### *From solo stitching to global gear: Osprey’s evolution*

Osprey celebrated its 50th anniversary in 2024 launching 12 new products with bluesign® certifications, an independent approval system for the textile industry, considering the whole production process, minimizing the impact on the environment. They also support ‘Gift Your Gear’, a charity providing backpacks and other outdoor gear otherwise destined for landfill to youth organizations.

Mike Pfotenhauer founded Osprey in 1974 out of a love for making products for himself and friends. Initially focused on creating high-quality backpacks, the company is driven by a passion for the outdoors, aiming to enable rich outdoor experiences, protect the environment, and live and breathe the outdoors.

Osprey has grown from Pfotenhauer working on a single sewing machine to being stocked by hundreds of global retailers. Their focus initially was on backpacks maintaining their unrivalled reputation. Osprey’s ‘All Mighty Guarantee’ promises to repair or replace any defective pack without charge, supported by global repair centres.

Specializing in backpacks allowed Osprey to expand into specific outdoor activities, creating hundreds of packs for travel, hiking, backpacking, lifestyle, running, biking, climbing, snow sports and diving. They also offer accessories like packing cubes, rain covers, pack liners, washbags and wallets.

##### *Footnote*

Osprey’s turnover in 2021 was more than \$155 million. Pfotenhauer has since sold the business to Helen of Troy (HoT), for a sum reputed to be more than \$410 million. Some 35 potential buyers were considered before choosing HoT, reckoned to be a company that values creative, innovative product design.

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##### *Single-sale products*

Medsoft was a business founded to sell a PC and a tailor-made software package to hospital doctors. Unfortunately, the management had no idea of the cost and effort required to sell each unit. Worse still, there were no repeat sales. It was not that customers did not like the products: they did,

but each user needed only one product. This meant that all the money and time spent on building up a 'loyal' customer were largely wasted.

In another type of venture, for example selling company cars, you could reasonably expect a satisfied customer to come back every two or three years. In the restaurant business the repeat purchase cycle might be every two to three months.

### *Non-essential products*

Entrepreneurs tend to be attracted to fad, fashion and luxury items because of the short response time associated with their promotion and sale. Companies producing for these markets frequently run into financial difficulties arising out of sudden market shifts. Market security is more readily gained by having products that are viewed as 'essential'.

### *Too simple a product*

Simplicity, usually a desirable feature, can be a drawback. If a business idea is so basic that little management or marketing expertise is required for success, this is likely to make the cost of entry low and the value added minimal. This makes it easy for every Tom, Dick or Harry to duplicate the product idea, and impossible for the original company to defend its market, except by lowering the price.

The video rental business was a classic example of the 'too simple product' phenomenon. Too many people jumped on the bandwagon as virtually anyone with a couple of thousand pounds could set themselves up. Rental prices fell from pounds to pence in a year or so, and hundreds of businesses folded.

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## REAL-WORLD EXAMPLE

### *The unique journey of BlaBlaCar: simple idea, inimitable execution*

In April 2024, BlaBlaCar announced it had secured a €100 million revolving credit facility to fuel its growth and solidify its position as the leading marketplace for shared travel. The company also confirmed profitability over the previous 24 months.

Frédéric Mazzella, whose parents were a math professor and a philosophy professor, founded BlaBlaCar. Hailing from the Vendée region on France's Atlantic coast, Mazzella had a eureka moment during a frustrating journey from Paris to the Vendée on 24 December 2003. Unable to find a seat on a train, he noticed that while

trains were full, many cars were empty. This insight led him to create a solution for shared travel.

Founded in 2006, BlaBlaCar connects people who want to share the cost of long-distance journeys. The concept, akin to on-demand services like Uber and Airbnb, faced a slow start. Mazzella experimented with six business models and endured scepticism before finding success. In 2006, with co-founders Nicolas Brusson and Francis Nappez, Mazzella developed a business plan at INSEAD for 'covoiturage.fr', emphasizing the efficiency of ride-sharing. Mazzella noted that running a car in France costs €5,000–€6,000 annually, yet cars are parked 96 per cent of the time and three out of four moving cars have only one occupant. Thus, France's 38 million cars represent a €200 million annual optimization opportunity.

Since 2022, BlaBlaCar's headquarters, the BlaBlaCar 'Village' in Paris's 11th arrondissement, has hosted its 500 employees. The office features a BlaBlaCafé, fitness and yoga rooms, a music studio, a games area, a bicycle garage, and a 500m<sup>2</sup> rooftop with a sports field and vegetable garden, offering a 360-degree view of Paris. The bistro hosts Friday morning brainstorming sessions where staff develop new strategies.

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## One product must: quality

One of the biggest problems for a new company is creating in the customer's mind an image of product quality. Once there was an almost faddish belief in 'dynamic obsolescence', implying that low quality would mean frequent and additional replacement sales. The inroads that the Japanese car makers have made on Western car manufacturers through improving quality, reliability and value for money have clearly demonstrated the fallacy of this proposition.

You cannot sell a product you do not believe in and as James Knock, founder president of a beer company, explained, 'In cold calling the only thing standing between you and the customers' scorn is the integrity of your product.'

The Cranfield entrepreneurs that we have seen prosper have all learnt to fight the cost, quality and service trade-off: 'We are only interested in making the best quality and freshest pasta around,' explained Farshad Rouhani in describing how Pasta Masters had grown to become the leading supplier of fresh pasta to retailers and restaurants in London. Equally, David Sinclair and his team at Bagel Express were at work at 4 am each day to ensure that only freshly baked bagels were on sale each morning. To show the freshness

of the product, the bagels were baked each day in open kitchens in front of the customers.

Quality is not just what you do, but also how you do it; each contact point between the customer and company is vital, be it on the telephone, at the counter, at the till. The customer who complains is probably your best friend. Julian Richer, the founder of Richer Sounds, maintains one of his key tasks is to maximize his customers' opportunities to complain. By that he certainly doesn't mean giving them cause to be dissatisfied; just the chance to give feedback. Everything from having a bell at the door of each shop to ring if you have enjoyed your shopping experience, to a personally assigned response card in each packaged product is a step aimed at maintaining a direct link with the customer. Getting your customers to help you maintain your quality and standards is perhaps one of the keys to business success. And it isn't easy. It is believed that 96 per cent of complaints don't happen. In other words the customer can't or can't be bothered to complain. The quality obsession is clear; if you do not catch it, you will not survive, and unless you get regular feedback from your customers you will never know.

#### WORKSHEET FOR ASSIGNMENT 7: PRODUCTS AND/OR SERVICES

- 1 Describe your product or service, as if explaining it to a novice.
- 2 Is it currently available for sale? If not, what needs to be done, how much will that work cost and how long will it take?
- 3 Do you have, or plan to have, any legal protection such as patents? If so, explain what you have done so far to establish your rights.
- 4 How is your product or service different from those already on the market?
- 5 Will you be providing any warranties, guarantees or after-sales service?
- 6 Are there any possibilities of developing new products or services complementary to the one(s) described above?

#### Suggested further reading

- Debruyne, M and Tackx, K (2019) *Customer Innovation: Delivering a customer-led strategy for sustainable growth*, Kogan Page, London
- Jolly, A (ed) (2013) *The Innovation Handbook: How to profit from your ideas, intellectual property and market knowledge*, Kogan Page, London

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- McDonald, K (2013) *Innovation: How innovators think, act and change our world*, Kogan Page, London
- Narang, R and Devaiah, D (2014) *Orbit-Shifting Innovation: The dynamics of ideas that create history*, Kogan Page, London
- Westwood, J (2025), *How to Write a Marketing Plan: Define your strategy, plan effectively and reach your marketing goals*, 8th edn, Kogan Page, London

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- Dyson (2001) *Dyson Appliances Limited v Hoover Limited* (No. 2) 11 January 2001, CMS, 22 January, [www.cms-lawnow.com/ealerts/2001/01/dyson-appliances-limited-v-hoover-limited-no-2?sc\\_lang=en](http://www.cms-lawnow.com/ealerts/2001/01/dyson-appliances-limited-v-hoover-limited-no-2?sc_lang=en) (archived at <https://perma.cc/CT8D-WM49>)



# ASSIGNMENT 8

## Pricing

The most frequent mistake made when setting a selling price for the first time is to pitch it too low. This mistake can occur either through failing to understand all the costs associated with making and marketing your product, or through yielding to the temptation to undercut the competition at the outset. Both these errors usually lead to fatal results, so in preparing your business plan you should guard against them.

These are the important issues to consider when setting your selling price.

### Costs

Make sure you have established all the costs you are likely to incur in making or marketing your product. Don't just rely on a 'guess' or 'common sense' – get several firm quotations, preferably in writing, for every major bought-in item. Don't fall into the trap of believing that if you will initially be working from home, you will have no additional costs. Your phone bill will rise (or you will fail!), the heating will be on all day and you'll need somewhere to file all your paperwork. Your car, too, will see more use and so incur more costs.

Also make sure you analyse the effect of changes in turnover on your costs. This can be done by breaking down your costs into direct and indirect (see Assignment 20 for an explanation of break-even analysis, as this area is sometimes referred to).

## Consumer perceptions

Another consideration when setting your prices is the perception of the value of your product or service to the customer. His or her opinion of value may have little or no relation to the cost. They may be ignorant of the price charged by the competition, especially if the product or service is a new one. In fact, many consumers perceive price as a reliable guide to the quality they can expect to receive. The more you pay, the more you get. With this in mind, had Dyson launched his revolutionary vacuum cleaner, with its claims of superior performance, at a price below that of its peers, then some potential customers might have questioned those claims. In its literature Dyson cites as the inspiration for the new vacuum cleaner the inferior performance of existing products in the same price band. A product at six times the Dyson price is the one whose performance Dyson seeks to emulate. The message conveyed is that, although the price is at the high end of general run-of-the-mill products, the performance is disproportionately greater. The runaway success of Dyson's vacuum cleaner would tend to endorse this argument.

## Competition

The misconception that new and small firms can undercut established competitors is usually based on ignorance of the true costs of a product or service, such as in the example given above; a misunderstanding of the meaning and characteristics of overheads; and a failure to appreciate that 'unit' costs fall in proportion to experience. This last point is easy to appreciate if you compare the time needed to perform a task for the first time with that when you are much more experienced (e.g. changing a fuse, replacing a Hoover bag, etc).

The overheads argument usually runs like this: 'They (the competition) are big, have a plush office in Mayfair, and lots of overpaid marketing executives, spending the company's money on expense account lunches, and I don't. Ergo I must be able to undercut them.' The errors with this type of argument are, first, that the Mayfair office may be an investment in image creation and second, the marketing executives may be paid more than the entrepreneur, but if they don't deliver a constant stream of new products and new strategies they'll be replaced with people who can.

Clearly, you have to take account of what your competitors charge, but remember price is the easiest element of the marketing mix for an established

company to vary. They could follow you down the price curve, forcing you into bankruptcy, far more easily than you could capture their customers with a lower price.

### Elasticity of demand

Economic theory suggests that, all others things being equal, the lower the price, the greater the demand. Unfortunately (or perhaps not!), the demand for all goods and services is not uniformly elastic – that is, the rate of change of price versus demand is not similarly elastic. Some products are actually price inelastic. For example, Apple's iPhone and Bentley Motors would be unlikely to increase sales if they knocked 5 per cent off the price – indeed, by losing 'snob' value they might even sell fewer. So, if they dropped their price they would simply lower profits. However, people will quite happily cross town to save 2p in the £1 on a litre of petrol.

So setting your price calls for some appreciation of the relative elasticity of the goods and services you are selling.

### Business policy

The overall image that you try to portray in the marketplace will also influence the prices you charge. However, within that policy there will be the option of high pricing to skim the market and lower pricing to penetrate. Skim pricing is often adopted with new products with little or no competition and is aimed at affluent 'innovators'. These people will pay more to be the trend setters for a new product. Once the innovators have been creamed off the market, the price can be dropped to penetrate to 'lower' layers of demand.

The danger with this strategy is that high prices attract the interest of new competitors, who see a good profit waiting to be made.

Opening up with a low price can allow you to capture a high market share initially, and it may discourage competitors. This was the strategy adopted by Dragon Lock, Cranfield enterprise programme participants (the executive puzzle makers), when it launched its new product. Its product was easy to copy and impossible to patent, so it chose a low price as a strategy to discourage competitors and to swallow up the market quickly.

## Business conditions

Obviously, the overall conditions in the marketplace will have a bearing on your pricing policy. In certain conditions, where products are virtually being rationed, the overall level of prices for some products could be expected to rise disproportionately. For example, in the early stages of the 2020 coronavirus crisis hand sanitisers were reported as being sold at £15 for 250 ml, toilet rolls for £1 per roll and Calpol at £10. Loaves of bread that normally sold for £1.25 more than doubled in price to £3.

Seasonal factors can also contribute to changes in the general level of prices. A turkey, for example, costs a lot less on the afternoon of Christmas Eve than it does at the start of Christmas week.

## Channels of distribution

Your selling price will have to accommodate the mark-ups prevailing in your industry. For example, in the furniture business a shop may expect to set a selling price of double that charged by its supplier. This margin is intended to cover its costs and hopefully make a profit. So if your market research indicates that customers will pay £/\$/€100 for a product bought from a shop, you, as the manufacturer selling to a shop, would only be able to charge £/\$/€50.

## Capacity

Your capacity to 'produce' your product or service, bearing in mind market conditions, will also influence the price you set. Typically, a new venture has limited capacity at the start. A valid entry strategy could be to price so high as to just fill your capacity, rather than so low as to swamp you. A housewife who started a home ironing service learnt this lesson on pricing policy to her cost. She priced her service at £10 per hour's ironing, in line with competition, but as she only had 20 hours a week to sell she rapidly ran out of time. It took six months to get her price up to £20 an hour and her demand down to 20 hours a week. Then she was able to recruit some assistance and had a high enough margin to pay some outworkers and make a margin herself.

### Margins and markets

Pricing is perhaps the toughest decision to make. It is part science, taking into consideration all the costs. It is also part art, in assessing what the market will bear, a figure influenced by factors such as the state of the economy and the competitive environment. In any event, you should endeavour to ensure that you achieve a gross profit margin of at least 40 per cent (sales price less the direct materials and labour used to make the article, the resulting margin expressed as a percentage of the sales price). If you do not achieve such margins, you will have little overhead resource available to you to promote and build an effective, differentiated image for your company.

Your competitive analysis will give you some idea as to what the market will bear. We suggest you complete a comparison with your competitors (Table 8.1) to give you confidence that you can match or improve upon your competitors' prices. At the very least you will have arguments to justify your higher prices to your customers and, importantly, your future employees.

TABLE 8.1 Product comparison with competitors

(Score each product factor from –5 to +5 to justify your price versus the competition)

Rating score	Much worse	Worse	Same or nearly so	Better	Much better
	–5	–4 –3 –2	–1 0 +1	+2 +3 +4	+5
Product attributes					
Design					
Performance					
Packaging					
Presentation					
Appearance					
After-sales service					
Availability/distribution					
Delivery methods/time					
Colour/flavour					

(continued)

TABLE 8.1 (Continued)

Rating score	Much worse	Worse	Same or nearly so	Better	Much better
Odour/touch					
Image/street cred.					
Specification					
Payment terms					
Other					
Total					

Price is, after all, the element of the marketing mix that is likely to have the greatest impact on your profitability. It is often more profitable for a new company to sell fewer items at a higher price while you are getting your organization and product offerings sorted out; the key is to concentrate on obtaining good margins, often with a range of prices and quality (e.g. Tesco has its 'Finest' range offered at premium prices alongside similar categories of standard products at lower prices). And if you have to increase prices? Try to combine the increase with some new feature (e.g. new design, colour scheme) or service improvement (e.g. the Post Office reintroducing Sunday collections at the same time as a 1p increase in price).

### Dynamic pricing

Many companies adjust their prices frequently throughout the day, customizing them based on specific situations or market conditions. For example, easyJet.com, a budget airline, employs this strategy. Their ticket prices vary significantly from £30 to £200 for the same trip, depending on the demand for that flight.

The pricing strategy referred to as 'dynamic pricing' is also recognized by other terms, including surge pricing, demand pricing and real-time pricing. Here businesses modify prices based on changing market demand, competitor pricing and stock availability.

On their digital platforms companies use real-time data, analytics, and technologies like artificial intelligence and machine learning. For instance, Amazon not only adjusts prices to match or beat competitors but also tailors

them to individual customer preferences and behaviours. Ride-sharing companies like Fasten use dynamic pricing by identifying high-traffic areas, predicting demand and adjusting prices accordingly.

To implement this strategy, you need access to real-time data and analytics. While sophisticated algorithms are available, they might require technical expertise or third-party tools. Here are some tools that can help:

- Domo: Streamlines workflows and provides insights.
- Klipfolio: Offers instant metrics and is free to use.
- Microsoft Power BI: Known for data visualization, it exposes real-time data and trends.
- Sisense: Offers integrated analytics solutions.
- Tableau: A powerful business intelligence tool that assists in analysing data and making informed decisions.
- Zoho Analytics: Provides robust insights by tracking and analysing data, allowing you to create actionable reports and dashboards.

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## REAL-WORLD EXAMPLE

### *Secret Escapes*

Some business sectors, in particular double glazing, travel and hotels, are famous, or perhaps it would be more accurate to say infamous, for misleading pricing. Endless sales on the high street have made consumers justifiably cynical about price-led promotion. Secret Escapes rely on selling discounted luxury hotel stays as the heart of their business model. The company's skill lies in convincing customers that the 70 per cent discount advertised is real. They achieve this by using television advertising, a believable media, to get across their message that 'even the best hotels do not want empty beds'. They hand pick the best hotels in their sector in the markets in which they operate and offer deals that are exclusive to Secret Escapes for the period they are on offer, making sure their proposition is significantly cheaper than anyone else's in the market.

The business was founded by Alex Saint, 42, and Tom Valentine, 33. Saint, a Geography graduate of Nottingham University, began his career at Unilever, before launching Dealchecker.co.uk, an aggregator travel deals website. Valentine has always been in online marketplaces, starting out with eBay before moving across from online fashion brand Koodos.

Getting visibility on television is not cheap. Their first month's campaign cost £250,000. It was £14 million worth of fundraising from Octopus Ventures, Atlas

Venture and Index Ventures, the private equity firm that backed online clothing retailer Asos, and LoveFilm, the online movie rental business acquired by Amazon, that made heavy-hitting TV commercials a practical strategy.

Secret Escapes has raised a total of \$358.5 million in funding over 12 rounds. Their latest funding was on 31 July 2023. Funds were used to make acquisitions including Travelist (2014), Poland's first online travel club with personalized family-oriented hotel deals; Slevomat Group (2017), Central and Eastern Europe's largest leisure e-commerce platform; TravelBird (2018), an Amsterdam-based travel deals provider across four territories; and Empathy Marketing Limited (2019), the leader in the Irish deals market.

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#### WORKSHEET FOR ASSIGNMENT 8: PRICING

- 1 List all the costs you are likely to incur in making or marketing your product.
- 2 Refer forward to Assignment 20 and then calculate the fixed and variable costs associated with your product.
- 3 Using the costs as calculated above and your profit objective, calculate the optimal price you should charge.
- 4 What price do your competitors charge?
- 5 Compared with your product/service how much better/worse are those of your competitors?
- 6 Are any of your possible market segments less price-sensitive than others?
- 7 Does your answer to question 6 lead you to believe that there is an opportunity to sell at different prices in each market segment – and so enhancing profits?

#### Suggested further reading

- Hill, P (2013) *Pricing for Profit: How to develop a powerful pricing strategy for your business*, Kogan Page, London
- Hinterhuber, A and Liozu, S M (2019) *Pricing Strategy Implementation: Translating pricing strategy into results*, Routledge, London
- Mackenzie, R (2008) *Why Popcorn Costs So Much at the Movies: And other pricing puzzles*, Springer-Verlag, New York



# ASSIGNMENT 9

## Advertising and promotion

In this section of your business plan, you should discuss your planned advertising and promotion programme. A major decision is to choose a method of advertising that will reach most of your customers for the least cost.

### Promotion/advertising checklist

Advertising is to some extent an intangible activity, although the bills for it are certainly not. It is, as Lord Bell, formerly of Saatchi & Saatchi, has described it, ‘essentially an expensive way for one person to talk to another!’ We assume by now you know the target customers you wish to reach. The answers to these five questions should underpin the advertising and promotional aspects of your business plan:

- What do you want to happen?
- How much is that worth?
- What message will make it happen?
- What media should be used?
- How will results be checked?

*What are your advertising objectives?*

There is no point in informing, educating or pre-selling unless it leads to the opportunity in a significant number of instances for a sale to result. So what do potential customers have to do to enable you to make these sales? Do you want them to visit your showroom or website, to phone you, to write to your office, to return a card or to send an order in the post? Do you expect

them to have an immediate need to which you want them to respond now, or is it that you want them to remember you when they have a need for whatever it is you are selling?

The more you are able to identify a specific response in terms of web hits, orders, visits, phone calls or requests for literature, the better your promotional effort will be tailored to achieve your objective, and the more clearly you will be able to assess the effectiveness of your promotion and its cost versus its yield.

The more some particular promotional expenditure cannot be identified with a specific objective but is, for example, to 'improve your image' or 'to keep your name in front of the public', then the more likely it is to be an ineffective way of spending your money.

### *How much is it worth to achieve your objective?*

Once you know what you want a particular promotional activity to achieve, it becomes a little easier to provide for it in your business plan. In practice, four methods are most commonly used, and they each have their merits, with the exception of the first.

The '*what can we afford?*' approach has its roots in the total misconception of promotional activity, which implies that advertising is an extravagance. When times are good, surplus cash is spent on advertising and when times are bad this budget is the first to be cut back. In fact, all the evidence points to the success of businesses that increase promotional spending during a recession, usually at the expense of their meaner competitors.

The '*percentage of sales*' method very often comes from the experience of the entrepreneur or his or her colleagues, or from historical budgets. So if a business spent 10 per cent of sales last year, it will plan to spend 10 per cent in the next, particularly if things went well. This method at least has some logic and provides a good starting point for preparing the overall budget.

'*Let's match the competitors*' becomes a particularly important criterion when they step up their promotional activity. Usually this will result in you either losing sales or feeling threatened. In either case you will want to retaliate, and increasing or varying your promotion is an obvious choice.

The '*cost/benefit*' approach comes into its own when you have clear and specific promotional goals and an experience base to build on. If you have spare capacity in your factory or want to sell more out of your shop, you can work out what the 'benefit' of those extra sales is worth.

Suppose a £1,000 advertisement is expected to generate 100 enquiries for our product. If our experience tells us that on average 10 per cent of enquiries result in orders, and our profit margin is £200 per product, then we can expect an extra £2,000 profit. That ‘benefit’ is much greater than the £1,000 cost of the advertisement, so it seems a worthwhile investment.

In practice, you should use all of these last three methods to decide how much to spend on promoting your products.

*What message will help to achieve the objectives?*

To answer this question you must look at your business and its products/services from the customer’s standpoint and be able to answer the hypothetical question ‘Why should I buy your product?’ It is better to consider the answer in two stages.

- 1 ‘Why should I buy your *product* or *service*?’ The answer is provided naturally by the analysis of factors that affect choice. The analysis of buying motives or satisfactions is an essential foundation of promotional strategy.
- 2 ‘Why should I buy *your* product or service?’ The only logical and satisfactory answer is: ‘Because it is different.’ The difference can arise in two ways:
  - We – the sellers – are different. Establish your particular niche.
  - It – the product or service – is different. Each product or service should have a unique selling point, based on fact.

Your promotional message must be built around these factors and must consist of facts about the company and about the product.

The stress here is on the word ‘facts’, and while there may be many types of facts surrounding you and your products, your customers are only interested in two: the facts that influence their buying decisions, and the ways in which your business and its products stand out from the competition.

These facts must be translated into benefits. There is an assumption sometimes that everyone buys for obvious, logical reasons only, when we all know of innumerable examples showing this is not so. Does a woman only buy a new dress when the old one is worn out? Do bosses have desks that are bigger than their subordinates’ because they have more papers to put on them?

Having decided on the objective and identified the message, now choose the most effective method of delivering your message.

### What media should you use?

Your market research should produce a clear understanding of who your potential customer group are which in turn will provide pointers as to how to reach them. But even when you know who you want to reach with your advertising message its not always plain sailing. The *Fishing Times*, for example, will be effective at reaching people who fish but less so at reaching their partners who might be persuaded to buy them fishing tackle for Christmas or birthdays. Also the *Fishing Times* will be jam-packed with competitors. It might just conceivably be worth considering a web ad on a page giving tide tables to avoid going head to head with competitors, or getting into a gift catalogue to grab that market's attention.

Another factor to consider in making your choice of media is the 'ascending scale of power of influence', as marketers call it. This is a method to rank media in the order in which they are most likely to favourably influence your customers. At the top of the scale is the personal recommendation of someone whose opinion is trusted and who is known to be unbiased. An example here is the endorsement of an industry expert who is not on the payroll, such as an existing user of the goods or services, who is in the same line of business as the prospective customer. While highly effective, this method is hard to achieve and can be expensive and time-consuming. Further down the scale is an approach by you in your role as a salesperson. While you may be seen to be knowledgeable you clearly stand to gain if a sale is made, so you can hardly be unbiased. Sales calls, however they are made, are an expensive way to reach customers, especially if their orders are likely to be small and infrequent.

Further down still comes advertising in the general media: websites, press, radio, television and so forth. However, while these methods may be lower down the scale, they can reach much more of the market, and if done well can be effective.

### *How will the results be checked?*

A glance at the advertising analysis in Table 9.1 will show how to tackle the problem. It shows the advertising results for a small business course run in

London. At first glance the Sunday paper produced the most enquiries. Although it cost the most, £3,400, the cost per enquiry was only slightly more than for the other media used. But the objective of this advertising was not simply to create interest; it was intended to sell places on the course. In fact, only 10 of the 75 enquiries were converted into orders – an advertising cost of £340 per head. On this basis the Sunday paper was between 2.5 and 3.5 times more expensive than any other medium.

Judy Lever, co-founder of Blooming Marvellous, the upmarket maternity-wear company bought out by Mothercare, believes strongly not only in evaluating the results of advertising, but in monitoring a particular media capacity to reach her customers:

We start off with one-sixteenth of a page ads in the specialist press, then once the medium has proved itself we progress gradually to half a page, which experience shows to be our optimum size. On average there are 700,000 pregnancies a year, but the circulation of specialist magazines is only around the 300,000 mark. We have yet to discover a way of reaching all our potential customers at the right time – in other words, early on in their pregnancies.

*Measuring advertising effectiveness on the internet*

Seeing the value from internet advertising can be a difficult proposition. The first difficulty is seeing exactly what you are getting for your money. With press advertising you get a certain amount of space, on television and radio you get airtime. But on the internet there are at least three new ways to measure viewer value, aside from the largely discredited ‘hits’, used only

TABLE 9.1 Measuring advertising effectiveness

Media used	Cost per advert £	Number of enquiries	Cost per enquiry £	Number of customers	Advertising cost per customer £
Sunday paper	3,400	75	45	10	340
Daily paper	2,340	55	43	17	138
Posters	1,250	30	42	10	125
Local weekly paper	400	10	40	4	100

because there was no other technique available. (Hits measured every activity on the web page, so every graphic on a page as well as the page itself counts as a hit.)

- *Unique visitors:* This is more or less what it says – new visitors to a website. What they do once there and how long they stay is not taken into account, so it's a bit like tracking the number of people passing a billboard. Could be useful, but perhaps they just stumbled across the site by accident. Also if users clear their cookies and clean up their hard drive there is no way to identify new and old visitors.
- *Time spent:* Clearly if a visitor stays on a website for a few minutes they are more likely to be interested or at least informed about your products and services than if they were there for a second or two.
- *Page views:* Much as in hardcopy world, a page on the web can now be recognized and the number of viewers counted.

Nielsen, a market-leading audience and market research measurement company, believes that 'time spent' is the best way to measure advertising effectiveness, other of course than actual sales if you can trace them back to their source.

## Advertising and promotion options

In practice most new ventures have little to spend on advertising and there are an awful lot of options. For example if consumers already know what they want to buy and are just looking for a supplier then, according to statistics, the overwhelming majority will search online. Only 3 per cent will turn to a friend. But if you are trying to persuade consumers to think about buying a product or service at a particular time, a leaflet or flyer may be a better option. Once again it's back to your objectives in advertising. The more explicit they are, the easier it will be to choose your medium.

### *The power of print in modern marketing*

Over £1.5 billion is spent each year on mailing UK households, making it the third most effective promotional tool after social media and email marketing. Despite the rise of digital media, direct mail has a lasting impact: consumers

reading paper print are twice as likely to remember content compared to those who read online only.

The tangible nature of printed material engages multiple senses, leading to better retention and recall. Consequently, the printed word remains a crucial medium through which many organizations communicate with their audiences. From newsletters and brochures to catalogues and flyers, the influence of print media is profound.

#### PERSONALIZATION AND ENGAGEMENT

With advancements in printing technology, businesses can now personalize mail to individual recipients, increasing engagement and conversion rates. Personalized direct mail allows companies to address specific needs and interests, making the communication more relevant and impactful. This tailored approach fosters a stronger connection between the brand and the recipient, enhancing the overall effectiveness of the campaign.

#### TRUST AND CREDIBILITY

Physical mail often conveys a sense of trust and credibility, which can be particularly effective in reaching older demographics who may be more sceptical of digital communications. Printed materials are perceived as more permanent and reliable, creating a lasting impression on the audience. This trustworthiness can significantly influence purchasing decisions and brand loyalty.

#### INTEGRATION WITH DIGITAL CHANNELS

Effective marketing strategies often integrate print with digital channels. For example, QR codes or personalized URLs can bridge the gap between offline and online experiences. This integration allows businesses to track responses and measure the success of their campaigns more accurately. By combining the strengths of both print and digital media, companies can create a cohesive and comprehensive marketing strategy that maximizes their reach and impact.

#### SUSTAINABILITY AND BRAND IMAGE

Many consumers are increasingly aware of environmental issues. Using sustainably sourced paper and eco-friendly printing practices can enhance a company's brand image. By demonstrating a commitment to sustainability, businesses can appeal to environmentally conscious consumers and differen-

tiate themselves in a competitive market. This eco-friendly approach not only benefits the environment but also strengthens the brand's reputation and credibility.

Despite the ever-growing digital landscape, the written word – whether on paper or screen – continues to play a pivotal role in effective communication. In advertising, it's essential to craft messages that resonate, captivate and prompt action, regardless of the medium. The combination of personalization, trust, integration with digital channels and sustainability makes print media a powerful tool in modern marketing strategies.

### *What the content needs to be*

- Clear, using straightforward English, with short words, up to three syllables and short sentences, no more than 25–30 words. The text should be simply laid out and easy to read.
- Concise, using as few words as possible and be free of jargon or obscure technical terms.
- Correct, as spelling mistakes or incorrect information will destroy confidence in you and your product or service.
- Complete, providing all the information needed for the reader to do all that is required to meet *your* advertising objective.

### *Business cards and stationery*

Everything you send out needs to be accompanied by something with all your contact details and a message or slogan explaining what you do. That includes invoices, bills, price lists and technical specifications. This may be all that anyone ever sees of you and your business. If it is effective they will remember you by it, and better still, they will remember to pass the information on to anyone else they know who could be a customer.

### *Direct mail (leaflets, flyers, brochures and letters)*

These are the most practical ways for a new business to communicate with its potential customers. These forms of communication have the merits of being relatively inexpensive, simple and quick to put into operation, can be concentrated into any geographic area, and can be mailed or distributed by hand. Finally, it is easy to monitor results.



## REAL-WORLD EXAMPLE

### *Brompton Bicycle: from brainwave to manufacturing success*

In the mid-1970s, Andrew Ritchie, an engineering graduate turned landscape gardener, received a unique request from a cycling enthusiast: design a better fold-up bike than the ones available at the time. This idea gripped Ritchie and he set out to create a revolutionary folding bicycle. After a decade of refining the concept and developing a patented folding mechanism, Brompton Bicycle was ready to hit the market.

#### *Growth and international success*

Fast-forward to recent years and Brompton Bicycle has achieved remarkable growth and global recognition. In the fiscal year ending March 2023, Brompton reported impressive results:

- *Turnover*: £130 million (up 21 per cent from the previous year).
- *Pre-tax profits*: £10,680,953 (a 46 per cent increase).
- *Post-tax profit*: £8,685,432 (up 35 per cent from 2022). Despite challenging conditions in the cycling industry, Brompton's revenue growth remained strong.

The rest of the world accounted for over half of its turnover, experiencing significant growth. Exports to 46 countries continue to drive sales, representing 80 per cent of Brompton's business. They strategically shifted towards more premium products, launching the Superlight T Line and Electric P Line, which contributed to global appeal and helped maintain revenue growth even as unit sales flattened.

#### *Exhibitions and trade shows*

Brompton Bicycle actively participate in trade shows and exhibitions to showcase their innovative designs and connect with customers. Major industry events like Eurobike and Interbike provide a platform to demonstrate the folding mechanism, engage with potential distributors and attract new customers.

#### *Funding and innovation*

In May 2023 Brompton received a £19 million investment led by BGF (British Growth Fund) to accelerate their growth, with BGF taking a minority stake. This investment will allow Brompton to continue innovating and expanding their product range.

Additionally, Brompton are exploring robotic production methods, thanks to a share of £3.7 million in innovation funding secured in February 2024. The goal is to drive efficiency and maintain Brompton's reputation for quality.

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These organizations can provide information that will help you with leaflets, brochures and all other forms of direct mail:

- Data HQ lists databases for Consumer and Business. Their lists cover 36 million consumers, by some 90 topics.
- Fast Print has a useful guide to leaflet design and writing.
- Listbroker.com supplies lists of all types, including consumer and business-to-business, mostly in the United Kingdom but some overseas. All list details, including prices, are available on the site. The database is updated daily and offers consumer and business-to-business lists with over 1.6 billion names for rental.

### *Newspapers, magazines and classified ads*

You can get readership and circulation numbers and the reader profile from the Press Gazette under the Audience Data tabs. The National Readership Survey Audience Data produces average readership data on around 260 UK titles and a host of other data, much of which is free and available online to non-subscribers.

However, national newspapers, except for the classified ads sections, are likely to be outside the budget of most new businesses. If that is the case don't despair as local papers have a substantial readership (around 40 million adults a week) and they cost significantly less to advertise in and have a much more focused readership. Hold The Front Page has links to the 200 or so local daily and weekly papers, from the *Aberdeen Evening Express* to the *York Herald*.

### *Posters, billboards and signs*

If you know where your audience are likely to pass you could put a poster or billboard somewhere in their line of sight. This could be something as simple and inexpensive as an A4 sheet in the local newsagent window, bus shelter or supermarket message board, or a more costly and elaborate structure as are seen by the roadside.

Most businesses have a sign outside their door telling passers by what they do. If the premises has a high footfall with lots of people passing, this can get a lot of visibility for very little money. Obviously you don't have a free hand to put up any size or colour of sign you like; it needs to be in keeping with the local environment. Your local council's planning department will be able to advise you on the rules and regulations prevailing in your area.

You could also consider advertising on taxis and buses, where costs are well within a small firm's budget. For information, advice and facts and figures on all outdoor advertising matters visit Outsmart, the umbrella organization for posters and billboards and all out of home (OOH) media.

### *Using other media*

Increasingly, media such as television and radio, once the prerogative of big business, have filtered down the price band as they have further segmented their own markets with the introduction of digital technology.

#### LOCAL RADIO, TELEVISION AND CINEMA

These media are priced out on a cost per listener/viewer basis, and you will need to be certain that the audience profile matches that of the market segment you are aiming at. As these media, unlike the written word, are not retained after the event, you will also need to support these media with something like local press advertising or an entry in a directory that you can signpost people too. 'See our entry in Yellow Pages/our advertisement in this week's *Cornishman*' are messages that radio, television and cinema audiences can retain and act on.

Radiocentre is the industry body for commercial radio, working on behalf of over 300 licensed radio stations across the UK and can give further information on these media and contact details for professional firms operating in the sector. Rajar (Radio Joint Audience Research Ltd) publishes radio audience statistics quarterly.

### *Attending trade shows and exhibitions*

Exhibitions are a way to get your product or business idea in front of potential customers face to face. That gives you first-hand knowledge of what people really want as well as providing a means of gathering market research data on competitors.

UK Trade & Investment is the UK government organization responsible for all trade promotion and development work. It provides a comprehensive listing of all the consumer, public, industrial and trade exhibitions to be held in major venues around the UK for two or more years ahead. You can search the list by exhibition type, by exhibition date, by exhibition organizer or by exhibition venue. There is also a complete list of main subject categories and subject headings, the main UK exhibition venues, and exhibition organizers. The data is updated regularly twice a month.

### *Creating favourable publicity*

This is about presenting yourself and your business in a favourable light to your various ‘publics’ – at little or no cost. It is also a more influential method of communication than general advertising – people believe editorials.

### *Writing a press release*

To be successful, a press release needs to get attention immediately and be quick and easy to digest. Studying and copying the style of the particular paper, magazine or website you want your press release to appear in can make publication more likely.

- *Layout.* The press release should be typed on a single sheet of A4. Use double spacing and wide margins to make the text both more readable and easy to edit. Head it boldly ‘Press Release’ or ‘News Release’ and date it.
- *Headline.* This must persuade the editor to read on. If it doesn’t attract interest, it will be quickly ‘spiked’. Editors are looking for topicality, originality, personality and, sometimes, humour.
- *Introductory paragraph.* This should be interesting and succinct, and should summarize the whole story; it could be in the form of a quote and it might be the only piece published. Don’t include sales-oriented blurb as this will ‘offend’ the journalist’s sense of integrity.
- *Subsequent paragraphs.* These should expand and colour the details in the opening paragraph. Most stories can be told in a maximum of three or four paragraphs. Editors are always looking for fillers, so short releases have the best chance of getting published.
- *Contact.* List at the end of the release your name, mobile and other telephone numbers and email address as the contact for further information.
- *Style.* Use simple language, short sentences and avoid technical jargon (except for very specialized technical magazines).
- *Photographs.* Email a standard photograph of yourself, your product or anything else relevant to the story being pitched.
- *Follow-up.* Sometimes a follow-up phone call or email to see whether editors intend to use the release can be useful, but you must use your judgement on how often to do so.

Find out the name of the editor or relevant writer/reporter and address the envelope to him or her personally. Remember that the target audience for your press release is the professional editor; it is he or she who decides what to print. So, the press release is not a ‘sales message’ but a factual account designed to attract the editor’s attention.

#### WORKSHEET FOR ASSIGNMENT 9: ADVERTISING AND PROMOTION

- 1 Prepare a leaflet describing your product/service to your main customers. (Don’t worry if you don’t plan to use a leaflet – the exercise will serve to ensure you have put your offer in terms that recognize customers’ needs, rather than simply being a technical specification.)
- 2 Write a press release announcing the launch of your venture. List the media to whom you will send the release.
- 3 Prepare an advertising and promotional plan for the upcoming year, explaining:
  - (a) what you want to happen as a result of your advertising;
  - (b) how much it’s worth to you to make that happen;
  - (c) what message(s) you will use to achieve these results;
  - (d) what media you will use and why;
  - (e) how the results of your advertising will be monitored;
  - (f) how much you will spend.
- 4 If you have already done some advertising or promotional work, describe what you have done and the results you have achieved. Has your work on this assignment given you any pointers for future action?

#### Suggested further reading

- Bourn, M and Munden, S (2024) *Sustainable Advestising: How advertising can support a better future*, Kogan Page, London
- Cluley, R (2017) *Essentials of Advertising*, Kogan Page, London
- Dowson, R, Albert, B and Bassett, D (2022) *Event Planning and Management: Principles, planning and practice*, 3rd edn, Kogan Page, London
- Hughes, T, Gray, A and Whicher, H (2018) *Smarketing: How to achieve competitive advantage through blended sales and marketing*, Kogan Page, London
- Mullin, R (2014) *Promotional Marketing: How to create, implement and integrate campaigns that really work*, Kogan Page, London

# ASSIGNMENT 10

## Place and distribution

‘Place’ is the fourth ‘P’ in the marketing mix. In this aspect of your business plan you should describe exactly how you will get your products to your customers. If you are a retailer, restaurateur or garage proprietor, for example, then your customers will come to you. Here, your physical location will most probably be the key to success. For businesses in the manufacturing field it is more likely that you will go out to ‘find’ customers. In this case it will be your channels of distribution that are the vital link.

Even if you are already in business and plan to stay in the same location, it would do no harm to take this opportunity to review that decision. If you are looking for additional funds to expand your business, your location will undoubtedly be an area prospective financiers will want to explore.

### Location

From your market research data you should be able to come up with a list of criteria that are important to your choice of location. Here are some of the factors you need to weigh up when deciding where to locate:

- Is there a market for the particular type of business you plan? If you’re selling a product or service aimed at a particular age or socioeconomic group, analyse the demographic characteristics of the area. Are there sufficient numbers of people in the relevant age and income groups? Are the numbers declining or increasing?
- If you need skilled or specialist labour, is it readily available?
- Are the necessary back-up services available?
- How readily available are raw materials, components and other supplies?

- How does the cost of premises, rates and utilities compare with other areas?
- How accessible is the site by road, rail, air?
- Are there any changes in the pipeline that might adversely affect trade, e.g. a new motorway bypassing the town, changes in transport services, closure of a large factory?
- Are there competing businesses in the immediate neighbourhood? Will these have a beneficial or detrimental effect?
- Is the location conducive to the creation of a favourable market image? For instance, a high-fashion designer may lack credibility trading from an area famous for its heavy industry and notorious for its dirt and pollution.
- Is the area generally regarded as low or high growth? Is the area probusiness?
- Can you and your key employees get to the area easily and quickly?

You may even have spotted a ‘role model’ – a successful competitor, perhaps in another town, who appears to have got his or her location spot on.

Using these criteria you can quickly screen out most unsuitable areas. Other locations may have to be visited several times, at different hours of the day and week, before screening them out.

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#### REAL-WORLD EXAMPLE

##### *Phoenix Training*

Phoenix was started by Bill Osmond and was joined three and a half years later by Tim Holmes. Initially they located at premises at Leather Market, close to London Bridge, making a virtue out of being in the shadow of the Shard. Phoenix paid over the odds for their location but strategically speaking they started in exactly the right spot. SMEs, one of their client sweet spots, comprised the largest segment of the local business population in that part of London. However, they were close enough to be attractive to large City corporations.

Currently, Phoenix is firmly established with a portfolio of blue-chip clients including wealth managers Rathbone, Samsung and Superdrug. However, Phoenix found over time that a decreasing proportion of their clients used their costly central London training centre, preferring to use either their own premises or another facility closer to their own premises. While still remaining in London, the company no longer feels the need to be absolutely at its heart.

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When writing up this element of your business plan keep these points in mind:

- Almost every benefit has a cost associated with it. This is particularly true of location. Make sure that you carefully evaluate the cost of each prospective location against the expected benefits. A saving of a couple of hundred pounds a month in rent may result in thousands of pounds of lost sales. On the other hand, don't choose a high-rent location unless you are convinced that it will result in higher profits. Higher costs do not necessarily mean greater benefits.
- Choose the location with the business in mind. Don't start with the location as a 'given'. You may think it makes sense to put a bookshop in an unused portion of a friend's music shop since the marginal cost of the space is zero. The problem with this approach is that you force the business into a location that may or may not be adequate. If the business is 'given' (i.e. already decided upon), then the location should not also be given. You should choose the best location (i.e. the one that yields the most profit) for the business. 'Free' locations can end up being very expensive if the business is not an appropriate one.
- When you write your business plan as a financing tool, you often may not have the specific business location selected prior to completion of the business plan. This is fine, since there is no point in wasting time deciding on a location until you know you will have the money to start the business. Besides, even if you do select a location before obtaining the money, it is very possible that the location will already be gone by the time you get through the loan application process and have the business firm enough to sign a lease or purchase agreement. Another consideration is that you may wear out your welcome with an estate agent if you make a habit of withdrawing from deals at the last minute, due to lack of funds.

It will suffice if you are able to explain exactly what type of location you will be acquiring. Knowing this, you will be able to make a good attempt at cost and sales estimates, even though the specific location has yet to be determined.

## Outsourcing

The most important choice at the outset of planning how much space you will need when starting a business is to decide what you will do in-house and what you will buy. The process of getting others to do work for you rather than simply supplying you with materials for you to work on is called



‘outsourcing’. There is little in terms of business functions that can’t be outsourced. It would be prudent to consider outsourcing, at least initially, any activity that requires a substantial amount of capital.

You can read up on the sorts of activities a small home-based business can outsource, how to choose outsourcing partners and how to draw up a supply agreement with outsource suppliers at the Deloitte website.

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#### REAL-WORLD EXAMPLE

##### *Roc Technologies: a case study in effective outsourcing*

Roc Technologies is a business and technology services provider based in Thatcham, UK. Specializing in digital transformation solutions, managed IT services, cloud solutions, automation and data analytics, and secure network solutions, Roc has become a significant player in the IT sector since its inception.

Founded in 2011 by Mike Hockey, Sam Simpson, Steve Shirley and Matt Franklin, with a wealth of experience in the IT and business services sectors, Roc quickly became established as a profitable venture. Over the years, the company has grown significantly and now employs around 258 people with an annual turnover of over £9 million.

They serve a diverse range of clients, including multinational companies, public sector organizations and commercial clients. Their clients span various industries such as aviation, construction, defence, energy, higher education, legal and retail. This wide-ranging client base highlights Roc’s ability to deliver tailored solutions across different sectors.

In 2021, Roc faced a challenge when their payroll manager left the company. This prompted the CFO, Richard Jefferies, to review the in-house payroll and HR functions. The review revealed that employing a five-member HR and payroll team was not the best use of resources. Moreover, employee relations issues were consuming significant senior management time and incurring higher costs. They decided to outsource their payroll and HR functions to James Cowper’s payroll team and myHRdept for HR support. This strategic move reduced their overall headcount by four and more than halved their spend. The transition to outsourcing was smoother than expected and the outsourced teams proved to be highly effective.

The decision to outsource proved beneficial, allowing them to optimize resources, reduce costs and improve efficiency. The successful transition to outsourcing and the continued support from the outsourced teams enabled Roc to maintain high standards of HR and payroll management. By focusing on their core competencies and partnering with specialized external providers, Roc Technologies has continued to grow and thrive in a competitive market.

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## Premises

In your business plan you will need to address these issues with respect to premises.

*Can the premises you want be used for your intended business?*

The main categories of 'use' are retail, office, light industrial, general industrial and special categories. If your business falls into a different category from that of a previous occupant you may have to apply to the local authority for a 'change of use'.

An unhappy illustration of this came from a West Country builder who bought a food shop with living accommodation above. His intention was to sell paint and decorative products below and house his family above. Within three months of launching his venture he was advised that as his shop stock was highly flammable, the house would need fire-retardant floors, ceilings and doors – at a cost of £20,000, even doing the work himself. The business was effectively killed off before it started.

There are many regulations concerning the use of business premises. You should contact the Health & Safety Executive to ensure that whatever you plan to do is allowed.

*Will you be making any structural alterations?*

If so, planning permission may be needed and building regulations must be complied with. Any structural alterations, increase in traffic, noise, smells or anything such as operating unreasonable hours or any disturbance that could affect nearby homes or other businesses may need permission.

You can find out whether approval is likely informally from your local council before applying. You can also get details of most of the organizations involved in the planning, as well as guides to the planning system.

Securing permissions to alter property or its uses takes time and will incur costs that should be allowed for in your cash-flow projections.

*Are the premises the appropriate size?*

It is always difficult to calculate just how much space you will require, since your initial preoccupation is probably just to survive. Generally, you won't want to use valuable cash to acquire unnecessarily large premises. However,

if you make it past the starting post you will inevitably grow, and if you haven't room to expand, you'll have to begin looking for premises all over again. This can be expensive, not to say disruptive.

To calculate your space requirements, prepare a layout that indicates the ideal position for the equipment you will need, allowing adequate circulation space. Shops require counters, display stands, refrigeration units, etc. In a factory, machinery may need careful positioning and you may also have to consider in great detail the safe positioning of electricity cables, waste pipes, air extractors, etc.

The simplest way to work out space requirements is to make cut-out scale models of the various items and lay these on scaled drawings of different-sized premises – 400 square feet, 1,000 square feet, etc.

By a process of trial and error you should arrive at an arrangement that is flexible, easy to operate, pleasant to look at, accessible for maintenance, and comfortable for both staff and customers. Alternatively you can use space planning software such as Instant Planner, Autodesk or plan3D, all of which have free or very low cost tools for testing out your space layout.

Only now can you calculate the likely cost of premises to include in your business plan.

### *Will the premises conform with existing fire, health and safety regulations?*

These are the regulations and guidelines that ensure that premises are safe and compliant with health, safety and fire safety standards. They help protect workers, visitors and the general public from potential hazards.

- *Health and Safety at Work Act 1974*. This is the primary legislation governing occupational health and safety in the UK. It sets out the general duties of employers, employees and self-employed individuals to ensure a safe working environment.
- *Management of Health and Safety at Work Regulations 1999*. These regulations require employers to assess and manage risks to health and safety. Employers must implement appropriate measures to control these risks.
- *Regulations 1992*. These cover a wide range of basic health, safety and welfare issues in most workplaces. They include requirements for ventilation, temperature, lighting, cleanliness and facilities for rest and eating.

- *Fire Safety (England) Regulations 2022*. These introduce new duties for building owners or managers, particularly for high-rise residential buildings. They include requirements for fire risk assessments, fire doors, wayfinding signage, and regular checks on lifts and firefighting equipment.
- *Fire Safety Order 2005*. This order places legal duties on anyone in control of premises to conduct a fire risk assessment and implement necessary fire precautions. It applies to all workplaces and the common parts of buildings containing two or more domestic premises.
- *Approved Document B (Fire Safety)*. This document provides detailed guidance on fire safety requirements for buildings, including residential and non-residential structures. It covers aspects such as fire resistance of building materials, means of escape, and fire detection and alarm systems.

### *Will you be working from home?*

If you plan to work from home, have you checked that you are not prohibited from doing so by the house deeds, or whether your type of activity is likely to irritate the neighbours? This route into business is much in favour with sources of debt finance, as it is seen to lower the risks during the vulnerable start-up period. Venture capitalists, on the other hand, would probably see it as a sign of ‘thinking too small’ and steer clear of the proposition. Nevertheless, working from home can make sound sense.

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### REAL-WORLD EXAMPLE

#### *Road Runner Despatch*

For example, Peter Robertson, aged 20, who founded Road Runner Despatch, started out running his business as a very domestic affair operated from his home in Brightlingsea, Essex. His mother answered the telephone and frequently his father used the family car to make collections. Within two years he was employing 10 full-time motorcycle riders. Only at this stage did Robertson put together a plan, which involved raising £100,000 capital, to open an office on a central site, complete with a state-of-the-art radio-telephone system.

The company has built a reputation for providing exceptional courier services across the UK mainland, particularly in areas such as Nottingham, Derby, Leicester and Loughborough. Their service offerings include immediate same-day collection, typically within 30–60 minutes of receiving a call, and they pride themselves on delivering secure, hand-to-hand, door-to-door service with signed and timed proof of delivery.

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*Will you lease or buy?*

Purchasing premises outright frequently makes sense for an established, viable business as a means of increasing its asset base. But for a start-up, interest and repayments on the borrowings will usually be more than the rental payments. But leasing itself can be a trap; e.g. a lease rental of £5,000 a year may seem preferable to a freehold purchase of say £50,000. But remember, as the law currently stands, if you sign and give a personal guarantee on a new 21-year lease (which you will be asked to do), you will remain personally responsible for payments over the whole life of the lease. Landlords are as reluctant to allow change in guarantors as they are to accept small business covenants. You could then be committing yourself, in these circumstances, to a minimum £105,000 outlay! Some financiers feel that your business idea should be capable of making more profit than the return you could expect from property. On this basis you should put the capital to be raised into 'useful' assets such as plant, equipment, stocks, etc.

However, some believe that if you intend to spend any money on converting or improving the premises, doing so to leased property is simply improving the landlord's investment and wasting your (their) money. You may even be charged extra rent for the improvements, unless you ensure that tenant improvements are excluded from the rent reviews.

In any event, your backers will want to see a lease long enough to get your business firmly established and secure enough to allow you to stay on if it is essential to the survival of your business. Starting up a restaurant in short-lease premises might actually be a sensible way to test your business at minimum risk as a means to simply test the market. The ideal situation, which can sometimes be obtained when landlords are in difficulties, is to negotiate a short lease (say one or two years) with an option to renew on expiry. All leases in Singapore and Malaysia are for two years, with options to renew at prevailing rates, which might seem much more helpful to encourage new business start-ups. It may be best for you to brief a surveyor to help you in your search and negotiation (their charge is normally 1 per cent, with payment only by result).

*If appropriate, you could consider locating in a sympathetic and supportive environment*

For example, universities and colleges often have a science park on campus, with premises and starter units for high-tech ventures. Enterprise agencies often have offices, workshops and small industrial units attached. In these

situations you may have access to a telex, fax, computer, accounting service and business advice, on a pay-as-you-use basis. This would probably be viewed as a plus point by any prospective financial backer. United Kingdom Science Park Association (UKSPA) has directories of incubators or innovation centres, as these new business friendly starter units are known.

*What opening/works hours do you plan to keep, and why?*

Many new retailers survive by working very long hours; be careful with many of the new shopping 'malls', where hours of opening are strictly controlled, thereby preventing you from 'being different' by having unusual operating hours.

*Check on insurance*

Any personal insurance policy you have will not cover business activity so you must inform your insurer what you plan to do. You can find out more about business insurance cover and where to find an insurance company from the Association of British Insurers.

## Channels of distribution

This refers to the network of businesses involved in making a product or service available for use or consumption by businesses or end users. Businesses in the channel can be independent, owned by others in the channel, or they may collaborate in various ways. While few new or small businesses are likely to set up complex distribution channels, all will be somewhere in a channel and so need some appreciation of overlapping roles.

The channel members perform several functions, including:

- *Promotion and contact*: Involves advertising, creating awareness and providing contact resources.
- *Information*: Providing information about the product or service.
- *Matching*: Aligning the product or service with specific customer requirements.
- *Risk sharing*: Sharing risks associated with the transaction.
- *Negotiation*: Setting trade terms and prices.

- *Financing*: Managing transaction costs, such as providing credit.
- *Physical distribution*: Handling product distribution or service execution.

There are three broad categories of channel: conventional, horizontal and vertical.

### *Conventional channels*

In this type, each link in the chain operates independently and competes for a share of the value in delivering the end product to consumers. Typically, there are four or more links in the chain: the manufacturer/producer that creates the product; the wholesaler, an intermediary that buys products in bulk from the manufacturer, selling these goods in smaller quantities to retailers; the retailer who purchases products from wholesalers and sells directly to the end consumer; the consumer who purchases and uses the product, either directly or perhaps as a gift. Occasionally, one link may leap-frog over another.

The internet and online business play three significant roles within a conventional distribution channel:

- *Direct distribution channels*: The manufacturer sells directly to the end consumer. The consumer may get a better price and the seller has a proprietorial relationship with the buyer.
- *Indirect distribution channels*: Online retailers act as intermediaries, selling products to consumers that ultimately come from a manufacturer or wholesaler, rather than their own stocks.
- *Hybrid distribution channels*: Some companies use a combination of both direct and indirect channels, allowing more flexibility and broader reach.

### *Horizontal marketing systems (HMS)*

HMS involves non-competing businesses at the same level in the chain collaborating to market an existing product or create a new channel. Reasons for collaboration include resource limitations, brand name establishment or achieving economies of scale. Recent examples include Unilever and Alibaba, which in 2021 announced a partnership to collaborate on e-commerce initiatives in China. This let Unilever tap into Alibaba's extensive online retail network. Also in 2021, Adidas and Peloton joined forces to create workout apparel and accessories for Peloton users, combining fitness and fashion.

### *Vertical marketing systems (VMS)*

VMS integrates producers, wholesalers and retailers into a unified system. Zara, a fast-fashion retail brand, owned by Inditex, the world's largest fashion group, controls the entire distribution chain, including design, manufacturing and distribution. Zara produces its own clothing rather than relying on independent companies for production. This integrated approach allows Zara to maintain agility, respond quickly to trends and deliver stylish apparel at reasonable costs.

Other direct from 'producer to customer' channels include:

- *Internet.* Revenue generation via the internet is big business and getting bigger. In some sectors – advertising, books, music and video – it has become the dominant route to market. See 'Building a website' in Assignment 12 for the nuts and bolts of operating online.

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### REAL-WORLD EXAMPLE

#### *The Cambridge Satchel Company*

On 23 August 2022, after 14 years in business, The Cambridge Satchel Company announced its acquisition by Chargeurs, a Paris-based family-owned group. Chargeurs, a world leader in high value-added niche markets, operates in nearly 100 countries with 2,500 employees. This acquisition enhances Chargeurs' presence in the UK, where they already own Swaine, the UK's oldest luxury goods brand. Founded in 1750, Swaine is known for its high-quality leather goods and luxury accessories.

Julie Deane started The Cambridge Satchel Company with her mother, Freda Thomas. The business began with a budget of £600, raised by selling household items on eBay. The idea was born from Deane's desire to afford private school fees for her children. The company quickly grew, gaining popularity for its stylish, high-quality leather satchels inspired by traditional British school bags. The bags became a fashion trend, featured in various magazines and used by celebrities. Deane was named one of the Top 100 most powerful women in the UK by BBC Radio 4's *Woman's Hour*. In 2014, she was appointed Officer of the Order of the British Empire (OBE) for services to entrepreneurship, and in 2016 was advanced to Commander of the Order of the British Empire (CBE).

The journey: multi-channel distribution

- *Retail stores:* The Cambridge Satchel Company established physical retail stores across the UK, creating a tangible brand presence.



- *Own website*: They launched an e-commerce website, offering direct sales to consumers. The website became a central hub for online purchases and brand engagement.
- *Comparison websites*: The company partnered with comparison websites, expanding their online visibility and attracting cost-conscious shoppers.
- *Telephone sales*: A dedicated sales team managed telephone orders, providing personalized service and direct communication.
- *Catalogue distribution*: They distributed catalogues displaying their product range, reaching potential customers through mail and other channels.

By strategically combining these distribution channels, The Cambridge Satchel Company achieved broader market reach, enhanced customer experiences and sustained growth.

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- *Door-to-door selling*. Traditionally used by vacuum cleaner distributors and encyclopedia companies, this is now used by insurance companies, cavity-wall insulation firms, double-glazing firms and others. Many use hard-sell techniques, giving door-to-door selling a bad name. However, Avon Cosmetics has managed to sell successfully door to door without attracting the stigma of unethical selling practices.
- *Party plan selling*. This is a variation on door-to-door selling that is on the increase, with new party plan ideas arriving from the United States. Agents enrolled by the company invite their friends to a get-together where the products are demonstrated and orders are invited. The agent gets a commission. Party plan has worked very well for Avon and other firms that sell this way.

On a more modest scale, one man turned his hobby of making pine bookcases and spice racks into a profitable business by getting his wife to invite neighbours for coffee mornings where his wares were prominently displayed.

- *Telephone selling*. This too can be a way of moving goods in one single step, from 'maker' to consumer. Few products can be sold easily in this way; however, repeat business is often secured via the phone.

### *Selecting distribution channels*

These are the factors you should consider when choosing channels of distribution for your particular business:

- *Does it meet your customers' needs?* You have to find out how your customers expect their product or service to be delivered to them and why they need that particular route.
  - *Will the product itself survive?* Fresh vegetables, for example, need to be moved quickly from where they are grown to where they are consumed.
  - *Can you sell enough this way?* 'Enough' is how much you *want* to sell.
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#### REAL-WORLD EXAMPLE

##### TWS

TWS, a window systems manufacturer, wanted to increase its sales. A customer survey was commissioned which revealed that 80 per cent of TWS customers did not have forklift trucks, resulting in manual offloading of deliveries by employees at its customers' premises. The TWS solution was to order delivery vehicles, complete with their own forklift, facilitating unloading at customer premises in 15 minutes instead of two hours, giving faster turnaround time and requiring no customer assistance. This, in turn, did not waste the valuable time of customer employees and encouraged extra orders from existing TWS customers as well as opening up new customer possibilities.

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- *Is it compatible with your image?* If you are selling a luxury product, then door-to-door selling may spoil the impression you are trying to create in the rest of your marketing effort.
- *How do your competitors distribute?* If they have been around for a while and are obviously successful, it is well worth looking at how your competitors distribute and using that knowledge to your advantage.
- *Will the channel be cost-effective?* A small manufacturer may not find it cost-effective to sell to retailers west of Bristol because the direct 'drop' size – that is, the load per order – is too small to be worthwhile.
- *Will the mark-up be enough?* If your product cannot bear at least a 100 per cent mark-up, then it is unlikely that you will be able to sell it through department stores. Your distribution channel has to be able to make a profit from selling your product too.
- *Push–pull.* Moving a product through a distribution channel calls for two sorts of selling activity. 'Push' is the name given to selling your product in, for example, a shop. 'Pull' is the effort that you carry out on the shop's behalf to help it to sell your product out of that shop. That pull may be caused by your national advertising, a merchandising activity or the

are needed for the channel you are considering. If you are not geared up to help retailers to sell your product, and they need that help, then this could be a poor channel.

- *Physical distribution.* The way in which you have to move your product to your end customer is also an important factor to weigh up when choosing a channel. As well as such factors as the cost of carriage, you will also have to decide about packaging materials. As a rough rule of thumb, the more stages in the distribution channel, the more robust and expensive your packaging will have to be.
- *Cash flow.* Not all channels of distribution settle their bills promptly. Mail order customers, for example, will pay in advance, but retailers can take up to 90 days or more. You need to take account of this settlement period in your cash-flow forecast.

#### WORKSHEET FOR ASSIGNMENT 10: PLACE AND DISTRIBUTION

- 1 What type and size of premises are required for your business?
- 2 Describe the location.
- 3 Why do you need this type of premises and location? What competitive advantage does it give you?
- 4 If freehold, what is/are the:
  - value?
  - mortgage outstanding?
  - monthly repayments?
  - mortgage with whom?
- 5 If leasehold:
  - What is the unexpired period of lease?
  - Is there an option to renew?
  - What is the present rent payment?
  - What is the date of rent payment?
  - What is the date of the next rent review?
- 6 What rates are payable on your business premises?
- 7 What are the insurance details:
  - sum insured?
  - premium?

- 8 Are these premises adequate for your future needs? If not, what plans do you have?
- 9 If you have not found your premises yet, what plans do you have to find them?
- 10 What channels of distribution are used in your field; which do you plan to use and why?
- 11 What operating risks – fire, health and safety, etc – need to be considered?

### Suggested further reading

- Bruel, O (2016) *Strategic Sourcing Management: Structural and operational decision-making*, Kogan Page, London
- Dent, J and White, M (2018) *Sales and Marketing Channels: How to build and manage distribution strategy*, Kogan Page, London
- Gee, R, Sloan, D and Symes, G (2019) *The Retail Start-Up Book: Successfully plan, launch and grow a business*, Kogan Page, London
- McKinnon, A, Browne, M, Whiteing, A and Piecyk, M (2015) *Green Logistics: Improving the environmental sustainability of logistics*, Kogan Page, London
- O'Brien, J (2017) *The Buyer's Toolkit*, Kogan Page, London
- Rudd, J (2023) *A Practical Guide to Logistics: An introduction to transport, warehousing and distribution*, 2nd edn, Kogan Page, London
- Rushton, A, Croucher, P and Baker, P (2022) *The Handbook of Logistics and Distribution Management: Understanding the supply chain*, 7th edn, Kogan Page, London

# ASSIGNMENT 11

## People, process and physical environment

According to management guru Peter Drucker ‘there is only one valid definition of a business purpose; to create a customer’. This has led to the belief that three elements other than the 4 Ps are as important – and hence the name 7 Ps. These additional Ps are:

- People – friendly helpful staff are better than rude untrained ones.
- Process – how the product or service is delivered matters. So complicated ordering systems, confusing websites and unhelpful returns policies can work against a business.
- Physical Evidence – the physical environment needs to be attractive and appropriate, particularly for retail businesses. So for McDonald’s a play area is a plus, but would perhaps be inappropriate for a bank.

The original marketing mix had just 4 Ps – product, price, place and promotion. However, this mix has since been extended to 7 Ps, with people, process and physical evidence added to accommodate the increasing emphasis on customers focus in business. The originators of the extra three had in mind the unique problems in marketing intangible services. But as almost every ‘product’ has a major service element, the 7 Ps have been adopted into the mainstream marketing mix analysis.

### Understanding the role of people in marketing

Marketing managers often believe that the most important aspects of marketing lie in areas such as creating sensational advertising campaigns, launching innovative and well-designed products or creating brand identity.

Not to denigrate these factors in any way, but the single most prevalent reason for a marketing strategy failing lies in its implementation and, by extension, the people who carry out marketing tasks. Often known as the fifth P of the marketing mix, the selection of people to implement strategy and the way in which they are organized that contributes the most to your business's success. Stated like that it sounds a fairly simple task. Just work your way through those headings and you should be able to get the desired results. Unfortunately, people – both individually and collectively – are rarely malleable and are infinitely variable in their likely responses to situations, making their behaviour hard to predict.

The famous German military strategist Moltke came up with a useful statement: 'No campaign plan survives first contact with the enemy', which applies here (if the word 'enemy' is replaced by 'organization'). However, by understanding and applying the following basic principles and concepts in the areas of leadership, motivation and team-building, you, the MBA student, can improve an organization's chances of achieving its objectives.

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#### REAL-WORLD EXAMPLE

##### *B&Q*

Sometimes something as basic as getting your employees to more accurately reflect your customer base can change your business proposition as dramatically as a shift in price, promotion, product or place. B&Q, the UK's and Europe's largest home improvement and garden centre retailer (and the third largest globally), significantly transformed its workforce. This change was prompted by customer feedback, emphasizing the desire for assistance from employees who had personal experience with home improvement matters.

The company set each of its 330 UK stores the objective of employing a workforce that reflects the make-up of the local community, with an emphasis on employing people over the age of 50. They have successfully operated without a retirement age for over 15 years and provide flexible retirement options. In fact, they once opened a store with only employees aged over 50, which has become part of their inclusive and supportive reputation. B&Q actively works with older workers through recruitment agencies and offers job opportunities across various departments, including retail, digital, HR and finance. So, their commitment to age diversity remains strong.

This initiative delivered 18 per cent higher profits over the following 12 months, with one-sixth of the previous level of staff turnover. Not only are the shareholders

happy, B&Q – owned by Kingfisher, whose other main retail brands include Castorama, Brico Dépôt, Screwfix and Koçtas – employees are, too. The company is one of only eight organizations in the world to have won Gallup's Great Workplace Award three years in a row, scoring 4.24 out of 5, a near 'world-class' achievement.

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## Process

How you deliver your product or service (the process) is another element in the marketing mix that can be varied or improved so as to give your business a competitive edge. Complicated ordering systems, confusing websites and unhelpful returns policies can work against your business. So for example customers going on a package holiday will have first-hand experience of all the elements of process that make up a streamlined process to ensure a satisfactory trip – they'll expect to be able to book the holiday on a website, get their e-tickets issued by email, check in and retrieve their baggage without lengthy queues, experience smooth transit from the airport to the hotel and receive a swift resolution to any handling problems.

Process is now such a critical element in the marketing mix that it has attracted a whole new business discipline, business process re-engineering (BPR). This re-engineering process involves a fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical measures of performance such as cost, quality, service and speed.

## Physical evidence

The physical environment needs to be attractive and appropriate, particularly for retail businesses. So when Tiffany's flagship London store opened in 2018 they built in features that encouraged creative interaction and play, including an in-store Tiffany fragrance vending machine. Services as we know are largely intangible when you think about marketing them. However, customers tend to rely on physical cues to help them evaluate the product before they buy it.

To make a service tangible to the customer, marketers develop what is called physical evidence to replace these physical cues in a service. The role of the marketer is to design and implement such tangible evidence, varying it as appropriate in the marketing mix process.

For example ambience can be used to help customers experience the service on offer. In a club, loud music and flashing lighting will be the order

of the day, while in a spa candles and the smell of scent can be used to deliver a calm therapeutic environment. The marketer task is to make ambience support and enhance the service being sold.

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#### REAL-WORLD EXAMPLE

##### *Ingredient Solutions Limited: crafting excellence in the marketing process*

In May 2022, Ian Galletly, founder of Ingredient Solutions, orchestrated the successful sale of the company to Rupp A.G., the Austrian dairy giant. Rupp, with a rich history dating back to 1908, specializes in producing both processed and natural speciality cheeses under the Rupp and Alma brands across Europe and Asia.

Galletly's entrepreneurial track record includes building and exiting successful ventures. Notably, he played a pivotal role in the sale of Dairyborn Foods Ltd to Golden Vale for £10 million in February 1999. Ingredient Solutions, a trailblazer in innovative cheese ingredients, began operations in 2000 when Galletly relocated from the UK to Ireland. By 2020, the company's annual turnover had soared to €50 million.

For Galletly, achieving the process elements of the marketing mix is as crucial as maintaining stringent raw material standards. What sets Ingredient Solutions apart is Galletly's unique approach to transparency. The factory features a full-length window wall, exposing operations to the administrative and technical teams responsible for maintaining customer relationships. This real-time visibility ensures the highest hygiene standards – a critical factor in the food industry.

Ingredient Solutions collaborates closely with customers and suppliers, creating profitable products from great ideas. Their commitment to exceeding customer needs in today's fast-changing cheese marketplace has led to recent major contracts throughout Europe and the Middle East. Their excellent product quality and service continue to attract new opportunities.

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#### WORKSHEET FOR ASSIGNMENT 11: PEOPLE, PROCESS AND PHYSICAL ENVIRONMENT

- 1 Are all people who come in contact with customers the right people for that type of work and have they been properly trained?
- 2 Are customers being given the right level of after-sales support and advice?
- 3 Do customers know where their order is in the production – despatch – delivery process?



- 4 Can customers reach you by phone, email or your website and get their questions answered quickly and efficiently?
- 5 Can you demonstrate in some way that is visible to your customers and employees that you are meeting the appropriate quality standards?

### Suggested further reading

Chartered Institute of Marketing, *Marketing and the 7Ps*, [www.cim.co.uk/files/7ps.pdf](http://www.cim.co.uk/files/7ps.pdf) (archived at [perma.cc/78M6-272P](http://perma.cc/78M6-272P))

Tutor2U, *Extended Marketing Mix (7P's)*, [www.tutor2u.net/business/reference/the-extended-marketing-mix-7ps](http://www.tutor2u.net/business/reference/the-extended-marketing-mix-7ps) (archived at [perma.cc/25Y2-CRKY](http://perma.cc/25Y2-CRKY))

# ASSIGNMENT 12

## Competing online

Few if any businesses can hope to survive – let alone compete – without a strong online presence. As of 2024, there were over 6 billion internet users worldwide, accounting for approximately 70 per cent of the global population. Just over a fifth of all retail sales take place online.

Research shows that many retailers already report that more than two-thirds of website browsing takes place on smartphones and tablets, and a rapidly growing number of consumers conclude their purchase in this way.

The range of products sold online is extending considerably, and with it the way business does business is changing. For example, car buyers used to make five or more visits to a dealer while making up their minds, but now they do most of their tyre-kicking online, making barely one showroom visit before deciding on a car. So, showrooms have been supplanted by websites and social media work on platforms like Facebook and X.

Remember Blockbuster Video? At its peak, it was the go-to place for renting movies and video games. However, the rise of digital streaming services changed the game. Blockbuster failed to adapt quickly enough and by 2010 it had filed for bankruptcy and closed most of its stores.

But here's the twist: Netflix, once a DVD rental-by-mail service, saw the writing on the wall. It shifted its focus to streaming content online. By investing in original programming, user-friendly interfaces and personalized recommendations, Netflix became a household name. Today, it dominates the streaming industry, with millions of subscribers worldwide.

Blockbuster's demise serves as a cautionary tale for businesses that resist digital transformation. Companies must evolve or risk becoming obsolete. This chapter gives you a good grounding in what you need to know to show in your business plan how you will harness the power of the internet.

## REAL-WORLD EXAMPLE

### *Minerva Tutors*

Founded in 2014 by Hugh Viney, London-based Minerva works with more than 60 tutors to help children aged 5–18 with their exams and education, both through tutoring classes and home-schooling. Viney, former Head Boy and Top Academic Scholar at Stowe School, read Classics at UCL and began tutoring soon after graduating. Frustrated by his experiences of the industry, he has as his company's mission 'To improve standards and professionalism for parents and tutors alike'.

Described by the Good Schools Guide as 'the Innocent Drinks of the tutor world', the business has proved a success. Their latest accounts filed in June 2019 show that they have been profitable from the outset, accumulating close on a £250,000 profit in their short life.

In February 2020, when the coronavirus pandemic dealt a hammer blow to the business world in general, businesses such as Minerva, which centred on close contact tutoring in-person, had to reinvent themselves or die. Viney switched to tutoring entirely online, launching Minerva Virtual Academy (MVA) and staying in touch with his tutors via Google Hangouts and keeping students engaged using online whiteboards. Fortunately, the operations side of Minerva was already online. Their own tech platform, Temple, is designed so that parents can log in and monitor pupil progress via detailed, individual lesson reports.

In September 2023, Minerva Tutors announced the establishment of a new Middle School for Years 7 and 8. Additionally, Minerva's Virtual Academy achieved the distinction of becoming the first online school accredited by the Sport England-backed Talented Athlete Scholarship Scheme (TASS), enabling young athletes to pursue qualifications while advancing their sporting careers.

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## Registering a domain name

Having an internet presence means that you need a domain name, the name by which your business is known on the internet which lets people find you by entering your name into their browser address box, such as example.com. Ideally, you want a domain name that captures the essence of your business neatly so that you come up readily on search engines, and one that's as close as possible to your business name (see Assignment 3 where we cover naming your business).

Domain names come in all shapes and sizes. Those such as ‘.com’, exude an international/US flavour, and ‘.co.uk’ implies a UK orientation. Charities usually opt for ‘.org’, or ‘.org.uk’, and ‘.net’ or ‘.net.uk’ are used by network service providers. Businesses often use ‘.biz’, but it doesn’t really matter what domain you use: what you want is to be seen. Some domains are restricted. For example ‘.ac.uk’ is used by higher education institutes in the UK and ‘.gov.uk’ is used by UK government departments.

If your business name is registered as a trademark (see Assignment 7) you may (as current case law develops) be able to prevent another business from using it as a domain name on the internet.

After you’ve decided on a selection of domain names your internet service provider (ISP), the organization that you use to link your computer to the internet, can submit a domain name application on your behalf. Top10.com provide a current list of the top ten domain hosting companies, together with the services they provide and their costs.

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#### REAL-WORLD EXAMPLE

##### *Moonpig*

Nick Jenkins saw that reliance on word-of-mouth promotion is also a desirable attribute in a company’s name. He wanted a domain name that was easy to remember and fun enough that customers would want to tell their friends about it. He was looking for a two-syllable domain but couldn’t find the right combination available and didn’t want to buy one from somebody else. Moonpig – Nick’s school nickname – worked. At the time, if you entered it into Google nothing came up, and there was the added advantage that it lent itself well to a logo – it’s easy enough to remember a pig in a space helmet.

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## Building a website

You might be forgiven for thinking that a website is just for those selling on the internet; that, however, is just one of the many uses a website can be put to.

In fact, as the list below confirms, a well-thought-out website is the heart of the operations function in almost any venture of any size:

- *Recruitment.* Once established, you can advertise for staff on your own website. In that way you can be sure applicants will know something of your business, and you could cut out most of the costs of recruitment.

- *Market research.* By running surveys you can find out more about your customers' needs, check out whether new products or services would appeal to them, and monitor complaints to prevent them becoming problems.
- *Save communication costs.* Businesses get dozens of phone calls and letters asking essentially the same questions. By having an FAQ (frequently asked questions) section on your website you can head off most of those and save time and money.

### Designing your website

Good website design is essential: short loading time (use graphics, not photographs), short, sweet, legible text and an attractive layout. Research indicates that within three clicks, visitors must be captivated or they will leave. Clear signposting is necessary, including a menu on every page so that visitors can return to the homepage or move to other sections in just one click.

These are the dos and don'ts in website design.

Do:

- *think about design:* create a consistent visual theme grouping elements together so that your reader can easily follow the information you are presenting;
- *prepare your content:* it should be focused on the needs of your target audience, and be credible, original, current and varied;
- *plan your site navigation:* your pages need to be organized intuitively so they are easy to navigate;
- *consider usability and accessibility:* use graphics sparingly as not everyone has super access speeds;
- *optimize your HTML,* especially on your homepage, to minimize file size and download time by removing excess spaces, comments, tags and commentary;
- *optimize for searching:* build in keywords and tags and markers so your site will be found easily.

Don't:

- *have long pages:* content beyond the first one and a half to two page lengths is typically ignored;

- *have pointless animation*: many of these are distracting, poorly designed in terms of colour and fonts, and add unnecessarily to file size, slowing down your reader's search;
- *use the wrong colours*, since colour choice is crucial; black text on a white background is the easiest to read while other colours such as reds and greens are harder to read (check out VisiBone's website for a simulation of the web designer's colour palette of browser-safe colours);
- *have stale information anywhere*, especially on your homepage: nothing turns readers off so much as seeing information that relates to events long gone (recipes for Christmas pudding at Easter, for example);
- *waste your readers' time*: making readers register on your site may be useful to you, but unless you have some compelling value to offer, don't – or if you absolutely must, keep registration details to a couple of lines of information.

Check out Bad Website Ideas to see how to avoid the biggest howlers, and in consequence how to get your website design right.

## Doing it yourself

You probably already have a basic website writing tool with your business software. You will also find hundreds of packages from £10 to around £500 that with varying amounts of support will help you create your own website. Website Builder Expert reviews the latest out-of-the-box websites and has tools, resources and articles to help a complete novice get started; or if they get stuck to find a web designer to take over.

## Getting outside help

There are thousands of consultants who claim to be able to create a website for you. Prices start from £150, where an off-the-peg website package will be tweaked slightly to meet your needs, to around £5,000 to get something closer to tailor-made for you.

The Web Design Directory list hundreds of consultants, some one-man bands, others somewhat larger. You can look at their websites to see whether you like what they do. It also has some useful pointers on choosing a designer.

If you are working within a set budget you could consider auctioning off your web design project. With sites such as Freelancer you state how much you are prepared to pay, with a description of the project, and freelancers around the world bid under your price, with the lowest bidder winning. Also check out Fiverr, People Per Hour and Upwork.

## Getting seen – search engines

Nine out of 10 visitors reach internet sites via a search engine or equivalent, so you need to fill the first page with ‘key terms’ that search engines can latch onto. This process is known as SEO (search engine optimization), where your website is ‘optimized’ so that it improves its position in search engine rankings.

## Getting listed

If you want to be sure of getting listed appropriately in a search engine, first make a list of the words that you think a searcher is most likely to use when looking for your products or services. For example, a repair garage in Penzance could include keywords such as car, repair, cheap, quick, reliable, insurance, crash and Penzance in the homepage to pull in searchers looking for a competitive price and a quick repair. As a rule of thumb, for every 300 words you need a keyword or phrase to appear between 10 and 15 times. Search engines thrive on content, so the more relevant content, the better. Google Ads offers a free tool called Keyword Planner, which assists in researching keywords. You can start by entering products or services closely related to your business. For example, putting ‘coffee bar’ into the search pane comes up with 1,056 suggestions. That’s where the free service ends and you have to bid for the use of the words.

Keyword Planner ([keywordplanner.net](http://keywordplanner.net)), also free, claims to be a better alternative to Google’s version, in that you don’t need to be running an active Google Ads campaign to see search volumes and it shows you more keywords. Apart from these keywords, you are given the monthly search volume, cost per click, competition metrics (how many advertisers are bidding on this keyword at Google Ads) and monthly search volume for each of the last 12 months.

Search engine algorithms also like important, authoritative and prestigious terms. So while you may not be able to boast ‘by Royal Appointment’, if you can get your press releases quoted in the *Financial Times*, your comments included in postings on popular blogs or your membership of professional institutes and associations into your homepage, your chances of being ‘spidered’ will rise accordingly.

Next on the list of strategies is to get your website linked to other sites with related but not competing information. So if you are selling garden pots, websites selling plants, gardening tools, fencing or compost are likely to have people hitting them who are of value to you. Being linked to dozens of other sites improves your chances of being spotted by a search engine. You can offer the sites in question a link to your site as a quid pro quo, and you could both benefit from the relationship.

### Using a submissions service

You can build words into your website to help search engines find you. You can also go to a professional. Submission services provide an optimization process that aims to move you into the top 10 ranking in key search engines. ‘Aim’ is the important word here. These services don’t guarantee anything, so the proof of the pudding is in the eating. If it works, you can always go back for more.

123 Ranking, which has been in this business since 2000, has optimization packages aimed at small and new businesses from £99 a month. They also provide a complete digital marketing service to ensure your website receives high traffic and converts visitors into repeat customers by covering all necessary aspects. First Found Digital offers a similar service, starting at £119 per month, but will also add on a brand-new mobile-friendly website for no cost.

### Paying for placement

If you don’t want to wait for search engines to find your website, you can pay to have your web pages included in a search engine’s directory. That won’t guarantee you a position; so, for example, if your page comes up at 9,870 in Google’s list then the chance of a customer slogging his way to your page is zero. The only way to be sure you appear early in the first page or



two of a search is to advertise in a paid placement listing. Major search engines such as Google AdWords and Microsoft's Bing invite you to bid on the terms you want to appear for, by way of a set sum per click.

## Tracking traffic

A wealth of information is available on who visits your website: where they come from in terms of geography, search engine and search term used; where they enter your website (homepage, FAQs, product specifications, price list, order page) and how long they spend in various parts of your website. That information is aside from the basic information you automatically receive from orders placed, enquiries made or email contacts.

You can use visitor data to tweak your website and content to improve the user experience and so achieve your goals for the website. For example, you may find that lots of visitors are entering your website via a link found on a search engine that takes them to an inappropriate section of your site, say the price list, when you want them to start with the benefits of your product or success stories. By changing the keywords on which your website is optimized, or by putting more visible links through the site, you can drive traffic along your chosen path.

A good way to measure the success of your website is to make use of the free Google Analytics package available from the Google website. Google Analytics tracks the traffic that comes to your website from all referrers, email marketing, search engines, pay-per-click downloads, display advertising and links from PDF documents. In doing so, Google Analytics gathers and reports data that shows how well your website is doing and enables you to make sense of all this information. The package also serves up statistics that provide details about the people who visit your website and allows you to track your landing page quality and to see the specific pages your visitors are viewing.

Google Analytics is aimed at marketers and business types, rather than webmasters and technologists and techie types, which makes it easy to use.

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### REAL-WORLD EXAMPLE

#### *Digital awakening at Volcanica*

Maurice Contreras, founder of Volcanica Coffee, turned his passion for high-quality coffee into a thriving business. Recognizing that the best coffee beans grow in

volcanic regions, he launched Volcanica Coffee in 2004, selling freshly roasted, single-origin beans worldwide.

Despite having big company marketing experience, Maurice found digital marketing challenging. He educated himself in SEO, Google AdWords (now Google Ads) and paid advertising. Seeking expert help, he identified AdRoll, a digital marketing agency. Their machine learning capabilities allowed Volcanica to target high-intent visitors effectively.

By July 2020, Volcanica's revenues had increased by 191 per cent and attributed conversions by 177 per cent. Their strategic digital marketing transformed a part-time pursuit into a mature online business, extending their global reach. Volcanica Coffee received the 2024 Small Supply Chain Pioneer award at the Movers & Makers Awards. Their Whole Bean, Fresh Roasted coffee, priced at £64.91 for a 16 oz pack, boasts global ratings of 4.3 out of 5 on Amazon.

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## Managing email, forums, blogs and websites

Electronic mail (email) was the earliest online marketing tool, used for sending direct messages to one person or to many people. Messages that could be read by groups of people morphed into forums, known as Usenet newsgroups, and eventually became the current form of online web-based forums. Throughout these fast technological changes, the way people communicate has changed in major ways. Social networks and other multimedia and social media tools and platforms are incredibly popular, but the use of traditional online communications tools still has a lot of value.

### *Email*

Email is still the most important online marketing tool now in use, and it can tie in with all kinds of initiatives more easily than ever. Doing business consists of reactions, interactions and actions and as such email clearly has a major role to play. When you send out an email, you and others can react, respond, interact and take actions such as these:

- Pass along the email to others.
- Download a file attached to an email.
- Click a link to visit a website.
- Play an embedded audio or video file.
- Fill out a form embedded into the body of the email.

- Take a poll or survey embedded in the email.
- Connect to someone's social networking accounts.
- Click a link to begin an online purchase.

Email is more than a message carrier. It's a conversation starter as well as a multimedia and multi-featured communications tool to engage others beyond simple back-and-forth communications.

### *Online forums (groups) and blogs*

When you have people gathering online to discuss common topics, you have the seeds for building online community. Where you have online community, you have the potential for actions, reactions and interactions. Online forums and groups work well when several factors are present:

- *A focused topic area or theme.* Conversations in the best forums remain on topic.
- *Like-minded or interested people.* People join groups voluntarily based on their interests and needs.
- *Strong community leadership.* A good moderator keeps the discussion going with a light touch so that everyone feels welcome to the conversation.
- *Clear community rules.* Every group needs publicly posted guidelines that define proper behaviour and spell out bad behaviour.
- *Fair policing.* Many online communities police themselves, admonishing or removing individuals who post inappropriately, and others let moderators ban people.

You can find out more about the range of online communities and blogs that you can tap into at Blogpress.

## Social media

The dictionary defines social media as 'websites and applications that enable users to create and share content or to participate in social networking'. Social media can be seen as a collection of online communications channels dedicated to community-based input, interaction, content sharing and collaboration. Social media may be still in its infancy, but it is prolific and influential. That using social media for business has become a mainstream

activity is evident in the fact that the options are numerous and expanding fast. Aside from the usual suspects – Facebook, LinkedIn and X – hundreds of sector-specific sites exist. Pinterest, for example, is a tool for collecting and organizing pictures of things that inspire you. YouTube provides a forum for people to inform billions of people around the world by distributing videos for free. eHarmony, Match.com and 6,000 other dating sites aim to help the lonely find love. Social bookmarking sites, including Digg, Delicious, Newsvine and Reddit, allow users to recommend online news stories, music and videos. Then you have word-of-mouth forums including blogs, company-sponsored discussion boards and chat rooms, and consumer product or service ratings websites and forums like Skytrax airlines rating, TripAdvisor and local-business review site Yelp.

Social media sites make up at least half of the top 20 websites in most regions of the world. Today even the smallest of businesses can incorporate social media into their promotional plan, and at Social Media Examiner you'll find tips on how to get started on Facebook, X, Instagram, LinkedIn, Google+, Pinterest and YouTube, as well as how to get your first blog (a web page where people record and share opinions) and podcast (a digital file containing video or audio material that can be accessed online) off the ground.

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#### REAL-WORLD EXAMPLE

##### *Hotel Chocolat*

In November 2023, Angus Thirlwell and Peter Harris, the co-founders of Hotel Chocolat, agreed to sell the British business to Mars for £288 million while retaining the international operations. These include shops in Ireland and Gibraltar and an estate in St Lucia, featuring a 140-acre organic cacao farm and the Rabot Hotel. The business was started in 1993 and in 2000, while the business was a mail-order specialist with annual turnover of just £6 million, Thirlwell attended the Business Growth Programme at Cranfield School of Management.

Thirlwell recognized that generating a buzz of interest using social media is one thing, but you can get a lot more than that from a social media drive; you can push up the real sales curve too. In an analysis of more than 60 Facebook marketing campaigns, 49 per cent reported a return on investment of more than five times and 70 per cent had a return on investment greater than three times. Forums, online communities with an interest in your product, can be tapped into for more than ideas – they can be induced to part with upfront cash, given the right proposi-

tion. Hotel Chocolat, winner of prestigious awards including Number 1 in *The Times* 'Fast Track 100', Retail Week 'Emerging Retailer of the Year' and one of the UK's prestigious 'Cool Brands', did just that.

Hotel Chocolat launched a chocolate-tasting club to develop recipes and ideas. To join the 'club' you must place an initial order for £22.95's worth of chocolates, representing a 60 per cent saving on the retail price. For that you get a box of chocolates, tasting notes and free delivery. From there you can then continue and become a tasting club member with all-new selections regularly sent to your door. Thirlwell's social media strategy was a neater and more effective way of generating a customer's first order than simply using a crude discount on its own. The tasting club's 100,000 members demonstrates the power of having a strong social media presence as part of an online marketing strategy.

In 2023 the company credited its 'brand appeal and direct marketing skills' for attracting more than 600,000 new customers during the year, a 38 per cent increase, which took the active UK customer database to 2.3 million.

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#### WORKSHEET FOR ASSIGNMENT 12: COMPETING ONLINE

- 1 To gain visibility, run a competitive website analysis into the performance of your website or proposed website with those of your competitors. Use Alexa or any similar website comparison tool.
- 2 Brainstorm a list of keywords that people could use when searching for your products or services online. Then see how those could be built in and repeated on your website.
- 3 Decide on your domain name, making sure first that you can use it. Test it out online to make sure it can be found easily, does not conflict with similar names that might 'steal' you web traffic and does not pull up your direct competitors.
- 4 Check out submission services to see if they could be useful.
- 5 Review social media activity in your market and see which channels – Instagram, Pinterest, X, Facebook, LinkedIn, etc are most used by current players.
- 6 Start using Google Analytics to track and analyse your website traffic.

## Suggested further reading

- Croxen-John, D and van Tonder, J (2020) *E-Commerce Website Optimization: Why 95% of your website visitors don't buy, and what you can do about it*, 2nd edn, Kogan Page, London
- Gil, C (2019) *The End of Marketing: Humanizing your brand in the age of social media and AI*, Kogan Page, London
- King, K (2025) *AI Strategy for Sales and Marketing: Connecting marketing, sales and customer experience*, 2nd edn, Kogan Page, London
- Kingsnorth, S (2025) *Digital Marketing Strategy: An integrated approach to online marketing*, 4th edn, Kogan Page, London
- Rowles, D (2025) *Digital Branding: How to successfully build and measure a brand online*, 4th edn, Kogan Page, London
- Ryan, D (2020) *Understanding Digital Marketing: A complete guide to engaging customers and implementing successful digital campaigns*, 5th edn, Kogan Page, London
- Van Dyck, F (2014) *Advertising Transformed: The new rules for the digital age*, Kogan Page, London

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**PHASE FOUR**

# Operations



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# Introduction

Operations is the general name given to all the activities required to implement strategy. So, for example, once you have decided what to sell, to whom and at what price, you may still need to find someone to sell, make and distribute for your business.

Of necessity, the emphasis you put on each element of this assignment will depend entirely on the nature of your business. Your business plan need not show the complete detail of how every operational activity will be implemented. Clearly, you and your colleagues will need to know, but for the business plan it is sufficient to show that you have taken account of the principal matters that concern your venture, and have a workable solution in hand.

This section discusses some of the most important operational issues to be addressed in your business plan. Assignments 13–15 are intended to help you to bring your customers, competitors and the marketplace more sharply into focus, and to identify areas you have yet to research.

# ASSIGNMENT 13

## The selling methods plan

Anyone considering backing your plans will look long and hard at how you plan to sell. Unbelievably, it is an area often dismissed in a couple of lines in a business plan. That error alone is enough to turn off most investors. Just because customers know you are in the market is not in itself sufficient to make them buy from you. Even if you have a superior product at a competitive price they can escape your net.

Getting people to sign on the dotted line involves selling, and this is a process that anyone championing a new proposition will have to use in many situations other than in persuading customers to buy. They have to 'sell' to their bank manager the idea that lending them money is worthwhile, to a potential partner that he or she should team up with them; and eventually to employees that working for their company is a good career move.

### How selling works

There is an erroneous view that salespeople, like artists and musicians, are born, not made. Selling can be learnt, improved and enhanced just like any other business activity. First, you need to understand selling's three elements.

- Selling is a *process* moving through certain stages if the best results are to be achieved. First, you need to listen to the customers to learn what they want to achieve from buying your product or service; then you should demonstrate how you can meet their needs. Often entrepreneurs launch into a pitch about their product from the outset without listening first. Often this results in a missed opportunity to stress particular relevant benefits, or worse still, alienates the potential customers as the impression is given that their needs are secondary. The next stage in the selling process

is handling questions and objections; this is a good sign as it shows that the customer is sufficiently interested to engage. Finally comes 'closing the sale'. This is little more than asking for the order with a degree of subtlety. Once again many owner-managers feel too embarrassed to push for a conclusion. This stage is a bit like fishing; pull before the hook is in and you lose the fish. You need a bite, a buying signal, before you close.

- Selling requires *planning* in that you need to keep records and information on customers and potential customers so that you know when they might be ready to buy or reorder. This is particularly important if you have to travel any distance to visit them. You need to plan your territory so that your time is used efficiently and you don't end up criss-crossing the country wasting hours in travel time. Second, you need to plan each sales pitch, trying to anticipate needs and objections beforehand, so that you can have answers to hand and close the sale.
- Selling is a *skill* that can be learnt and enhanced by training and practice, as shown in the real-world example below. The Free Index lists over 7,400 sales training providers searchable by location and specialization.

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#### REAL-WORLD EXAMPLE

##### 1E

When Sumir Karayi, with a B. Eng and an MSc (IT) from Warwick University, started up in business in the spare room of his flat in West Ealing, London, he wanted his business to be distinctive. He was a technical expert at Microsoft, and with two colleagues he set up 1E as a commune aiming to be the top technical experts in their field.

The business name comes from the message that appears on your screen when your computer has crashed. Within a year of starting up the team had learnt two important lessons: businesses need leaders, not communes, if they are to grow fast and prosper; and they need someone to sell.

On the recommendation of an adviser, Karayi went on a selling course, and within months he had won the first of what became a string of blue-chip clients. The company is now one of the 10 fastest-growing companies in its sector. On 9 June 2021 the Carlyle Group, a global investment firm listed on NASDAQ (CG), purchased a majority stake in the company. Sumir Karayi retained a significant minority stake and continues as the company's CEO.

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## Using agents

If you are not going to be your business's main salesperson you need to brace yourself for costs of around £50,000 a year to keep a good salesperson on the road, taking salary, commission and expenses into account. The problems with employing your own salespeople is that initially they won't sell enough to cover their costs, and you may get the wrong person and so end up with just a big bill and no extra sales.

A less-risky sales route is to outsource your selling to freelance salespeople. Here you have two options.

- Employ a sales outsourcing company such as Pareto's Sales as a Service. Using Pareto you get a graduate sales team, fully assessed and trained in the fundamentals. They enter your business ready to hit the ground running, without adding to your fixed sales costs, but with the flexibility to take them on as permanent staff, or give notice to end the contract at any time. For an even more flexible and cost-effective route it is worth considering People per Hour, which can find and manage a salesperson for you on a short-term basis.
- Find an agent yourself, ideally with existing contacts in your field, who knows buyers personally and can get off to a flying start from day one. The Manufacturers Agents Association has a directory of commission agents selling in all fields of business. You have to pay £330 (incl. VAT) by credit card for an MAA Net Search allowing you to contact up to 20 agents in one search.

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### REAL-WORLD EXAMPLE

#### *Fishe and Lilly*

In 2021, Fishe and Lilly emerged from a desire shared by two heads of a household. Fishe, affectionately called so by his wife, Lilly, envisioned a home that transcended the ordinary. The problem they saw was that uninspiring furniture filled most people's living spaces, rendering their home indistinguishable from others. They believed many homeowners craved uniqueness – a home that reflected their personalities and aspirations.

#### *The quest for uniqueness*

The couple scoured second-hand stores, rummage sales and vintage markets. Each weekend, they hunted for hidden gems – furniture pieces with character and history.

But as their family grew, so did the challenge. The time-consuming treasure hunts became impractical. They needed a solution that combined quality, affordability and individuality.

#### *A surprising revelation*

Their journey led them to explore beyond local stores. They contacted furniture wholesalers, manufacturers and importers across the UK. What they discovered surprised them: beautiful, well-crafted pieces were available if you knew where to look. Inspired, they decided to share their findings with others.

#### *Fishe and Lilly's solution.*

Direct access was the key. Fishe and Lilly established a UK-based office and warehouse. They cut out intermediaries like import/export agents, wholesale showrooms and retail stores. Everything from the manufacturer to their warehouse is streamlined, ensuring quality and affordability.

They follow the same approach when it comes to selling. To reach furniture stores across the UK, Fishe and Lilly collaborate with sales agents. These dynamic individuals carry their vision to retailers, highlighting the curated collection. They believe it's a partnership that bridges creativity and commerce. Selling costs are incurred only when a sale is made. They use AgentBase, the UK's main source of commission-only sales business opportunities for professional sales agents.

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## Getting paid

The sale process is not complete until, as one particularly cautious sales director put it: 'the customer has paid, used your product and not died as a consequence'. You do have responsibilities for the safety of everyone involved in your business, including customers, the legal aspects of which are dealt with at the end of this chapter. One of the top three reasons that new businesses fail is because a customer fails to pay up in full or on time. You can take some steps to make sure this doesn't happen to you by setting prudent terms of trade and making sure the customers are creditworthy before you sell to them.

#### *Checking creditworthiness*

There is a wealth of information on credit status for both individuals and businesses of varying complexity, at prices from £5 for basic information through to £200 for a very comprehensive picture of credit status. So there

is no need to trade unknowingly with individuals or businesses that pose a credit risk.

The major agencies that compile and sell personal credit histories and small-business information are Experian, Dun & Bradstreet and Creditgate.com. Between them they offer a comprehensive range of credit reports instantly online, including advice on credit limit and CCJs (county court judgements).

### *Setting your terms of trade*

You need to decide on your terms and conditions of sale, and ensure they are printed on your order acceptance stationery. Terms should include when and how you require to be paid, and under what conditions you will accept cancellations or offer refunds. The Law Donut website contains information on most aspects of trading relationships.

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#### EXAMPLE

One unfortunate entrepreneur felt that his business, a management training consultancy, had got off to a good start when his first client, a major US computer company, booked him for three courses. Just three weeks prior to the first of these courses, and after he had carried out all the preparatory work and prepared relevant examples, handouts, etc, the client cancelled the order. The reason given was a change in 'policy' on training dictated by the overseas parent company.

If this entrepreneur had included in his standard terms and conditions a cancellation clause, then he would have received adequate compensation. In fact, he was operating on a 'wing and a prayer', had no terms of trade, and wasn't even aware there was an industrial 'norm'. Most of his competitors charged 100 per cent cancellation fee for cancellations within three weeks, 50 per cent within six weeks, 25 per cent within eight weeks, and for earlier cancellations no charge.

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### *Cash or cheque*

Cash has the attraction in that if you collect as you deliver your product or service you are sure of getting paid and you will have no administrative work in keeping tabs on what is owed you. However, in many business transactions this is not a practical option, unless as in retailing for example, you are present when the customer buys. A cheque underwritten with a bank guarantee card is as secure as cash, assuming the guarantee is valid.

But the cheque will take time to process. In practice you would be wise, until you have checked out the creditworthiness of the customer in question, to await clearance of the cheque before parting with the goods.

You need to be careful in interpreting banking terminology here. Your bank may state that the cheque is 'cleared' when in fact it is only in transit through the system. The only term in bank parlance that means your money is really there is 'given value'. If you have any concerns, ring your bank and ask specifically if you can withdraw funds safely on the cheque in question.

### *Credit cards*

Getting paid by credit card makes it easier for customers to buy and makes it certain that you will get your money almost immediately. With a merchant account, as the process of accepting cards is known, as long as you follow the rules and get authorization the cash, less the card company's 1.5–3 per cent, gets to your bank account the day you charge.

You can get a merchant account without a trading history as a new venture, depending of course on your credit record. See Streamline, a division of Worldpay, who in turn are owned by venture capital firms Bain Capital and Advent International, Barclaycard and HSBC.

### *Dealing with delinquents*

However prudent your terms of trade and rigorous your credit checks, you will end up with late payers and at worst nonpayers. There are ways to deal with them, but it must be said that experience shows that once something starts to go wrong it usually gets worse. There is an old investment saying, 'the first loss is the best loss', that applies here.

The most cost-effective and successful method of keeping late payers in line is to let them know you know. Nine out of 10 small businesses do not routinely send out reminder letters advising customers that they have missed the payment date. Send out a polite reminder to arrive the day after payment is due, addressed to the person responsible for payments, almost invariably someone in the accounts department if you are dealing with a big organization. Follow this up within five days with a phone call, keeping the pressure up steadily until you are paid.

If you are polite and professional, consistently reminding them of your terms of trade, there is no reason your relationship will be impaired. In any event the person you sell to may not be the person you chase for payment.



If you still have difficulty consider:

- Using a debt collection agency. You can find a directory of registered agents on the Credit Service Agency website.
- If your claim is for less than £100,000 and is for a fixed specific sum then you can use the UK government's Make a money claim online service. For small amounts, up to around £3,000, the fee is mostly less than £100. Over £10,000 and the fee is 5 per cent of the claim. The service has the merit of saving legal costs and the expense is a finite sum.

#### WORKSHEET FOR ASSIGNMENT 13: THE SELLING METHODS PLAN

Describe briefly the main operational aspects that are involved in ensuring that your strategy is successfully implemented. In particular, you should consider:

- 1 Who will conduct the selling for your business, and have they been professionally trained to sell?
- 2 What selling methods will they employ?
- 3 Will you use point-of-sale material – leaflets, brochures or videos, for example?
- 4 Who will manage, monitor and control your sales effort and how will they do so?
- 5 Describe the selling process, leading from an unaware prospect to a converted client, covering identification of decision makers, overcoming objections, gaining agreement, etc.
- 6 What procedures do you have for handling customer complaints?
- 7 What incentives are there for people to meet sales targets and how will you motivate them to do so?
- 8 Who will direct, monitor and control your sales effort and what experience/skills do they have?
- 9 How long is the process from becoming aware of your product or service to making the buying decision, receiving the product or service and finally paying for it? This will have an important bearing on your cash flow and initial sales forecast.
- 10 What sales volume and activity targets, such as calls per day, etc, have you set for each salesperson or selling method?
- 11 What processes will you use to ensure you are paid on time?

### Suggested further reading

- Barnes, C, Blake, H and Howard, T (2017) *Selling Your Value Proposition*, Kogan Page, London
- Denny, R (2013) *Selling to Win*, Kogan Page, London
- Hazeldine, S (2013) *Neuro-sell: How neuroscience can power your sales success*, Kogan Page, London
- Johnston, M W and Marshau, G W (2016) *Sales Force Management: Leadership, innovation, technology*, Routledge, London
- Maes, P (2018) *Disruptive Selling: A new strategic approach to sales, marketing and customer service*, Kogan Page, London

# ASSIGNMENT 14

## Making, outsourcing and supplies

Organizations are usually, in fact almost invariably, in the business of adding value to bought-in resources. These may be as trivial as stationery for correspondence, packaging for software, or as complex as the many ingredients needed to make a computer or a motor vehicle.

Your business plan needs to show how you have addressed these crucial issues, as in the first place you must demonstrate that you have thought through how to turn what is in effect at this stage a concept into a ‘concrete’ product or service that can be brought to market. You also need to show an awareness that value added is itself determined by the careful management of costs.

### Production methods

In the ever-evolving landscape of manufacturing, various production methods have been developed to meet the diverse needs of consumers and industries. These methods range from large-scale mass production to highly customized job production, each with its unique advantages and applications. Understanding these production methods is crucial for businesses seeking to optimize their operations and deliver value to their customers. Below are the most common production methods, along with descriptions and brief examples for each.

While in practice new and small businesses will be severely limited in their options, their competitors may well not be so constrained. Understanding how your competitors operate is an important aspect of shaping your competitive strategy.

### 1 Mass production (assembly line)

- *Description:* Manufacturing of identical items on a large scale. Ford Motor Co. pioneered assembly lines for affordable cars.
- *Strengths:* High efficiency and productivity. Lower costs per unit due to economies of scale. Consistent quality and standardized products.
- *Weaknesses:* Limited flexibility to adapt to changes in demand or customizations. High initial setup costs and investment in machinery. Monotonous work can lead to low employee satisfaction.

### 2 Batch production

- *Description:* Creates products in smaller quantities with similar features. Examples include bakeries producing various goods in batches.
- *Strengths:* Flexibility to produce different products. Economies of scale in comparison to job production. Easier to manage and control quality.
- *Weaknesses:* Higher setup and changeover times between batches. Idle time between production runs can reduce efficiency. Storage costs for intermediate goods.

### 3 Job production (custom)

- *Description:* Tailors products to individual customer requirements e.g. artists, architects and software developers.
- *Strengths:* High customization and personalization of products. High-quality workmanship and creativity. Suitable for complex and unique projects.
- *Weaknesses:* High production costs and longer lead times. Limited economies of scale. Requires skilled labour, leading to higher labour costs.

### 4 Service production

- *Description:* Delivers intangible services, e.g. banks (financial services).
- *Strengths:* Direct interaction with customers, allowing for immediate feedback. Flexibility to adapt services to customer needs. Often less capital-intensive than manufacturing.

- *Weaknesses:* Intangible nature makes it difficult to standardize quality. High dependency on employee performance and service quality.

### 5 Customized production

- *Description:* Combines mass production with personalized features, e.g. Nike, Adidas, 3D-printed shoe midsoles and Moonpig cards.
- *Strengths:* Offers personalization while maintaining cost benefits of mass production. Increased customer satisfaction and brand loyalty. Ability to cater to niche markets.
- *Weaknesses:* Higher complexity in production and logistics. Higher costs compared to standard mass production. Requires advanced technology and processes.

### 6 Continuous production

- *Description:* Uninterrupted manufacturing of standardized items, e.g. Coca-Cola (soft drinks), oil refineries (24/7 operation).
- *Strengths:* High efficiency and consistent output. Low per-unit production costs due to continuous operation. Suitable for high-demand products.
- *Weaknesses:* High initial investment in machinery and infrastructure. Limited flexibility to change products or processes. Maintenance and downtime can be costly.

### 7 Cellular manufacturing

- *Description:* Self-contained work cells for specific processes, e.g. electronics assembly lines (Apple, Samsung).
- *Strengths:* Improved workflow and reduced lead times. Enhanced flexibility and responsiveness to changes. Better quality control within cells.
- *Weaknesses:* Requires careful planning and layout design. Potential for imbalances between cells. Initial setup and training can be time-consuming.

### 8 Lean production

- *Description:* Minimizes waste, maximizes value, e.g. Toyota (efficiency, continuous improvement), Amazon (supply chain optimization).

- *Strengths*: Increased efficiency and reduced waste. Focus on continuous improvement and employee involvement. Better use of resources and cost savings.
- *Weaknesses*: Requires cultural change and commitment from the entire organization. Can be challenging to implement and sustain. Potential resistance to change from employees.

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## REAL-WORLD EXAMPLE

### *Production methods*

One Cranfield graduate enterprise programme had these examples of different types of operation:

- Jenny Row designed her knitwear herself, but had it made up by outworkers. In this way she could expand or contract output quickly, paying only the extra cost of materials and production, for more orders. It also left her free to design new products to add to her existing range.
- Tim Brown sold computer systems tailor-made to carry out solicitors' conveyancing work. He commissioned software writers to prepare the programs, bought in computers from the manufacturer and selected a range of printers to suit individual customers' requirements. His end product was a total system, which he bought in 'kit' parts from his various subcontractors. Apart from IBM and a handful of giants, no one company could produce all these elements in-house.
- Graham Davy designed and manufactured his own range of furniture. He rented a Beehive workshop and bought in cutting, turning and polishing tools, and a finish spraying room. He bought in wood, and worked on it himself, producing batches of three or four of each design. The equipment needed for design and prototype work was also sufficient for small-batch production.

- 
- Will you make the product yourself, or buy it in either ready to sell, or as components for assembly? You should also explain why you have chosen your manufacturing route.
  - Describe the manufacturing process to be used, and if appropriate explain how your principal competitors go about their manufacturing.
  - What plant and equipment will you need and what output limits will they have? (See Table 14.1.)

TABLE 14.1    Example showing goods needed, their purpose and cost

Plant/ equipment	Process (what does it do?)	Maximum volume	Cost	Do you already own it?

- Provide a rough sketch of the layout of your manufacturing unit, showing the overall size of facility needed, the positioning of equipment, etc, and the path of materials and finished goods.
- What engineering support, if any, will you need?
- How will you monitor and control quality?

There are a number of well-regarded quality standards that may help you monitor and control your quality. The BS/ISO 9000 series are perhaps the best-known standards. They can ensure that your operating procedure will deliver a consistent and acceptable standard of products or services. If you are supplying to large firms they may insist on your meeting one of these quality standards, or on ‘auditing’ your premises to satisfy themselves. The British Standards Institution can provide details of these standards.

A number of commercial organizations will provide user-friendly guidelines and systems to help you reach the necessary standard. Searching the web using keywords such as ‘quality standards’ (or ‘measurement’) will bring you some useful sites.

### Materials and sources of supply

Your business plan should also explain what bought-in materials you require, who you will buy them from, and how much they will cost. Finding suppliers is not too difficult; finding good ones is less easy. Business-to-business directories, such as Kelly Search, Kompass and Applegate, between them have global databases of over 2.4 million industrial and commercial companies in 190 countries, listing over 230,000 product categories. You can search by category, country and brand name. You should check the supplier’s:

- terms of trade;
- level of service;

- customer list, getting feedback from other customers;
- guarantees and warranties on offer;
- price, making sure that they are competitive;
- compatibility, i.e. that you will enjoy doing business with them;
- What major items of bought-in materials or services will you require?
- Who could supply those and what are the terms and conditions of sale?
- Why have you chosen your supplier(s)?

Keep stock cards so that you can identify fast- and slow-moving stock.

### *Other buying options*

Aside from searching out suppliers through directories and word of mouth, consider one or more of the following strategies.

#### BARTERING ONLINE

You can avoid using up your cash by bartering your products and services for those of other businesses. An organization that can help you get started with bartering is Bartercard.

#### BUY ONLINE

There are over 200 price comparison websites covering computer hardware and software, phones, travel, credit cards, bank accounts, loans, utilities, electrical goods, office products including inkjet and printer supplies, and a few thousand more items a business might purchase. Paler.com, a quirky website run by Petru Paler has a directory listing these sites, with brief explanations and a helpful comment page where users have inserted more sites and additional information.

### *Fitting out an office*

You will need an 'office' to work from, but this should not be a costly affair at the outset. There are plenty of sources offering good-quality office furniture and equipment at a low cost. For new furniture supplied to most European countries and around the world, check out Amazon and IKEA, who both have Home Office categories. For second-hand office furniture search Wantdontwant.com and Reuse Network, a national network of reuse centres stocking, affordable office furniture, electrical appliances, IT equipment and more.



### WORKSHEET FOR ASSIGNMENT 14: MAKING, OUTSOURCING AND SUPPLIES

Describe briefly the main 'manufacturing' aspects that are involved in ensuring that your strategy is successfully implemented. In particular, you should consider:

- 1 How much of your product or service do you plan to produce in-house?
- 2 If you are making a product, describe the production process; also explain how your principal competitors go about manufacturing.
- 3 What plant and equipment will you need, what can it do, how much will it cost and where will you get it from?
- 4 What bought-in materials and/or services will you need, where will you buy them from and how much will they cost?
- 5 How will you equip your office?

### Suggested further reading

- Lefteri, C (2012) *Making It: Manufacturing techniques for product design*, Laurence King, London
- Schaeffer, E and Sovie, D (2019) *Reinventing the Product: How to transform your business and create value in the digital age*, Kogan Page, London
- Vagadia, B (2011) *Strategic Outsourcing: The alchemy to business transformation in a globally converged world*, Springer, Germany

# ASSIGNMENT 15

## Legal and regulatory factors

The manner in which businesses and organizations operate, whether they are for profit, in the charity and not-for-profit sector or even a public service, is governed by regulations.

All of these regulations have a major impact on cash flow, the amount of start-up capital required and the profit margins that can be obtained. For example, electing to pay value added tax on a cash accounting basis can lower cash needs and speed up cash flow, attractive attributes for any venture. However, selling on credit, for which a licence is required, can increase funding needs and add to administrative costs. But if selling on credit is the norm in the business sector you plan to enter, or is a key ingredient of your competitive strategy, that burden has to be faced and prepared for.

These regulations can be loosely clustered under two headings: *customer facing*, those that deal with the rules concerning relationships with consumers; and *taxation*, those that deal with the various dues to the state that organizations have to either pay directly or to collect for onward transmission. Omitting the implications of these regulatory matters in your business plan will seriously weaken it and may even, when subsequently the financial implications are included, render a proposition unviable.

Other specific regulatory matters such as legal form, intellectual property, property consents and employment matters are covered in the relevant sections of this workbook.

### Customer-facing regulations

From the claims being made by some businesses and the shoddy treatment handed out to customers you might be forgiven for believing that *caveat*

*emptor* (let the buyer beware) was the rule of the marketing road. Far from it. In fact, organizations are heavily regulated in almost every sphere of their operations. What follows are the main customer-facing regulations that you will need to take account of in running any venture.

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#### REAL-WORLD EXAMPLE

##### *Google*

In 2006, Google launched its Chinese search engine, google.cn, agreeing to censor search results to comply with Chinese regulations. On 12 January 2010, Google made a significant decision regarding its Chinese operations: the company would no longer censor content on Google.cn. The move came after Google discovered that hackers had gained access to proprietary information and email data of human rights activists. The breach raised serious concerns about privacy and security.

Google's decision to stop censoring content was a bold move. It meant that the search engine giant was willing to risk its presence in the lucrative Chinese market to uphold its principles of free expression and user privacy. By refusing to comply with the Chinese government's censorship requirements, Google took a stand for human rights and democratic values.

##### *Impact*

- *Project Dragonfly*: In 2018, there were reports of a secret project which aimed to create a censored Chinese search engine. However, it faced backlash from human rights activists and Google employees.
- *Access via VPN*: Despite Google's withdrawal from censorship, its services remain popular among Chinese citizens. However, users have become more cautious, accessing Google services via virtual private networks (VPNs) to hide their IP addresses and bypass government restrictions. Today the Chinese government actively monitors and restricts VPN usage, so accessing Google this way may not always be safe, reliable or consistent.
- *Complex relationship*: Google's relationship with China has been complex. While the company left the mainland Chinese market, it continued to operate some services there: Google Maps, Translate, some aspects of Google Ads.

Google's decision had broader implications for other tech companies operating in China. It highlighted the tension between business interests and ethical considerations in relation to customer-facing regulations.

In November 2021 Yahoo Inc. announced it was leaving the China market amid what it said was an 'increasingly challenging' business and legal environment. In May 2023 LinkedIn closed its China app, the last major Western social media platform

operating in the country. LinkedIn will maintain its presence in China to assist companies operating within the country with hiring and employee training beyond its borders.

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### *Getting a licence or permit*

Some businesses, such as those working with food or alcohol, employment agencies, mini-cabs and hairdressers, need a licence or permit before they can set up in business at all. Your local authority planning department can advise you what rules will apply to your business. You can also use the GOV.UK website to find out which permits, licences and registrations will apply and where to get more information.

### *Complying with advertising and descriptive standards*

Any advertising or promotion you undertake concerning your business and its products and services, including descriptions on packaging, leaflets and instructions and those given verbally, has to comply with the relevant regulations. You can't just make any claims you believe to be appropriate for your business. Such claims must be decent, honest, truthful and take into account your wider responsibilities to consumers and anyone else likely to be affected. If you say anything that is misleading or fails to meet any of these tests, you could leave yourself open to being sued.

The four bodies concerned with setting the standards and enforcing the rules are:

- The Advertising Authority for printed matter, newspapers, magazines and so forth and the internet.
- Ofcom is responsible for ensuring advertisements on television and radio comply with rules on what can and cannot be advertised, including any special conditions such as the timing and content of material aimed at children.
- The Financial Conduct Authority has the responsibility to see that financial promotions are clear, fair and not misleading.
- The Trading Standards Institute covers anything such as quantity, size, composition, method of manufacture, strength, performance, place of manufacture, date, brand name, conformity with any recognized standard or history.

### *Dealing with returns and refunds*

Customers buying products are entitled to expect that the goods are 'fit for purpose' in that they can do what they claim to. Also, if the customer has informed you of a particular need the products must be suitable for that purpose. The goods also have to be of 'satisfactory quality', i.e. durable and without defects that would affect performance or prevent their enjoyment. For services you must carry the work out with reasonable skill and care, and provide it within a reasonable amount of time. The word 'reasonable' is not defined, and is applied in relation to each type of service. So for example, repairing a shoe might reasonably be expected to take a week, while three months would be unreasonable.

If goods or services don't meet these conditions customers can claim a refund. If they have altered an item or waited an excessive amount of time before complaining, or have indicated in any other way that they have 'accepted' the goods, they may not be entitled to a refund, but may still be able to claim some money back for a period of up to six years.

### *Distance selling and online trading*

Selling by mail order, via the internet, television, radio, telephone, fax or catalogue, requires that you comply with some additional rules over and above those concerning the sale of goods and services described above. In summary, you have to provide written information, an order confirmation, and the chance to cancel the contract. During the cooling-off period customers have the unconditional right to cancel within seven working days, provided they have informed you in writing by letter, fax or email.

There are, however, a wide range of exemptions to the right to cancel, including accommodation, transport, food, newspapers, audio or video recordings and goods made to a customer's specification. GOV.UK publishes a guide for business on distance selling on its website.

### *Protecting customer data*

If you hold personal information on a computer on any living person, a customer or employee for example, then there is a good chance you need to register under the Data Protection Act. The rules state that the information held must have been obtained fairly, be accurate, held only for as long as necessary and held only for a lawful purpose.

You can check whether you are likely to need to register on the GOV.UK website.

### *Getting a consumer credit licence*

If you plan to let your customers buy on credit, or hire out or lease products to private individuals or to businesses, then you will in all probability have to apply for a licence to provide credit. If you think you may need a licence, read the regulations on the website of the Financial Conduct Authority. Businesses must be authorized by the FCA, or have interim permission, to offer consumer credit.

## Computing taxes

Any organization handling money is responsible for paying a number of taxes and other dues to the government of the day, both on its own behalf and for any employees it may have, as well as being an unpaid tax collector required to account for end-consumers' expenditure.

There are penalties for misdemeanours and late payments, and more serious penalties for anything that could be construed as tax evasion – a crime, as opposed to tax avoidance, the prudent arrangement of your affairs so as to minimize taxes due. You are required to keep your accounting records for six years, so at any point should tax authorities become suspicious they can dig into the past even after they have agreed your figures. In the case of suspected fraud there is no limit to how far back the digging can go.

### *Value added tax (VAT)*

VAT, a tax common throughout Europe though charged at different rates, is a tax on consumer spending, collected by businesses. Basically it is a game of pass the parcel, with businesses that are registered for VAT (see below) charging each other VAT and deducting VAT charged. At the end of each accounting period the amount of VAT you have paid out is deducted from the amount you have charged and the balance is paid over to HM Revenue & Customs (HMRC).

In the United Kingdom the standard rate is 20 per cent, while some types of business charge lower rates and some are exempt altogether. The way VAT is handled on goods and services sold to and bought from other

European countries is subject to another set of rules and procedures. The VAT registration threshold is £90,000 per year. Businesses must register for VAT if their taxable turnover exceeds this threshold. Voluntary registration is also possible for businesses with lower turnovers. HMRC provides full details on VAT.

#### PAYMENT METHODS

Normally VAT is paid each quarter but small businesses can take advantage of a number of schemes to simplify procedures or aid their cash flow. The annual accounting scheme lets you pay monthly or quarterly estimated figures, submitting a single annual return at the end of the year with any balancing payment. The cash accounting scheme allows you to delay paying over any VAT until you have actually collected it from your customers. The flat-rate scheme allows you to calculate your VAT as a flat percentage of your total sales, rather than having to record the VAT charged on individual purchases and sales.

#### *Accounting for profit*

You will pay tax on any profit made in your business. The rate at which you will pay depends on the legal structure chosen. If you are a sole trader or in a partnership you will pay tax at your personal marginal rate. For financial years starting on 1 April 2025, UK corporation tax rates will be 19 per cent for profits up to £50,000, 25 per cent for profits over £250,000, and a graduated rate for profits between £50,000 and £250,000. These tax rates are subject to change each year or so.

#### THE FINANCIAL YEAR AND PAYMENT DATES

The financial year for tax purpose is usually 6 April to 5 April, although some businesses use different dates such as the calendar year-end if it is more appropriate for their type of business. You need to get your tax return back to HMRC by 30 September if you want it to calculate the tax due, or by 31 January if you are happy for you or your accountant to do the sums. The tax itself is paid in two stages at the end of July and January. Companies have to calculate their own tax due and pay it nine months after their year-end. You will be fined and charged interest on any late tax payments.

#### FILING ACCOUNTS FOR A COMPANY

A company's financial affairs are in the public domain. As well as keeping HMRC informed, companies have to file their accounts with Companies

House. Accounts should be filed within 10 months of the company's financial year-end. Small businesses (turnover below £5.6 million) can file abbreviated accounts which include only very limited balance sheet and profit and loss account information, and these do not need to be audited. You can be fined up to £1,500 for filing accounts late. You can find out how to file your companies accounts and complete a tax return online.

#### ESTIMATING TAX DUE

Tax is due on the profit of your business, which might not be the same amount as the figure arrived at in your profit and loss account. For example, you will include depreciation, entertainment and perhaps other expenses in your profit and loss account. Although it is important for you to know how much and on what they were incurred, these are not allowable expenses for tax purposes. Your accountant will be able to give you a good steer in this area. [Bytestart.co.uk](http://Bytestart.co.uk), the small business portal, has a useful overview of business expenses which goes some way to clarifying what are 'allowable' and 'non-allowable' expenses. This guide provides an overview of business expenses, with links to further resources which provide more in-depth information.

#### PAYE (PAY AS YOU EARN)

Employers are responsible for deducting income tax from employees' wages and making the relevant payment to HMRC. If you trade as a limited company, then as a director any salary you receive will be subject to PAYE. You will need to work out the tax due. HMRC has guidance on PAYE on its website, together with all the necessary forms. There are also a range of PAYE tools for employers to carry out all the tedious calculations.

#### *Dealing with National Insurance (NI)*

Almost everyone who works has to pay a separate tax – National Insurance (NI) – collected by HMRC, which in theory at least, goes towards the state pension and other benefits. NI is paid at different rates, and self-employed people pay Class 4 contributions calculated each year on the self-assessment tax form.

The amount of NI paid depends on a mass of different factors: married women, volunteer development workers, share fishermen, self-employed and small earnings are all factors that attract NI rates of between 0 per cent and 13.8 per cent. The UK government website, for example, provides all the information required to calculate and pay the appropriate National Insurance.



### *Help and advice with tax*

HMRC has online guides for employers and business and corporations linked directly from its homepage. Tax Café has a series of guides priced at around £30 each on such subjects as *Using a company to save tax* and *Salary vs dividends* as well as tax saving tactics.

#### WORKSHEET FOR ASSIGNMENT 15: LEGAL AND REGULATORY FACTORS

- 1 Does your venture require a licence to operate?
- 2 Will you be holding data on customers, suppliers and employees, and if so what are the implications of the Data Protection Act on your plans?
- 3 Does your proposed advertising, both print and website, comply with the various advertising regulations?
- 4 How will you handle refunds?
- 5 Will you have to register for VAT, or could it be to your advantage to do so?
- 6 If you have to register for VAT, which is the best scheme for you?
- 7 How much tax do you expect to have to pay?
- 8 Will you have to collect and pay tax for any employees?
- 9 How much NI will you be responsible for paying?
- 10 Have you incorporated the cost implications of these operating regulations in your financial forecasts?

### Suggested further reading

Pink, A (2020) *Practical Tax Planning for Business*, Pink Proactive Publishing LLP, Tunbridge Wells, Kent

## PHASE FIVE

# Reviewing financing requirements and options

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# Introduction

Once you have formulated a basic or new strategy for your business, you will have to make some forecast of the likely results of your endeavours. These projections are essential to show how much cash you will need and how much profit you could make, and to chart a safe financial strategy. This is the part of your business plan of greatest interest to potential backers and anyone else whose support is essential to your venture.

Your forecasts may well prove wrong, and initially at least, you may have little confidence in them being achieved. But the learning that comes from carrying out these projections will serve to increase the chances of ending up with a plan that you do believe in, and that has a good chance of achieving results that will ensure your venture survives.

The task in forecasting is to get your dart on the board, rather than to hit the bullseye first time. Once on the board you can correct your aim with subsequent throws. Remember these forecasts are being made before you commit resources, so in effect, you can have as many throws as you like at this stage, without the pain of the resultant consequences.

The final chapter in this section is Stress testing your business projections. This is a timely reminder, as shown during the recent pandemic, that events can take a radically unexpected turn.

# ASSIGNMENT 16

## The sales forecast

*The precision of numbers often bears no relation to the facts.*

DENIS HEALEY, FORMER CHANCELLOR OF THE EXCHEQUER

The sales forecast is perhaps the most important set of numbers to come out of the business planning process. How much stock to hold, how many staff to employ, how much material to buy, are all decisions that hinge on the sales forecast. These sales figures are also used to predict the cash-flow forecast and hence the funding requirements of the business.

These projections are also the key to valuing the business, so they will determine whether or not bankers will lend and investors invest. Furthermore, they will give some guidance as to how much of an enterprise investors expect in exchange for funding.

Naturally enough, potential backers do not accept a sales forecast unchallenged as, in their experience, new ventures nearly always miss the target by a wide margin.

While forecasts may turn out to be wrong, it is important to demonstrate in your business plan that you have thought through the factors that will have impact on performance. You should also show how you can deliver satisfactory results even when many of these factors may be working against you. Backers will be measuring the downside risk to evaluate the worst scenario and its likely effects, as well as looking towards an ultimate exit route.

Here are some guidelines to help you make an initial sales forecast.

- *Check how others have fared:* your overall projections will have to be believable. Most lenders and investors will have an extensive experience of similar business proposals. Unlike yourself, they will have the benefit of hindsight, and are able to look back several years at other ventures they have backed to see how they fared in practice compared with the ventures' initial forecasts. You could gather some useful knowledge on

similar businesses yourself by researching filed company accounts and trade magazines, or by talking with the founders of such ventures who will not be your direct competitors. Look back to Assignments 5 and 6 for guidance on how to research competitor performance.

- *Work out market share:* how big is the market for your product or service? Is it growing or contracting? At what rate and percentage per annum? What is its economic and competitive position? These are all factors that can provide a market-share basis for your forecasts.

An entry market share of more than a few per cent would be most unusual. In spite of all the hype, after more than a decade of hard work the internet booksellers still account for less than 10 per cent of all books sold, and Amazon is just one of a score of major players. But beware of turning this argument on its head.

Many sales forecasts are made on the premise that 'If we capture just 1 per cent of the potential market, we'll be a great success.' This statement is made so that no time is wasted in doing basic market research – after all, the business only has to sell to this tiny percentage of possible buyers! In fact, this type of thinking leads to more business failures than any other single factor. If the market is so huge as to make 1 per cent of it very profitable, then inevitably there are large and established competitors. For a small firm to try to compete head-on in this situation is little short of suicidal. It can be done, but only if sound research has clearly identified a market niche. No investor will be impressed by unsubstantiated statements such as 'In a market of £/\$/€1 billion per annum, we can easily capture 1 per cent – £/\$/€1 million a year.'

- *Think about your customers:* how many customers and potential customers do you know who are likely to buy from you, and how much might they buy? You can use many types of data on which to base reasonable sales projections: you can interview a sample of prospective customers, issue a press release or advertisement to gauge response and exhibit at trade shows to obtain customer reactions.

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#### REAL-WORLD EXAMPLE

*Ample Hills Creamery: how a multimillion-dollar ice cream start-up melted down (and bounced back)*

Brian Smith's quirky ice-cream hobby led to the creation of Ample Hills Creamery in Brooklyn. His unique flavours, like 'God Save the Cream', quickly gained popularity. In

2011 the company opened their first scoop shop on a quiet corner on Vanderbilt Avenue in Prospect Heights, Brooklyn. Their first break came in 2015 when Scooper Jason Smith received an unexpected call from Oprah Winfrey, praising their Ooey Goey Butter Cake and Salted Crack'd Caramel flavours. Expanding to 16 stores across four states by 2020 delivered earnings of \$10 million in annual revenue and a notional \$40 million valuation.

Sales forecasting played a crucial role in the company's story. Initially, Smith and his wife, Jackie Cuscuna, carefully tested their product with a pushcart, gaining valuable insights into consumer preferences and demand. This rigorous upfront testing demonstrated the potential for their business, leading them to invest their life savings into their first store, which sold out of their product within four days. The success led to expansion and a high-profile partnership with Disney. However, their ambition outpaced their ability to accurately forecast sales and manage cash flow.

The Disney deal, while a dream come true, necessitated building a new factory to meet expected demand. Misjudging sales projections, they built a \$7 million factory that required 400,000 gallons of ice-cream sales annually to break even but sold only 250,000–280,000 gallons. This shortfall, combined with rapid expansion and mismatched personnel, led to financial instability. When Ample Hills' finance director warned them of impending cash flow issues, Smith and Cuscuna were unprepared. Despite generating significant sales and expanding to 800 grocery stores, they lacked the capital to sustain their operations. Their inability to secure additional funding led to bankruptcy in 2020.

Reflecting on their experience, Smith and Cuscuna emphasized structured business practices, better sales forecasting and financial discipline. They avoided large partnerships and venture capital, focusing on sustainable growth. Their new venture is thriving, with five outlets up and running, and they are now as much a bakery as an ice-cream maker (<https://amplehills.com/>).

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- *Be aware of order cycles and timescales:* if your product or service needs to be on an approved list before it can be bought, then your forecast should confirm you have that approval.
  - *Look at seasonality:* you should consider seasonal factors that might cause sales to be high or low in certain periods of the year. For example, 80 per cent of toys are sold in just three months of the year, leaving nine very flat months. If you were selling toys, this would have a significant effect on cash-flow projections.

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## REAL-WORLD EXAMPLE

### *Using rules of thumb: Tim Brown*

When Tim Brown founded his second restaurant, Alamo, in Los Angeles, with substantial backing from private investors, he used one such rule. In his experience, once a restaurant has served 25,000 clients it can expect sufficient repeat business to break even. In his first eight months of operation he had achieved 20,000.

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- *Use rules of thumb where possible:* for some businesses, there are rules of thumb that can be used to estimate sales. This is particularly true in retailing, where location studies, traffic counts and population density are all known factors.
- *Work out your desired income:* forecasts will accommodate the realistic aims of the proprietor. You could even say that the whole purpose of strategy is to ensure that certain forecasts are achieved. This is more likely to be the case in a mature company with proven products and markets than with a start-up. Nevertheless, an element of ‘how much do we need to earn?’ must play a part in forecasting, if only to signal when a strategy is not worth pursuing.
- *Relate the sales forecast to activity:* however they are arrived at, sales figures will convince no one unless they are related back to the specific activities that will generate business. For example, if, in your business, salespeople have to make visits to generate orders, then knowing how many calls need to be made to get one order and what the average order size could be are essential pieces of information to include in your sales forecast.
- *How far ahead should you forecast?* Opinions are divided between three and five years ahead. However, financiers we have talked to, while often asking for a five-year view, only pay serious attention to the first three years.

The arguments for looking this far ahead are twofold. First, most new ventures are at their greatest risk in the first few years, so investors and lenders want to see that the proprietors have a well-thought-out strategy to cover this period. Second, venture capitalists in particular want to look forward to the time when they can realize their investment and move on. Typically their exit route has to materialize between years 3 and 5 – they hope, during the earliest of the three.

The first two years of the sales forecast should be made on a monthly basis, and the remaining three years on a quarterly basis.



The examples below provide a flavour of the range of possible outcomes for the first few years of a new venture's life.

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#### REAL-WORLD EXAMPLE

##### *Starbucks: forecasting is believing*

Most people believe Howard Schultz to be the founder of Starbucks, but that accolade belongs to Jerry Baldwin, Zev Siegl and Gordon Bowker, three friends, who shared a passion for fresh coffee. They opened their first outlet in Seattle in 1971 and by the time Shultz, a plastics salesman for Hammarplast, saw the opportunity to roll the business out, it was 1981 and Starbucks was the largest coffee business in Washington with six retail outlets selling fresh coffee beans. The founders were forecasting a similar pace of growth for the next decade or so, but Shultz's vision was to create community gathering places like the great coffee houses of Italy and transplant them to the United States.

The idea didn't strike a chord with Baldwin, who had hired Shultz as his marketing manager, but he let him try out the concept of selling espresso by the cup in one of his stores. Baldwin remained unconvinced, so Shultz started out on his own, opening a coffee house he named Il Giornale, after Italy's then biggest-selling newspaper.

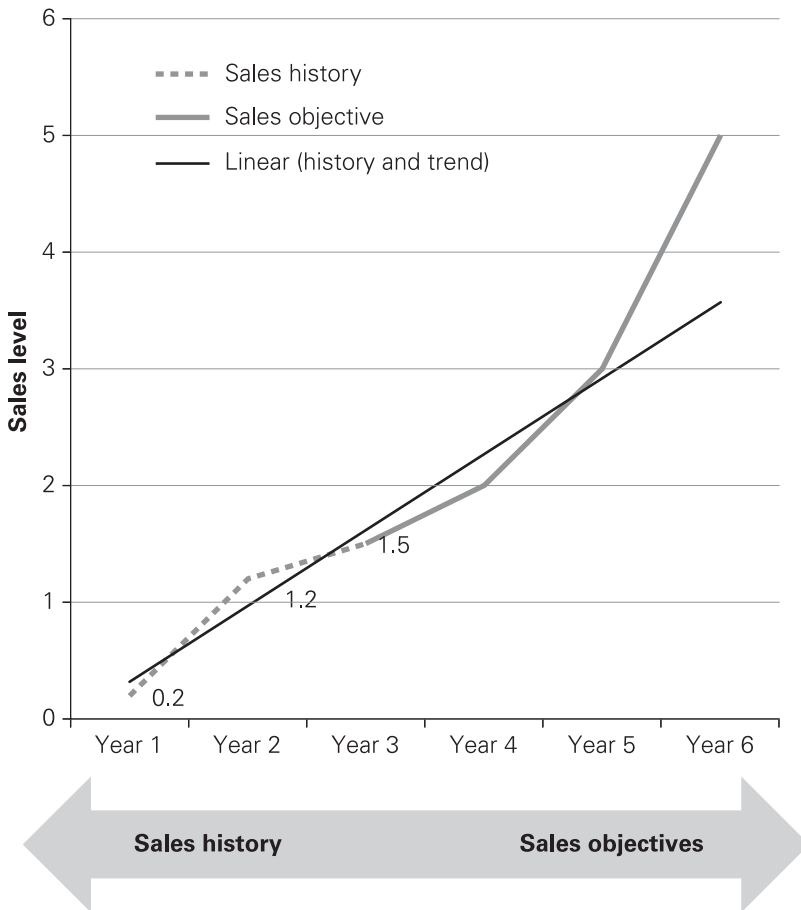
In 1987 the owners of Starbucks sold out to Schultz who convinced a group of local investors to stump up \$3.7 million (£2.22 million/€2.6 million) with the goal of opening 125 outlets over the following five years. Shultz abandoned the name Il Giornale in favour of Starbucks, and has gone on to open more than 15,000 retail locations in North America, Latin America, Europe, the Middle East and the Pacific Rim. Consolidated net revenues halfway through 2024 reached \$8.6 billion. The US Starbucks Rewards loyalty programme had 32.8 million active members, up 6 per cent on the preceding year.

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### Forecasting sales once you have started trading

While your business plan will contain your sales objectives – that is, what you want to achieve over the coming three years or so – the base forecast is the most likely future outcome, given what has happened in the past. That forecast provides the momentum to underpin the sales figures that you put into your cash-flow and profit projections. Figure 16.1 shows an example sales history for years one to three, the trend of those sales over the coming three years, and the sales objectives for the next three years that will be used for the financials of the business plan. You can see that the objectives are moving well ahead of trend and it is the filling of this gap that your marketing strategy needs to justify.

FIGURE 16.1 Sales history, trend and future objectives



### Forecasting tools

With a sales history there are a number of techniques that can make a forecast easier to make and more credible.

- *Moving average.* This method takes a series of data from, say, the last six months' sales, adds them up, divides by the number of months and uses that figure as being the most likely forecast of what will happen in month seven. This method works well in a static, mature marketplace where change happens slowly, if at all.
- *Weighted moving average.* This method gives the most recent data more significance than the earlier data since it gives a better representation of current business conditions. So before adding up the series of data each

figure is weighted by multiplying it by an increasingly higher factor as you get closer to the most recent data.

There are a number of much more sophisticated forecasting techniques but for business planning purposes these will be sufficient to show you have applied some serious thought to your sales projections. Professor Hossein Arsham of the University of Baltimore provides a useful tool that allows you to enter your historical data and see how different forecasting techniques perform (Arsham, 1994–2015).

#### WORKSHEET FOR ASSIGNMENT 16: THE SALES FORECAST

- 1 Provide details of any firm orders on hand.
- 2 Provide details of all customers you expect to sell to over the forecast period, and how much you expect to sell to each.
- 3 Give market research data that supports or verifies these forecasts. This is particularly important for ventures in the retail field, for example, when names of customers are not necessarily known in advance.
- 4 Prepare a sales forecast by value and volume for each major product group (e.g. for a hotel: bedrooms, restaurant, off-licence) throughout the whole period of the business plan – e.g. up to five years (monthly for years one and two and quarterly thereafter).
- 5 Support your forecast with examples from other similar ventures started recently, and drawing from company accounts and other sources.
- 6 Give an estimate of the likely market share that these forecasts imply.

### Suggested further reading

- Berry, T (2010) *Sales and Market Forecasting for Entrepreneurs*, Business Experts Press, US
- Leventhal, B (2018) *Predictive Analytics for Marketers: Using data mining for business advantage*, Kogan Page, London
- Mason, R (2013) *Successful Budgeting and Forecasting in a Week (Teach Yourself)*, Hodder & Stoughton, London

### Reference

- Arsham, H (1994–2015) *Time-Critical Decision Making for Business Administration*, [home.ubalt.edu/ntsbarsh/stat-data/Forecast.htm](http://home.ubalt.edu/ntsbarsh/stat-data/Forecast.htm) (archived at <https://perma.cc/E22F-FPTA>)

# ASSIGNMENT 17

## Cash-flow projections

### Cash flow versus profit

It is a generally accepted principle that the purpose of business is to make a profit. There is, however, a purpose that is even more important – survival. In the short term, a business can survive even if it is not making a profit as long as it has sufficient cash reserves, but it cannot survive without cash even though it may be making a profit. The purpose of the cash-flow projection is to calculate how much cash a business is likely to need to accomplish its objectives, and when it will need it in the business. These projections will form the basis of negotiations with any potential provider of capital.

### Cash-flow assumptions

The future is impossible to predict with great accuracy, but it is possible to anticipate likely outcomes and be prepared to deal with events by building in a margin of safety. The starting point for making a projection is to make some assumptions about what you want to achieve and test them for reasonableness.

Take the situation of High Note, a new venture being established to sell sheet music and small instruments to schools and colleges, which will expect to be given trade credit, and members of the public, who will pay cash. The owners plan to invest £10,000 and to borrow £10,000 from a bank on a long-term basis. The business will be run initially out of a converted garage adjoining their home and will require £11,500 to install windows, heat, light, power, storage shelving and a desk and chairs. A further £1,000 will be needed for a computer, software and a printer. That should leave around £7,500 to meet immediate trading expenses such as buying in stock and spending £1,500 on initial advertising. They hope customers' payments will

start to come in quickly to cover other expenses such as some wages for bookkeeping, administration and fulfilling orders. Sales in the first six months are expected to be £60,000 based on negotiations already in hand, plus some cash sales that always seem to turn up. The rule of thumb in the industry seems to be that stock is marked up by 100 per cent; so £30,000 of bought-in goods sell on for £60,000.

*Forecasting cash needs*

On the basis of the above assumptions it is possible to make the cash-flow forecast set out in Table 17.1. It has been simplified and some elements such as VAT and tax have been omitted for ease of understanding.

TABLE 17.1 High Note’s six-month cash-flow forecast

Month	April	May	June	July	Aug	Sept	Total
Receipts							
Sales	4,000	5,000	5,000	7,000	12,000	15,000	48,000
Owners’ cash	10,000	–	–	–	–	–	10,000
Bank loan	10,000	–	–	–	–	–	10,000
Total cash in	24,000	5,000	5,000	7,000	12,000	15,000	68,000
Payments							
Purchases	5,500	2,950	4,220	7,416	9,332	9,650	39,108
Rates, elec, heat, tel, internet	1,000	1,000	1,000	1,000	1,000	1,000	6,000
Wages	1,000	1,000	1,000	1,000	1,000	1,000	6,000
Advertising	1,550	1,550	1,550	1,550	1,550	1,550	9,300
Fixtures/ fittings	11,500	–	–	–	–	–	11,500
Computer, etc	–	–	–	1,000	–	–	1,000
Total cash out	20,550	6,500	7,770	11,966	12,882	13,240	72,908
Monthly cash surplus/ (deficit)	3,450	(1,500)	(2,770)	(4,966)	(882)	1,760	(4,908)
Cumulative cash balance	3,450	1,950	(820)	(5,786)	(6,668)	(4,908)	–

The maths in the table is straightforward; the cash receipts from various sources are totalled, as are the payments. Taking one from the other leaves a cash surplus or deficit for the month in question. The bottom row shows the cumulative position. So, for example, while the business had £2,450 cash left at the end of April, taking the cash deficit of £1,500 in May into account, by the end of May only £950 ( $£2,450 - £1,500$ ) cash remains.

Based on these projections this business would require at least £6,668 of cash to meet the goals in its business plan. A margin of safety would be prudent, so the financing requirement for this venture would be somewhere between £8,000–10,000.

### Avoiding overtrading

In the example above the business has insufficient cash, based on the assumptions made. An outsider, a banker perhaps, would look at the figures in August and see that the faster sales grew, the greater the cash-flow deficit would become. We know, using our crystal ball, that the position will improve from September and that if the owners can only hang on in there for a few more months they should eliminate their cash deficit and perhaps even have a surplus. Had they made the cash-flow projection at the outset and either raised more money (perhaps by way of an overdraft), spent less on refurbishing the garage, or set a more modest sales goal, which would have meant a need for less stock and advertising, they would have had a sound business. The figures indicate a business that is trading beyond its financial resources, a condition known as overtrading, which is anathema to bankers the world over.

### Estimating start-up cash requirements

The example above takes the cash-flow projection out to six months. You should project your cash needs forward for between 12 and 18 months. Make a number of projections using differing assumptions (for example, seeing what will happen if you get fewer orders, people take longer to buy or adapting your office costs more). Finally when you arrive at a projection you have confidence in, and you believe you can justify the cash needed, build that figure into the financing needs section of your business plan.

If that projection calls for more money than you are prepared to invest or raise from outside, don't just steam ahead and hope for the best. The result could well mean that the bank pulls the plug on you when you are within sight of the winning post. You will find a selection of free cash-flow templates for Google Sheets and Excel at: <https://coefficient.io/templates/cash-flow>.

### Pre-trading cash-flow forecast

Typically a new venture will take a few months to start generating income. Your cash-flow projections need to start from the moment you anticipate incurring costs or generating income. In other words day zero is the time expenses are incurred or a sale is made, even if such expenses or sales are made on a credit basis and are not due to be paid for a further month or more.

#### WORKSHEET FOR ASSIGNMENT 17: CASH-FLOW PROJECTIONS

Using the cash-flow spreadsheet given above:

- 1 Construct a cash-flow statement for the pre-trading period leading up to 'opening' day.
- 2 Construct a cash-flow statement for years 1, 2, 3, 4 and 5 assuming that you achieve the level of sales in your sales forecast.

Remember you should produce years 1 and 2 monthly and years 3, 4 and 5 quarterly. Do not forget to state the key assumptions that you have made in arriving at your figures.

### Suggested further reading

Barrow, C (2018) *Understanding Business Accounting for Dummies*, 4th edn, Wiley, New York

Barrow, C (2023) *The 30 Day MBA in Business Finance: Your fast track guide to business success*, Kogan Page, London

# ASSIGNMENT 18

## The profit and loss account

You may by now be concerned about the financial situation at High Note as revealed in the preceding chapter. After all the business has sold £/\$/€60,000 worth of goods that it only paid £/\$/€30,000 for, so it has a substantial profit margin to play with. While £/\$/€39,108 has been paid to suppliers only £/\$/€30,000 of goods at cost have been sold, meaning that £/\$/€9,108 worth of instruments and sheet music are still in stock. A similar situation exists with sales. High Note has billed for £/\$/€60,000 but only been paid for £/\$/€48,000; the balance is owed by debtors. The bald figure at the end of the cash-flow projection showing High Note to be in the red to the tune of £/\$/€4,908 seems to be missing some important facts.

The profit and loss account, the subject of this assignment, and the balance sheet that follows in the next assignment, will complete our picture of this business's financial situation. In practical terms, the cash-flow projections and the profit and loss account projections are parallel tasks which are essentially prepared from the same data. They may be regarded almost as the 'heads' and 'tails' of the same coin – the profit and loss account showing the owner/manager the profit/loss based on the assumption that both sales income and the cost of making that sale are 'matched' together in the same month; and the cash-flow statement looking at the same transactions from the viewpoint that in reality the cost of the sale is incurred first (and paid for) and the income is received last, anywhere between one week and three months later.

Obviously, the implications for a non-cash business of this delay between making the sale and receiving the payment and using a service/buying goods and paying for them are crucial, especially in the first year of the business and when your business is growing quickly.



## Some ground rules

The profit and loss account sets out to ‘match’ income and expenditure to the appropriate time period. It is only in this way that the profit for the period can be realistically calculated. Before we look at the structure of the profit and loss account, it might be helpful to look at the accounting concepts to help us to apply the matching principle.

### *The realization concept*

A particularly prudent entrepreneur once said that an order was not an order until the customer’s cheque had cleared, he or she had consumed the product, had not died as a result and, finally, had shown every indication of wanting to buy again.

Most of us know quite different people who can ‘anticipate’ the most unlikely volume of sales. In accounting, income is usually recognized as having been earned when the goods (or services) are dispatched and the invoice sent out. This has nothing to do with when an order is received, or how firm an order is, or how likely a customer is to pay up promptly.

It is also possible that some of the products dispatched may be returned at some later date – perhaps for quality reasons. This means that income, and consequently profit, can be brought into the business in one period and have to be removed later on. Obviously, if these returns can be estimated accurately, then an adjustment can be made to income at the time.

So the ‘sales income’ figure that is seen at the top of a profit and loss account is the value of the goods dispatched and invoiced to customers in the period in question.

### *The accrual concept*

Suppose, for example, that you are calculating one month’s profits when the quarterly telephone bill comes in. The picture might look like Table 18.1.

This is clearly wrong. In the first place, three months’ telephone charges have been ‘matched’ against one month’s sales. Equally wrong is charging anything other than January’s telephone bill against January’s income. Unfortunately, bills such as this are rarely to hand when you want the

TABLE 18.1 Example showing mismatched account

Profit and loss account for January 2020–21	
	£/\$/€
Sales income for January	4,000
Less telephone bill (last quarter)	800
Profit	3,200

accounts, so in practice the telephone bill is ‘accrued’ for. A figure (which may even be absolutely correct if you have a meter) is put in as a provision to meet this liability when it becomes due.

### The difference between profit and cash

Cash is immediate and takes account of nothing else. Profit, however, is a measurement of economic activity that considers other factors which can be assigned a value or cost. The accounting principle that governs profit is known as the ‘matching principle’, which means that income and expenditure are matched to the time period in which they occur. So for High Note the profit and loss account for the first six months is as shown in Table 18.2.

TABLE 18.2 Profit and loss account for High Note for the six months Apr–Sept

	£/\$/€	£/\$/€
Sales		60,000
Less cost of goods to be sold		30,000
Gross profit		30,000
<i>Less expenses:</i>		
Heat, electric, tel, internet, etc	6,000	
Wages	6,000	
Advertising	9,300	
Total expenses		21,300
Profit before tax, interest and depreciation charges		8,700

(See Assignment 19 for an explanation of depreciation.)

### Structuring the profit and loss account

This account is normally set out in more detail for a business in order to make it more useful when it comes to understanding how the business is performing. For example, although the profit shown in our worked example is £8,700, in fact it would be rather lower. As money has been borrowed to finance cash flow there would be interest due, as there would be on the longer-term loan of £10,000.

In practice we have four levels of profit:

- *Gross profit* is the profit left after all costs related to making what you sell are deducted from income.
- *Operating profit* is what is left after you take away the operating expenses from the gross profit.
- *Profit before tax* is what is left after deducting any financing costs.
- *Profit after tax* is what is left for the owners to spend or reinvest in the business.

For High Note this could look much as set out in Table 18.3.

TABLE 18.3 High Note's extended profit and loss account

	£/\$/€
Sales	60,000
Less the cost of goods to be sold	30,000
Gross profit	30,000
Less operating expenses	21,300
Operating profit	8,700
Less interest on bank loan and overdraft	600
Profit before tax	8,100
Less tax at 21%	1,827
Profit after tax	6,273

### Making profit projections

You can make the above task a lot easier by using the online spreadsheet at the QuickBooks website, which offers a downloadable Excel spreadsheet that enables you to tailor a cash-flow statement to your own needs. You can find the spreadsheet by scrolling through the Resource Center until you reach the Free Cash Flow Statement Template, Example and Guide.

## WORKSHEET FOR ASSIGNMENT 18: THE PROFIT AND LOSS ACCOUNT

Using the spreadsheet given above:

- 1** Construct a profit and loss account for years 1, 2, 3, 4 and 5, assuming you achieve the level of sales in your sales forecast. Include a statement of key assumptions made.
- 2** Construct a four-line summary (sales, gross profit, operating profit and profit before tax) of your profit and loss accounts for the full five years (annually).
- 3** Carry out a sensitivity analysis, noting by how much each of the following must change seriously to affect the apparent viability of your business plan:
  - (a)** Sales lower by x per cent
  - (b)** Fixed costs higher by x per cent
  - (c)** Cost of goods sold higher by x per cent

### Suggested further reading

Barrow, C (2018) *Understanding Business Accounting for Dummies*, 4th edn, Wiley, New York

Barrow, C (2023) *The 30 Day MBA in Business Finance: Your fast track guide to business success*, Kogan Page, London

# ASSIGNMENT 19

## The balance sheet

So far in our example the money spent on ‘capital’ items such as the £/\$/€12,500 spent on a computer and on converting the garage to suit business purposes has been ignored, as has the £/\$/€9,108 worth of sheet music etc remaining in stock waiting to be sold and the £/\$/€12,000 of money owed by customers who have yet to pay up. An assumption has to be made about where the cash deficit will be made up, and the most logical short-term source is a bank overdraft. The balance sheet is the accounting report that shows at any moment of time the financial position taking all these longer-term factors into account.

For High Note, the example we have been using in the other finance chapters, at the end of September the balance sheet is set out in Table 19.1.

There are a number of other items not shown in this balance sheet that should appear, such as liability for tax and VAT that have not yet been paid and should appear as current liability. You will find a spreadsheet template to help you construct your own balance sheets at Business Accounting Basics.

### The language of the balance sheet

The terms used in financial statements often seem familiar but they are often used in a very particular and potentially confusing way. For example look at the balance sheet below and you will see the terms ‘assets’ and ‘liabilities’. You may think that the money put in by the owner and the profit retained from the years trading are anything but liabilities, but in accounting ‘liability’ is the term used to show where money has come from. Correspondingly ‘asset’ means, in the language of accounting, what has been done with that money.

You will also have noticed that the assets and liabilities have been jumbled together in the middle to net off the current assets and current liabilities and so end up with a figure for the working capital. ‘Current’ in accounting means within the trading cycle, usually taken to be one year. Stock will be used up and debtors will pay up within the year, and an overdraft, being repayable on demand, also appears as a short-term liability.

TABLE 19.1 High Note’s balance sheet at 30 September

	£/\$/€	£/\$/€
<b>Assets</b>		
Fixed Assets		
Garage conversion, etc	11,500	
Computer	1,000	
Total Fixed Assets		12,500
Working Capital		
Current Assets (CA)		
Stock	9,108	
Debtors	12,000	
Cash	<u>0</u>	
	21,108	
Less Current Liabilities (CL)		
Overdraft	4,908	
Creditors	<u>0</u>	
	4,908	
Working Capital (CA – CL)		16,200
Total Assets		28,700
<b>Liabilities</b>		
Owners’ capital introduced	10,000	
Long-term loan	10,000	
Profit retained (from P&L account)	8,700	
Total Liabilities		28,700

### *Assets*

Assets are ‘valuable resources owned by a business’. You can see that there are two key points in the definition:

- To be valuable the resource must be cash, or of some use in generating current or future profits. For example, a debtor (someone who owes a business money for goods or services provided) usually pays up. When he or she does, the debtor becomes cash and so meets this test. If there is no hope of getting payment, then you can hardly view the sum as an asset.
- Ownership, in its legal sense, can be seen as being different from possession or control. The accounting use of the word is similar but not identical. In a business, possession and control are not enough to make a resource an asset. For example, a leased machine may be possessed and controlled by a business but be owned by the leasing company. So it is not an asset, but a regular expense appearing on the profit and loss account.

### *Liabilities*

These are the claims by people outside the business. In this example only creditors, overdraft and tax are shown, but they could include such items as accruals and deferred income.

### *Current*

This is the term used with both assets and liabilities to show that they will be converted into cash, or have a short life (under one year).

Now let's go through the main elements of the balance sheet.

### *Net assets employed*

This is the ‘what have we done with the money?’ section. A business can only do three things with funds:

- It can buy *fixed assets*, such as premises, machinery and motor cars. These are assets that the business intends to keep over the longer term. They will be used to help to make profits, but will not physically vanish in the short term (unless sold and replaced, like motor cars, for example).

- Money can be tied up in *working capital*, that is, ‘things’ immediately involved in the business’s products (or services), that will vanish in the short term. Stocks get sold and are replaced; debtors pay up, and creditors are paid; and cash circulates. Working capital is calculated by subtracting the current liabilities from the current assets. This is the net sum of money that a business has to fund the working capital. In the balance sheet this is called the net current assets, but on most other occasions the term ‘working capital’ is used.
- Finally, a business can put money aside over the longer term, perhaps in local government bonds or as an investment in someone else’s business venture. In the latter case this could be a prelude to a takeover. In the former it could be a cash reserve for future capital investment. The account category is called *investments*. It is not shown in this example as it is a fairly rare phenomenon in new or small businesses, which are usually cash hungry rather than rich.

### *Financed by*

This section of the balance sheet shows where the money came from. It usually has at least two subheadings, although larger companies can have many more.

- *Share capital*. This is the general name given to the money put in by various people in return for a part share in the business. If the business is successful they may get paid a dividend each year, but their principal reward will come from the expected increase in the worth of the business and the consequent rise in value of their share.

The profit or loss for each year is added to or subtracted from the shareholders’ investment. Eventually, once the business is profitable, it will have some money left each year to plough back into reserves. This term conjures up pictures of sums of cash stored away for a rainy day. It is important to remember that this is not necessarily so. The only cash in a business is that shown under that heading in the current assets. The reserves, like all the other funds, are used to finance a business and are tied up in the fixed assets and working capital.

- *Loan capital*. The other common source of money to finance a business are long- or medium-term loans from outside parties. These loans could be in the form of debentures, a mortgage, hire purchase agreements or long-term loans from a bank. The common features of all such loans are that businesses have to pay interest on the money and eventually repay the capital, whether or not the business is successful. Conversely, if the business is a spectacular success the lenders, unlike the shareholders, will not share in the extra profits.



## Some ground rules

These ground rules are generally observed by accountants when preparing a balance sheet.

### *Money measurement*

In accounting, a record is kept only of the facts that can be expressed in money terms. For example, the state of your health, or the fact that your main competitor is opening up right opposite in a more attractive outlet, are important business facts. No accounting record of them is made, however, and they do not show up on the balance sheet, simply because no objective monetary value can be assigned to these facts.

Expressing business facts in money terms has the great advantage of providing a common denominator. Just imagine trying to add laptops and motor cars, together with a 4,000 square foot workshop, and arrive at a total. You need a common term to be able to carry out the basic arithmetical functions, and to compare one set of accounts with another.

### *Business entity*

The accounts are kept for the business itself, rather than for the owner(s), workers, or anyone else associated with the firm. If an owner puts a short-term cash injection into his or her business, it will appear as a loan under current liabilities in the business account. In his or her personal account it will appear as an asset – money he or she is owed by someone else. So depending on which point of view you take, the same sum of money can be an asset or a liability. And as in this example the owner and the business are substantially the same person, the possibilities of confusion are considerable.

This source of possible confusion must be cleared up and the business entity concept does just that. The concept states that assets and liabilities are always defined from the business's viewpoint.

### *Cost concept*

Assets are usually entered into the accounts at cost. For a variety of reasons, the real 'worth' of an asset will probably change over time. The worth, or value, of an asset is a subjective estimate on which no two people are likely to agree. This is made even more complex and artificial because the assets

themselves are usually not for sale. So, in the search for objectivity, the accountants have settled for cost as the figure to record. It means that a balance sheet does not show the current worth, or value, of a business.

### *Depreciation*

Fixed assets are usually depreciated over their working life rather than taken as one hit on the profit and loss account. There are accounting rules on the appropriate period to depreciate different assets over, usually somewhere between 3 and 20 years. If we believe the computer has a useful life of four years and the rules allow it, we take £250 a year of cost, by way of depreciation, as an expense item in the profit and loss account for the year in question. Depreciation, though vital for your management accounts, is not an allowable expense for tax purposes. The tax authorities allow a 'writing down' allowance say of 25 per cent of the cost of an asset each year which can be set as an expense for tax purposes. There are periods when the government of the day wants to stimulate businesses to invest, say in computers, and it will boost the writing-down allowance accordingly. This figure will almost certainly not correspond to your estimate of depreciation, so you need a profit for tax purposes and a profit for management purposes. You can see the effect of depreciation on the accounts in Table 19.2. Fixed assets reduce by £/\$/€125 of depreciation and there is a corresponding reduction in profit retained for the year, thus ensuring the balance sheet balances.

One of the books you will keep will be a Capital Register, keeping track of the cost and depreciation of all fixed assets. Another accounting rule, that of 'materiality', comes into force here. Technically a pocket calculator costing £/\$/€5 is a fixed asset in that it has been bought to use rather than sell and it has a life of over one year. But it is treated as an expense as the sum involved is too small to be material. There are no clear rules on the point at which a cost becomes material. For a big organization it may be for items costing a few thousand pounds. For a small business £/\$/€100 may be the appropriate level.

Other assets, such as freehold land and buildings, will be revalued from time to time, and stock will be entered at cost, or market value, whichever is the lower.

The QuickBooks website offers a downloadable Excel spreadsheet that enables you to tailor a balance sheet to your own needs. You can find the spreadsheet by scrolling through the Resource Center until you reach the Free Balance Sheet Template, Example and Guide (<https://quickbooks.intuit.com/global/resources/expenses/balance-sheet-template/>).

TABLE 19.2 The changes to High Note’s balance sheet to account for depreciation

Balance sheet	£/\$/€
Asset changes	
Fixed assets at cost	12,500
Less depreciation for six months	125
Net book assets	12,375
Liability changes	
Profit from P&L account reduced by £/\$/€125 to	8,575

*Going concern*

Accounting reports always assume that a business will continue trading indefinitely into the future, unless there is good evidence to the contrary. This means that the assets of the business are looked at simply as profit generators and not as being available for sale.

For example, a motor car might be recorded in the accounts at £30,000 having been depreciated down from its purchase cost. If we knew that the business was to close down in a few weeks, then we would be more interested in the car’s resale value than its ‘book’ value; the car might fetch only £20,000, which is a quite different figure.

Once a business stops trading, we cannot realistically look at the assets in the same way. They are no longer being used in the business to help generate sales and profits. The most objective figure is what they might realize in the marketplace. Anyone who has been to a sale of machinery will know the difference between book and market value!

*Dual aspect*

To keep a complete record of any business transaction we need to know both where money came from, and what has been done with it. It is not enough simply to say, for example, that someone has put £/\$/€1,000 into their business. We have to show how that money has been used to buy fixtures, stock in trade, etc.

### WORKSHEET FOR ASSIGNMENT 19: THE BALANCE SHEET

Using the template link provided at the start of this chapter:

- 1** Construct a balance sheet for your business as it might look on the day before you start trading. This should be done now.
- 2** List and explain the assumptions underpinning your financial forecasts.
- 3** Construct a balance sheet at the end of years 1, 2 and 3 assuming you achieve the level of sales in your sales forecast. These should be done after you have completed the pro forma profit and loss account (Assignment 18) and pro forma cash-flow forecast (Assignment 17).

### Suggested further reading

Barrow, C (2018) *Understanding Business Accounting for Dummies*, 4th edn, Wiley, New York

Barrow, C (2023) *The 30 Day MBA in Business Finance: Your fast track guide to business success*, Kogan Page, London

# ASSIGNMENT 20

## Break-even analysis

### Calculating your break-even point

Let's take an elementary example: a business plans to sell only one product and has only one fixed cost, the rent.

In Figure 20.1 the vertical axis shows the value of sales and costs in thousands of pounds, and the horizontal axis the number of 'units' sold. The second horizontal line represents the fixed costs, those that do not change as volume increases. In this case it is the rent of £/\$/€10,000. The angled line running from the top of the fixed costs line is the variable costs. In this example the business plans to buy in at £/\$/€3 per unit, so every unit it sells adds that much to its fixed costs.

Only one element is needed to calculate the break-even point – the sales line. That is the line moving up at an angle from the bottom left-hand corner of the chart. The business plans to sell out at £/\$/€5 per unit, so this line is calculated by multiplying the units sold by that price.

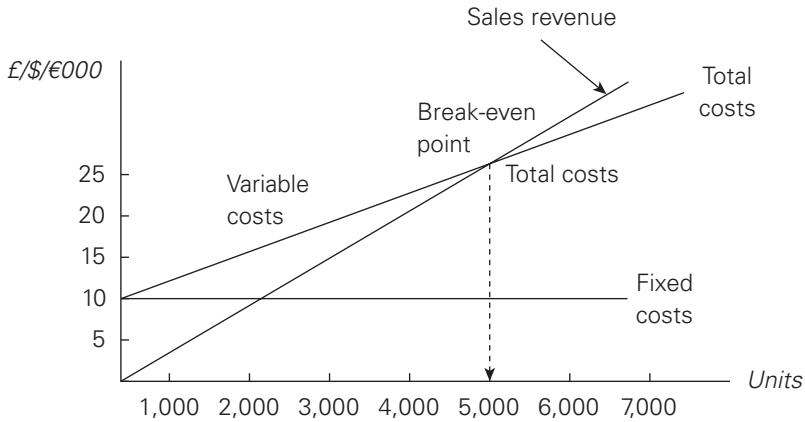
The break-even point is the stage at which a business starts to make a profit. That is when the sales revenue begins to exceed both the fixed and variable costs. Figure 20.1 shows the example's break-even point is 5,000 units.

A formula, deduced from the figure, will save time for your own calculations.

$$\text{Break-even point} = \frac{\text{Fixed costs}}{\text{Selling price} - \text{Unit variable cost}}$$

$$\frac{10,000}{£/\$/€5 - £/\$/€3} = 5,000 \text{ units}$$

FIGURE 20.1 Graph showing break-even point



### Profitable pricing

To complete the break-even picture we need to add one further dimension – profit. It is a mistake to think that profit is an accident of arithmetic calculated only at the end of the year. It is a specific and quantifiable target that you need at the outset.

Let's go back to our previous example. You plan to invest £/\$/€10,000 in fixed assets in a business, and you will need to hold another £/\$/€5,000 worth of stock too – in all say £/\$/€15,000. You could get £/\$/€1,500 profit just leaving that money in a bank or building society, so you will expect a return of say £/\$/€4,000 (equal to 27 per cent) for taking the risks of setting up on your own. Now let's see when you will break even.

The new equation must include your 'desired' profit, so it will look like this:

$$\begin{aligned}
 \text{Break-even profit point} &= \frac{\text{Fixed costs} + \text{Profit objective}}{\text{Selling price} - \text{Unit variable cost}} \\
 (\text{BEPP}) & \\
 &= \frac{10,000 + 4,000}{£/\$/€5 - £/\$/€3} = 7,000
 \end{aligned}$$

We know that to reach our target we must sell 7,000 units at £/\$/€5 each and have no more than £/\$/€10,000 tied up in fixed costs. The great strength of this equation is that each element can be changed in turn on an experimental basis to arrive at a satisfactory and achievable result. For instance,

suppose you decide that it is unlikely that you can sell 7,000 units, but that 6,500 is achievable. What would your selling price have to be to make the same profit?

Using the BEPP equation you can calculate the answer:

$$\begin{aligned}\text{BEPP} &= \frac{\text{Fixed costs} + \text{Profit objective}}{\text{Selling price} - \text{Unit variable cost}} \\ 6,500 &= \frac{10,000 + 4,000}{6,500} = \text{£}/\text{€}2.15 \\ \text{£}/\text{€}x &= \text{£}/\text{€}2.15 + \text{£}/\text{€}3 = \text{£}/\text{€}5.15\end{aligned}$$

If your market will bear a selling price of £/\$/€5.15 as opposed to £/\$/€5, all is well; if it won't, the ball is back in your court. You have to find ways of decreasing the fixed and/or variable costs, or of selling more, rather than just accepting that a lower profit is inevitable.

### From the particular to the general

The example used to illustrate the break-even profit point model was of necessity simple. Few if any businesses sell only one or two products, so a more general equation may be more useful if your business sells hundreds of products, as, for example a real shop does.

In such a business, to calculate your break-even point you must first establish your gross profit. If you are already trading, this is calculated by deducting the money paid out to suppliers from the money received from customers. If you are not yet trading, then researching your competitors will give you some indication of the sort of margins you should aim for.

For example, if you are aiming for a 40 per cent gross profit, your fixed costs are £/\$/€10,000 and your overall profit objective is £/\$/€4,000, then the sum will be as follows:

$$\begin{aligned}\text{BEPP} &= \frac{10,000 + 4,000}{0.4} = \frac{14,000}{0.4} \\ &= \text{£}/\text{€}35,000\end{aligned}$$

So to reach your target you must achieve a £/\$/€35,000 turnover. (You can check this out for yourself: look back to the previous example where the

BEPP was 7,000 units, and the selling price was £/\$/€5 each. Multiplying those figures out gives a turnover of £/\$/€35,000. The gross profit in that example was 2/5, or 40 per cent, also.)

### Getting help with break-even

BizPep has a useful piece of software, called Pricing Breakeven Analysis, that allows you to calculate your optimal selling price under a wide range of business conditions. A fully functioning download is available free for a seven-day trial. The outputs include break-even charts for current, increased, decreased and optimum pricing calculated for prices ranging from –50 to +50 per cent of your current actual or proposed price. You can carry out the same analysis yourself using the free software from the Harvard Business School, but BizPep’s templates do some of the grunt and groan for you (<https://bizpep.com/pricebreakevenanalysis.html>).

#### WORKSHEET FOR ASSIGNMENT 20: BREAK-EVEN ANALYSIS

Using the format on the break-even analysis sheet (Table 20.1):

TABLE 20.1

<hr/>			
1	Calculate your gross profit		
	Projected sales	£/\$/€	
	– Direct costs:		
	Purchases (material costs)	£/\$/€	
	Labour costs	£/\$/€	
	= Gross profit	£/\$/€	(A)
2	Calculate your gross profit margin		
	Gross profit (A)	£/\$/€	× 100
	Sales	£/\$/€	
	= Gross profit margin		% (B)
	<u>Notes:</u>		

(continued)



TABLE 20.1 (Continued)

3	Calculate your overheads
	Indirect costs:
	Business salaries
	(including your own drawings) £/\$/€
	+ Rent £/\$/€
	+ Rates £/\$/€
	+ Light/heating £/\$/€
	+ Telephone/postage £/\$/€
	+ Insurance £/\$/€
	+ Repairs £/\$/€
	+ Advertising £/\$/€
	+ Bank interest/HP £/\$/€
	+ Other expenses
	(e.g. depreciation of fixed assets) £/\$/€
	£/\$/€
	£/\$/€
	£/\$/€
	£/\$/€
	£/\$/€
	= Overheads <u>£/\$/€ (C)</u>
4	Calculate your actual turnover required to break even
	$\frac{\text{Overheads (C)} \quad \text{£/$/€}}{\text{Gross profit margin (B)} \quad \%} \times 100$
	= Break-even sales £/\$/€ (D)
5	Calculate the monthly target to break even
	$\frac{\text{Break-even sales (D) } \text{£/$/€}}{6}$
	= Monthly break-even sales £/\$/€

(continued)

TABLE 20.1 (Continued)

6	Calculate your estimated profit	
	Projected sales	£/\$/€
	– Break-even sales (D)	£/\$/€
	+ Gross profit margin (B)	%
	= Profit (for 12 months)	£/\$/€

- 1** Construct a break-even analysis for year 1 of your business from the figures calculated in the last three chapters.
- 2** Estimate the effect of the following events on your break-even point for each year:
  - (a)** a 10 per cent rise/fall in sales volume;
  - (b)** a 10 per cent rise/fall in unit selling price;
  - (c)** a 10 per cent rise/fall in variable costs per unit of sale, e.g. a meal;
  - (d)** a 10 per cent rise/fall in fixed costs;
  - (e)** a requirement for achieving your profit objective by year 1 – now what ‘volume’ of product must you sell to break even?
- 3** Look back to Assignment 8 on Pricing, and review your proposed selling price in the light of work/research carried out during this assignment.

### Suggested further reading

Barrow, C (2018) *Understanding Business Accounting for Dummies*, 4th edn, Wiley, New York

Barrow, C (2023) *The 30 Day MBA in Business Finance: Your fast track guide to business success*, Kogan Page, London

# ASSIGNMENT 21

## Estimating financing requirements

Your business plan may look very professional, showing that you have a very high probability of making exceptional returns, but it will fall at the first hurdle if your funding requirements have not been properly thought out and communicated to potential lenders and investors. It is not sufficient for you to look at your pro forma cash-flow statement and, taking the maximum overdraft position, say:

The management require £150,000 to commence business, which may come either from bank loans or a share capital injection. The cash-flow projections show that if the funding was by way of a loan it would be repaid within three years. If the funding came from an issue of share capital an excellent return would be available by way of dividends.

Such a statement leaves many questions unanswered, such as:

- Why do you need the money?
- What type of money do you need?
- When will you need it?
- Who is the best source of money for your venture?

The more successful you are, the more money you will need to finance and store stock if you are selling products or to pay wages if you are in a service business. To remain competitive and visible your products and services will need to be kept up to date as will your website, all of which will call for some additional investment.

Santander has a neat tool that allows you to choose the trade you are interested in starting a business in – several hundred are shown, from acupuncture to windscreen services – and the cost calculator will provide a

list of the items you may have to buy and their current cost. Scrolling through eight screens of cost prompts, you will arrive at the costs involved in starting that particular type of business.

### Why do you need the money?

You probably have a very good idea of why you need the funds that you are asking for, but unless readers of your business plan have plenty of time to spare (which they have not) and can be bothered to work it out for themselves (which they can't), you must clearly state what you will use the funds received for. An example is:

A net investment of £/\$/€150,000 is required, which will be used as follows:

	£/\$/€
To purchase:	
Motor vehicle	5,000
Plant and equipment	100,000
To provide:	
Working capital for first 6 months	<u>75,000</u>
Total requirement	180,000
Less investment made by (you)	<u>30,000</u>
Net funding requirement	150,000

This statement clearly tells the reader how the funds will be used and gives clear pointers as to appropriate funding routes and timing of the funding requirements.

### What type of money do you need?

There are many sources of funds available to independent businesses. However, not all of them are equally appropriate to all firms at all times. These different sources of finance carry very different obligations, responsibilities and opportunities for profitable business. The differences have to be understood to allow an informed choice.

Most new ventures confine their financial strategy to bank loans, either long term or short term, viewing the other financing methods as either too complex or too risky. In many respects the reverse is true. Almost every finance source other than banks will to a greater or lesser extent share some of the risks of doing business with the recipient of the funds.

The great attraction of bank borrowings lies in the speed with which facilities can usually be arranged. Most small businesses operate without a business plan, so most events that require additional funds, such as sudden expansion or contraction, come as a surprise, either welcome or unwelcome. It is to this weakness in financial strategy that banks are ultimately appealing, so it is hardly surprising that many difficulties arise.

### *Lenders and investors compared*

At one end of the financing spectrum lie shareholders: either individual business angels, or corporates such as venture capital providers. These share all the risks and vagaries of the business alongside the founder, and expect a proportionate share in the rewards if things go well. They are not especially concerned with a stream of dividends, which is just as well, as few small companies ever pay them. Instead they hope for a radical increase in the value of their investment. They expect to realize this value from other investors who want to take their place for the next stage in the firm's growth cycle, rather than from any repayment by the founder.

Investors in new or small businesses do not look for the security of buildings or other assets to underpin their investment. Rather they look to the founder vision and the core management team's ability to deliver results.

At the other end of the financing spectrum are the banks, which try hard to take no risk, but expect some reward irrespective of performance. They want interest payments on money lent, usually from day one. While they too hope the management is competent, they are more interested in securing a charge against any assets the business or its managers may own. At the end of the day (and that day can be sooner than the borrower expects), a bank wants all its money back – no more and certainly no less. It would be more prudent to think of banks as people who will help you turn a proportion of an illiquid asset such as property into a more liquid asset such as cash at some discount.

Understanding the differences in expectation between lenders, who provide debt, and investors, who provide equity, or share capital, is central to determining who to approach for funding. In a nutshell, lenders are risk averse, want security cover for any loan, expect to receive interest and for it to be paid

on time, and want their money back in a predetermined period of time. Investors, on the other hand, have an appetite for risk, do not expect any payment until the business has grown substantially or has been sold, and rely on the founder's vision and business plan for their confidence in the proposal.

In between the extremes of shareholders and the banks lie a myriad of other financing vehicles that have a mixture of lending and investing criteria. A business needs to keep its finances under constant review, choosing the most appropriate mix of funds for the risks it plans to take and the economic climate ahead. The more risky and volatile the road ahead, the more likely it is that taking a higher proportion of risk capital will be appropriate. In times of stability and low interest, higher borrowings may be more acceptable.

## Sources of finance

There are five main sources of finance for new and established ventures:

- your own money;
- loans from banks and other institutions or from family and friends;
- taking investors whom you know something about on board to share the risks and rewards alongside yourself;
- floating your business to the public at large on a stock market;
- 'free' money by way of grants or winning a competition.

## Using your own resources

The first port of call when looking to finance your business should be your own resources. This is usually easier to arrange, cheaper, quicker and less time-consuming than any other source of money. There is of course another important advantage in that if you don't tap into bank borrowing and the like you may get a better reception later on once your business is up and running.

### *Dipping into savings*

If you have any savings put aside for a rainy day, you could also consider dipping into them now. You will need to discuss this with your financial adviser as there may be penalties associated with cashing in insurance

policies early, for example. The Association of Investment and Financial Advisers can help you to find an adviser in the United Kingdom or abroad.

### *Remortgaging*

If you bought your present home five years or more ago the chances are that you are sitting on a large amount of equity – the difference between the current market value of your house and the amount you still owe the mortgagor. You can dip into this equity by remortgaging for a higher sum and taking out some cash. You should be able to take out between 25 and 50 per cent of the equity, although this may mean paying between 0.5 per cent and 1 per cent more for the whole mortgage as well as an arrangement fee of anything from £500 to £1,500. If you need a relatively small amount of finance or only need the money for a short period to finance working capital, this is probably not the best option.

You will find a guide to the whole subject at [Remortgage.com](http://Remortgage.com) where you will also be able to set a mortgage quotation. The banks also offer advice on this subject.

### *Using credit cards*

Why would anyone pay 18 per cent interest when they could get a bank overdraft at a third of that cost? The simple answer is that banks put their borrowers through a fairly stringent credit check (see below), while credit card providers have built a large volume of defaulting customers into their margins. In other words you are paying over the odds to get fairly easy money.

Use a credit card by all means for travel and the like. Keep one to hand as part of your contingency planning to handle financial emergencies. But this type of money should not become part of the core funding of any business. MoneySuperMarket.com has a comparison tool that lets you compare over 300 cards.

### *Earning sweat equity*

If you work on your business for free the value put in is known as sweat equity. So if you build a prototype of your product, design a brochure or launch your website, the cost that would have been incurred had you paid for them can count as if you had put in the money yourself.

The attraction to this type of investment is that it is cost free to the business. Also it might act as a spur to encourage bankers or outside investors to match your notional investment with their cash, much as they would have done if you had actually put the money in yourself.

Obviously you can't live on air, so you will need to 'moonlight' while still in employment. As long as you perform well in your daytime job this should pose no difficulties, as employers usually only place restrictions on your having another paid job. It means you will have to work 80-hour weeks, but that will be useful preparation for when your business gets going.

### *Using a local exchange trading scheme*

Local exchange trading schemes (LETS) allow anyone who joins a scheme to offer skills or services, such as plumbing, gardening or the use of a photocopier, to other members. A price is agreed in whatever notional currency has been adopted, but no money changes hands. The system is more ambitious than straight barter. The provider receives a credit on his or her account kept by a local organizer, and a debit is marked up against the user. The person in credit can then set this against other services.

The benefits of using LETS are that you can start trading and grow with virtually no start-up capital. All you need are time and saleable skills – once you have 'sold' your wares, payment is immediate by way of a LETS credit. Also, using LETS means that the wealth is kept in the local community, which means customers in your area may be able to spend more with you. One of the keys to success in using LETS is to have an enterprising organizer who can produce, maintain and circulate a wide-ranging directory of LETS services and outlets. Find out from Letslink UK more about the system and how to find your nearest organizer.

## Borrowing money

Borrowing money is your main source of finance if you don't want to take in shareholders, or a partner (see Assignment 3 for information on types of partnership). Lenders for the most part will help you turn a proportion of an illiquid asset such as property, stock in trade or customers who have not yet paid up, into a more liquid asset such as cash, but of course at some discount. They rarely advance money without some form of collateral.



### *Using a bank*

Banks are the principal, and frequently the only, source of finance for nine out of every 10 new and small businesses. Small firms around the world rely on banks for their funding.

Bankers, and indeed any other sources of debt capital, are looking for asset security to back their loan and provide a near-certainty of getting their money back. They will also charge an interest rate that reflects current market conditions and their view of the risk level of the proposal.

Bankers like to speak of the ‘five Cs’ of credit analysis, factors they look at when they evaluate a loan request. When applying to a bank for a loan, be prepared to address the following points:

- *Character.* Bankers lend money to borrowers who appear honest and who have a good credit history. Before you apply for a loan, it makes sense to obtain a copy of your credit report and clean up any problems.
- *Capacity.* This is a prediction of the borrower’s ability to repay the loan. For a new business, bankers look at the business plan. For an existing business, bankers consider financial statements and industry trends.
- *Collateral.* Bankers generally want a borrower to pledge an asset that can be sold to pay off the loan if the borrower lacks funds.
- *Capital.* Bankers scrutinize a borrower’s net worth, the amount by which assets exceed debts.
- *Conditions.* Whether bankers give a loan can be influenced by the current economic climate as well as by the amount required.

### GIVING BANK GUARANTEES

Where the assets of a business are small, anyone lending it money may seek the added protection of requiring the owner to personally guarantee the loan. In the case of limited companies, this is in effect stripping away some of the protection that companies are supposed to afford the risk-taking owner-manager. You should resist giving guarantees if at all possible. If you have to do so, try to secure the guarantee against the specific asset concerned only, and set clear conditions for the guarantee to come to an end, for example when your overdraft or borrowings go down to a certain level.

Remember, everything in business finance is negotiable, and your relationship with a bank is no exception. Banks are in competition too, so if yours is being unreasonably hard, it may be time to move on. Obviously, to be able

to move on, you need to have some advance notice of when the additional funds are needed. Rushing into a bank asking for extra finance from next week is hardly likely to inspire much confidence in your abilities as a strategic thinker. That is where your business plan will come into its own.

### *Overdrafts*

The principal form of short-term bank funding is an overdraft, secured by a charge over the assets of the business. A little over a quarter of all bank finance for small firms is in the form of an overdraft. If you are starting out in a contract cleaning business, say, with a major contract, you need sufficient funds initially to buy the mop and bucket. Three months into the contract they will have been paid for, and so there is no point in getting a five-year bank loan to cover this, as within a year you will have cash in the bank and a loan with an early redemption penalty!

However, if your bank account does not get out of the red at any stage during the year, you will need to re-examine your financing. All too often companies utilize an overdraft to acquire long-term assets, and that overdraft never seems to disappear, eventually constraining the business.

The attraction of overdrafts is that they are very easy to arrange and take little time to set up. That is also their inherent weakness. The key words in the arrangement document are 'repayable on demand', which leaves the bank free to make and change the rules as it sees fit. (This term is under constant review, and some banks may remove it from the arrangement.) With other forms of borrowing, as long as you stick to the terms and conditions, the loan is yours for the duration. It is not so with overdrafts.

### *Term loans*

Term loans, as long-term bank borrowings are generally known, are funds provided by a bank for a number of years. The interest can either be variable, changing with general interest rates, or fixed for a number of years ahead. The proportion of fixed-rate loans has increased from one-third of all term loans to around half. In some cases it may be possible to move between having a fixed interest rate and a variable one at certain intervals. It may even be possible to have a moratorium on interest payments for a short period, to give the business some breathing space. Provided the conditions of the loan are met in such matters as repayment, interest and security cover, the money is available for the period of the loan. Unlike in the case of an overdraft, the bank cannot pull the rug from under you if circumstances (or the local manager) change.

Just over one-third of all term loans are for periods greater than 10 years, and a quarter are for three years or less.

### *Government-supported funding*

For decades, governments have played a role in helping finance new and small businesses. Start-up loans, equity for high tech, support for exporting and grants for attending exhibitions are typical of the areas where help is on offer. See the Index of key organizations and resources for business planning at the end of the book for more details.

The British Business Bank provides a range of financial support options for new businesses, including loans, grants and equity finance. They help entrepreneurs secure the necessary funds to start and grow their businesses, offering guidance and resources to ensure long-term success ([www.british-business-bank.co.uk/](http://www.british-business-bank.co.uk/)).

### *Money through credit unions*

If you don't like the terms on offer from the high street banks, as the major banks are often known, you could consider forming your own bank. This is not quite as crazy an idea as it sounds. Credit unions formed by groups of small businesspeople, both in business and aspiring to start up, have been around for decades in the United States, the United Kingdom and elsewhere. They have been an attractive option for people on low incomes, providing a cheap and convenient alternative to banks. Some self-employed people such as taxi drivers have also formed credit unions. They can then apply for loans to meet unexpected capital expenditure for repairs, refurbishments or technical upgrading.

Members have to save regularly to qualify for a loan, although there is no minimum deposit, and after 10 weeks, members with a good track record can borrow up to five times their savings, although they must continue to save while repaying the loan. There is no set interest rate, but dividends are distributed to members from any surplus, usually about 5 per cent a year. This too compares favourably with bank interest on deposit accounts. You can find more about credit unions and details of those operating in your area from the Association of British Credit Unions Limited.

### *Community Development Finance*

Many communities, particularly those operating in rundown areas in need of regeneration, have a facility to lend or even invest in businesses that could

bring employment to the area. Funding from these sources could be for anything from start-up right through to expansion, or in some cases even rescue finance to help prevent a business from folding, shedding many jobs or relocating to a more benign business environment.

Responsible Finance, formerly known as the Community Development Finance Association, maintains a directory of providers. As at 20 May 2024 community development finance institutions (CDFCs) lent £287 million to under-served businesses, creating 6,571 jobs and 3,829 enterprises and saving people £29 million in interest (<https://responsiblefinance.org.uk/>).

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### REAL-WORLD EXAMPLE

#### *Destination London: from taxis to board game fame*

Rachel Lowe, a single mother with two children, struck gold with her business idea while working part-time as a taxi driver in Portsmouth. She created a game where players roll dice, move taxi pieces, collect fares and race back to the taxi rank before running out of fuel. Running the business from home allowed her to balance family time and entrepreneurship.

Despite having a business plan, Rachel faced hurdles. She secured a deal with Hamleys, but she needed additional funding. Her pitch on *Dragons' Den* received a frosty reception – 'Monopoly' was deemed superior. Undeterred, Rachel turned to a local Community Development Finance Institution (CDFI). With their loan, her game, 'Destination London' soared, outselling 'Monopoly'. Deals with Debenhams and licensed versions (Harry Potter, Disney) boosted her business to an estimated £2 million value.

Rachel, an MBE recipient, now heads Rachel Lowe Games & Puzzles. Her latest venture? Collaborating with BBC's *The Repair Shop* for upcoming board games and puzzles.

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#### *Leasing and hiring equipment*

Physical assets such as cars, vans, computers, office equipment and the like can usually be financed by leasing them, rather as a house or flat may be rented. Alternatively, they can be bought on hire purchase. This leaves other funds free to cover the less tangible elements in your cash flow.

Leasing is a way of getting the use of vehicles, plant and equipment without paying the full cost all at once. Operating leases are taken out where you will use the equipment (for example a car, photocopier, vending machine or

kitchen equipment) for less than its full economic life. The lessor takes the risk of the equipment becoming obsolete, and assumes responsibility for repairs, maintenance and insurance. As you, the lessee, are paying for this service, it is more expensive than a finance lease, where you lease the equipment for most of its economic life and maintain and insure it yourself. Leases can normally be extended, often for fairly nominal sums, in the latter years.

Hire purchase differs from leasing in that you have the option to eventually become the owner of the asset, after a series of payments.

#### FINDING A LEASING COMPANY

The Finance and Leasing Association gives details of all UK-based businesses offering this type of finance. The website also has general information on terms of trade and code of conduct.

#### *Discounting and factoring*

Customers often take time to pay up. In the meantime you have to pay those who work for you and your less patient suppliers. So the more you grow, the more funds you need. It is often possible to 'factor' your creditworthy customers' bills to a financial institution, receiving some of the funds as your goods leave the door, hence speeding up cash flow.

Factoring is generally only available to a business that invoices other business customers for its services, either in its home market or internationally. Factoring can be made available to new businesses, although its services are usually of most value during the early stages of growth. It is an arrangement that allows you to receive up to 80 per cent of the cash due from your customers more quickly than they would normally pay. The factoring company in effect buys your trade debts, and can also provide a debtor accounting and administration service. You will, of course, have to pay for factoring services. Having the cash before your customers pay will cost you a little more than normal overdraft rates. The factoring service will cost between 0.5 and 3.5 per cent of the turnover, depending on volume of work, the number of debtors, average invoice amount and other related factors. You can get up to 80 per cent of the value of your invoice in advance, with the remainder paid when your customer settles up, less the various charges just mentioned.

If you sell direct to the public, sell complex and expensive capital equipment, or expect progress payments on long-term projects, then factoring is not for you. If you are expanding more rapidly than other sources of finance will allow, this may be a useful service that is worth exploring.

Invoice discounting is a variation on the same theme, where you are responsible for collecting the money from debtors; this is not a service available to new or very small businesses.

### *Supplier credit*

Once you have established creditworthiness, it may be possible to take advantage of trade credit extended by suppliers. This usually takes the form of allowing you anything from seven days to three months from receiving the goods, before you have to pay for them. Even if you are allowed time to pay for goods and services, you will have to weigh carefully the benefit of taking this credit against the cost of losing any cash discounts offered. For example, if you are offered a 2.5 per cent discount for cash settlement, then this is a saving of £25 for every £1,000 of purchases. If the alternative is to take six weeks' credit, the saving is the cost of borrowing that sum from, say, your bank on overdraft. So, if your bank interest rate is 8 per cent per annum, that is equivalent to 0.15 per cent per week. Six weeks would save you 0.92 per cent. On £1,000 of purchases you would save only £9.20 of bank interest. This means that the cash discount is more attractive.

### CHECKING YOUR CREDITWORTHINESS

Your suppliers will probably run a credit check on you before extending payment terms. You should run a credit check on your own business from time to time, just to see how others see you. You can check out your own credit rating before trying to get credit from a supplier by using a credit reference agency such as Experian. Basic credit reports cost between £3 and £25 and may save you time and money if you have any reservations about a potential customer's ability to pay.

### *Family and friends*

Those close to you might be willing to lend you money or invest in your business. This helps you avoid the problem of pleading your case to outsiders and enduring extra paperwork and bureaucratic delays. Help from friends, relatives and business associates can be especially valuable if you have been through bankruptcy or had other credit problems that would make borrowing from a commercial lender difficult or impossible. Their involvement brings a range of extra potential benefits, costs and risks that

are not a feature of most other types of finance. You need to decide which of these are acceptable.

Some advantages of borrowing money from people you know well are that you may be charged a lower interest rate, may be able to delay paying back money until you are more established, and may be given more flexibility if you get into a jam. But once the loan terms are agreed, you have the same legal obligations as you would with a bank or any other source of finance.

In addition, borrowing money from relatives and friends can have a major disadvantage. If your business does poorly and those close to you end up losing money, you may well damage a good personal relationship. So, in dealing with friends, relatives and business associates, be extra careful not only to establish clearly the terms of the deal and put it in writing, but also to make an extra effort to explain the risks. In short, it is your job to make sure your helpful friend or relative will not suffer true hardship if you are unable to meet your financial commitments.

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#### REAL-WORLD EXAMPLE

##### *Hippychick*

When new mother Julie Minchin discovered the Hipseat she knew she'd found a helpful product. Anything that makes carrying a baby around all day without ending up with excruciating backache has got to be a benefit. It was only later that she realized that selling the product for the German company that made the Hipseat could launch her into business. At first Julie acted as their UK distributor but later she wanted to make some major improvements to the product. That meant finding a manufacturer to make the product especially for her business. China was the logical place to find a company flexible enough to make small quantities as well as being able to help her keep the cost of the end product competitive.

Julie funded the business, Hippychick, with a small family loan, an overdraft facility and a variety of small grants. The company now has a turnover of £3 million a year, employs 24 people and sells 14 new and unique products aimed at the baby market. Hippychick supplies national chains such as Boots and Mothercare as well as independents. It also sells via a catalogue and website, and is in the process of building a network of distributors for the branded products. The company won the Best Distributor award at the 2024 Progressive Preschool Awards. Additionally, they've been spreading holiday cheer by donating toys to Musgrove Hospital's Paediatric Diabetes Department. Hippychick also celebrated its 25th anniversary in 2025.

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## Getting an investor

If you are operating as a limited company or limited partnership you will have a potentially valuable opportunity to raise relatively risk-free money. It is risk-free to you – the business founder – that is, but risky, sometimes extremely so, to anyone advancing you money. Businesses such as these have shares that can be traded for money, so selling a share of your business is one way to raise capital to start up or grow your business. Shares also have the great additional attraction of having cost you nothing – nothing, that is, except blood, sweat, tears and inspiration.

Individual business angels, or corporates such as venture capital providers, share all the risks and vagaries of the business alongside you, the founder, and expect a proportionate share in the rewards if things go well. They are not especially concerned with a stream of dividends, which is just as well, as few small businesses ever pay them. Nor do they look for the security of buildings or other assets to underpin their investment. Instead they hope for a radical increase in the value of their investment. They expect to realize this value from other investors who want to take their place for the next stage in the firm's growth cycle, rather than from any repayment by the founder.

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### REAL-WORLD EXAMPLE

#### *Moonpig: turning plans into profits*

In June 2024, Moonpig, the online greeting cards business, announced its results for the year ending 30 April 2024. With turnover at £341.1 million and profits of £58.2 million, the company was the dominant player in the UK, with a close on 70 per cent market. The founder, Nick Jenkins, had reason to be satisfied with the business he had written a business plan for back in 1999 while completing his MBA at Cranfield School of Management.

Nick's 1999 business idea was straightforward: he aimed to revolutionize the traditional greetings card by creating a website where customers could personalize humorous cards. He envisioned a profitable model where personalized cards started at £2.99 plus postage, sent the same day to the recipient or the sender. With positive early feedback, he believed the concept would succeed and anticipated good cash flow from upfront payments.

Recognizing his lack of expertise in manufacturing and packing, Nick partnered with Paperlink, a greetings card publisher, offering them a stake in his company in exchange for handling production. This strategic move minimized costs and validated his business idea.



Nick invested £160,000 of his own money and raised an additional £125,000 from friends to launch Moonpig. He hired a website design agency with the goal of going live by Christmas. In its first year, Moonpig sold around 40,000 cards but incurred a £1 million loss on sales of £90,000, primarily due to overheads like staff, printing equipment, software development and marketing. Despite the dotcom bust, Nick anticipated breaking even in three years, but it took five years and multiple fundraising rounds to reach profitability. By 2005, Moonpig had turned profitable, with sales driven by word of mouth and the unique branding of each card. Nick maintained a lean operation, even outsourcing office space.

In July 2011, Nick sold his share of Moonpig for a reputed £100 million to Photobox, a digital photo service provider. He later became a Dragon on BBC's *Dragons' Den*, investing in various businesses, including Sublime Science, which won a Queen's Award for Innovation, and in July 2022 became a Facebook (Meta) Success Story.

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### *Business angels*

One likely first source of equity or risk capital will be a private individual with his or her own funds, and perhaps some knowledge of your type of business. In return for a share in the business, such investors will put in money at their own risk. They have been christened 'business angels', a term first coined to describe private wealthy individuals who back a play on Broadway or in London's West End.

Most angels are determined upon some involvement beyond merely signing a cheque and hope to play a part in your business in some way. They are hoping for big rewards – one angel who backed Sage with £10,000 in its first round of £250,000 financing saw his stake rise to £40 million.

These angels frequently operate through managed networks, usually on the internet. In the United Kingdom and the United States there are hundreds of networks, with tens of thousands of business angels prepared to put up several billion pounds each year into new or small business.

#### FINDING A BUSINESS ANGEL

UK Business Angels Association has an online directory of UK business angels. The European Business Angels Network (EBAN) has directories of national business angel associations both inside and outside Europe from which you can find individual business angels.

### *Venture capital/private equity*

Venture capital (VC) providers are investing other people's money, often from pension funds. They have a different agenda from that of business angels, and are more likely to be interested in investing more money for a larger stake.

VCs go through a process known as 'due diligence' before investing. This process involves a thorough examination of both the business and its owners. Past financial performance, the directors' track record and the business plan are all subjected to detailed scrutiny, usually by accountants and lawyers. Directors are then required to 'warrant' that they have provided all relevant information, under pain of financial penalties. The cost of this process will have to be borne by the firm raising the money, but it will be paid out of the money raised, if that is any consolation.

In general, VCs expect their investment to have paid off within seven years, but they are hardened realists. Two in every 10 investments they make are total write-offs, and six perform averagely well at best. So the one star in every 10 investments they make has to cover a lot of duds. VCs have a target rate of return of 30 per cent plus to cover this poor hit rate.

Raising venture capital is not a cheap option, and deals are not quick to arrange either. Six months is not unusual, and over a year has been known. Every VC has a deal done in six weeks in its portfolio, but that truly is the exception.

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#### REAL-WORLD EXAMPLE

##### *Pip @ Nut: tapping into funds*

In January 2013, Pip Murray embarked on a mission to find wholesome nutrition to help with her marathon training. Dissatisfied with the commercial nut butter options laden with palm oil and additives, Pip decided to create her own. She blended natural peanut butter, rich in protein and healthy fats, in her kitchen. Taking a stall on London's Maltby Street Market, the public's enthusiastic response ignited a spark. Pip realized she could turn her passion into a business venture.

In 2014, Pip won the 'Escape to the Shed' competition, granting her three rent-free months in their garden shed. The competition was organized by Escape the City, a company dedicated to helping individuals transition from corporate jobs to entrepreneurial ventures. Founded in 2010, Escape the City has grown into a global community with over 500,000 members.

Armed with space, determination and a £10,000 start-up loan from the British Business Bank, Pip focused on launching her nut butter brand. She left her role as a theatre producer at The Science Museum and immersed herself in her entrepreneurial journey. During her shed days, Pip launched a successful crowdfunding campaign on Crowdcube, raising £120,000 from 81 investors in just 10 days. With momentum building, she secured a production partner, refined the brand and welcomed her first employee, Tom.

In January 2015, Pip & Nut jars hit the shelves of Selfridges in London, and later that year Sainsbury’s decided to list Pip & Nut products, defying the initial business plan that excluded major supermarkets in the first year. In 2016, Pip & Nut expanded further. They introduced 1kg tubs and tantalized taste buds with their first limited-edition flavour: Crunchy Maple Peanut Butter – a hit among fans.

Between 2014 and 2018, Pip & Nut raised over £1 million from business angels, propelling the company’s growth (see Table 21.1). And in August 2023, they secured a significant investment of another £1 million from the Greater London Investment Fund (GLIF), reinforcing their position as a market leader.

*Funding journey*

TABLE 21.1 Deal types and dates of deals

Deal type	Date
Angel (individual)	08-Sep-2014
Equity crowdfunding	16-Sep-2014
Angel (individual)	20-Dec-2014
Angel (individual)	07-Sep-2015
Angel (individual)	02-May-2018
Later-stage VC	09-Aug-2019
Debt – general	16-Jul-2020
Later-stage VC	01-May-2023

FINDING A VENTURE CAPITAL PROVIDER

The British Venture Capital Association and Invest Europe both have online directories giving details of hundreds of venture capital providers.

You can see how those negotiating with or receiving venture capital rate the firm in question at The Funded website in terms of the deal offered, the firm's apparent competence and how good it is at managing the relationship. There is also a link to the VCs website. The Funded has over 500 member firms. This includes more than 230 private equity and venture capital houses, as well as institutional investors, professional advisers, service providers, and international associations.

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## REAL-WORLD EXAMPLE

### *GoHenry: funding growth*

GoHenry, named after its first young customer, is a UK-based start-up founded by Louise Hill in 2012 that offers a prepaid debit card and financial education app aimed at teaching children and teens money management skills. With a focus on practical learning, the app allows kids to manage their own cards, set saving goals and engage with in-app financial lessons, providing parents with a tool to instil healthy financial habits.

GoHenry's journey began with Louise recognizing her children's lack of understanding about digital money. She realized the need for a solution to educate kids about the value of money spent online. Teaming up with two other parents, they conducted extensive market research and developed the product, securing early support from Visa.

Initial funding for GoHenry came from the founders and seed investors, which facilitated obtaining a banking licence and launching the product. As GoHenry grew, they turned to crowdfunding to scale further, raising £4 million in 2016 and £6.2 million in 2018 on Crowdcube. These campaigns not only funded the company, they also built a community of engaged users.

In 2018, GoHenry expanded to the US, followed by a successful \$40 million funding round in 2020 led by Edison Partners, an equity investment company, to optimize the product, hire key personnel, expand marketing efforts and enter new markets. This round was pivotal for their growth, especially during the pandemic. In 2022, GoHenry expanded into Europe by acquiring PixPay, a leading teen banking app in France and Spain, facilitating entry into multiple European markets.

By 2024, GoHenry had turnover of more than £40 million, 6 million subscribers globally and had recently merged with Acorns, a US-based saving and investing app. This merger aimed to provide comprehensive financial management tools from childhood through adulthood, reinforcing GoHenry's mission of fostering financial literacy worldwide.

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### *Corporate venturing*

Venture capital firms often get their hands dirty taking a hand in the management of the businesses they invest in: another type of business also in the risk capital business, without it necessarily being their main line of business. These firms are known as corporate venturers, and they usually want an inside track to new developments in and around the edges of their own fields of interest.

McDonald's offloaded its Pret stake to Bridgepoint, a private equity firm. Bridgepoint in 2008 bought a majority stake, including McDonald's 33 per cent shareholding, for £345 million (\$542/€395 million). That would suggest that McDonald's at least quadrupled the value of its initial stake. Nokia Venture Partners (NVP), who makes significant minority investments in start-ups in the wireless internet space, had as its biggest success to date the IPO of PayPal, in 2002. Corporate venturing entrepreneurs think big and are happy to cut others with cash in on the deal, if it will help make them rich. Independence for independence's sake is not a high priority.

The British Venture Capital Association has published a Guide to Corporate Venture Capital.

### Crowdfunding

Over the past few years, the business world has seen the birth and rapid growth of what appears to be a new way of raising funds, known as crowdfunding. *Crowdfunding* is an organized means for a large group of people to make mostly small individual donations to fund a business or an idea. It uses the power of the internet to bring the two sides together. Crowdfunding replicates some of the more traditional funding activities in an online format, such as pitching for a desired amount of finance. As finance for business goes, this new vehicle puts the entrepreneur in the driving seat, and empowers members of the public and the investor community – the *crowd* – to get a piece of the action as paying passengers in a number of companies.

Crowdfunding can raise funds in one of four ways or in any combination of all of them:

- *Equity*. Offers some share in the business for money invested, much as you would with a venture capital provider or business angel. By some accounts crowdfunding raises more money than VCs and business angels combined. Palo Alto-based smartwatch maker Pebble is one of the highest-funded campaigns in crowdfunding history, having raised over €20 million. It's also the fastest funded, raising \$1 million in less than an hour.

- *Loans.* You can also pay interest treating the funds as a loan in the same way as with bank finance. The interest is likely to be higher than with comparable bank finance and the time horizon for paying the loan back will be shorter. Chilango, a London chain of fast-service Mexican restaurants founded by two ex-Skype executives, raised money through what they entertainingly called a Burrito Bond to help roll out more restaurants across London. They offered an interest rate of 8 per cent repayable over four years.
- *Reward-based.* This involves exchanging gifts or rewards based on the amount of giving. Smith & Sinclair completed a successful reward-based crowdfunding campaign to finance their Immersive Edible Alcohol Shop, creating inventive sweet treats for adults. The founders met their goal of £23,000 in only 49 days from 96 backers offering as rewards speciality alcohol-based jewellery. Chilango sweetened their deal by offering all investors two free burrito vouchers and those that put in more than £10,000 get free food for the entire duration of the bond.
- *Invoice financing platforms.* This works in much the same way as cash flow financing (see earlier in this chapter). Once approved, the business can sell an invoice (as small as £1,000 and as large as £1 million+) on the invoice trading platform. Once verified, the invoice is sold on the platform, where multiple investors buy slices of the invoice. The business receives funds in their account as an advance of up to 90 per cent of the invoice face value within 24–48 hours. When the invoice is settled in full the invoice trading platform makes the remaining balance available to the business, minus their fees. The advantages to the users of this service are speed – you can be up and funded in 24 hours; you only fund the invoices you want to, unlike conventional discounters who require to take on your whole debtors ledger; and there is no lengthy lock period – you just operate invoice by invoice.

### *Crowdfund providers*

There are now literally hundreds of crowdfunding platforms around the world. And the last word in that sentence is the key to the competitive advantage of this type of funding. Unlike banks and private equity providers which tend to operate on a country or at best continent basis, crowdfunders can be anywhere.

You can find a complete list of crowdfunding sites in a directory that's produced by Nesta or the UK Crowdfunding Association website.

Here are a handful of operators just to get a flavour of the players. This cross section of crowdfunding platforms, the ventures supported and capital raised in a single year, 2020, give a flavour of their scope. Seedrs helped MATE.BIKE raise €2.2 million to develop foldable electric bikes, catering to urban commuters. Indiegogo supported LIFX, raising \$1.31 million for their smart LED bulbs, enhancing home lighting solutions. GoFundMe enabled MightyNest to secure \$685,000, promoting eco-friendly baby products. Crowdcube facilitated Lendahand in raising €1.2 million, aiding businesses in emerging markets. StartEngine backed Elio Motors, achieving \$17 million for their three-wheeled vehicle, offering an innovative transportation option. Lastly, Wefunder supported Starry Internet, raising \$5 million to provide high-speed internet through innovative satellite technology.

### *Incubators and accelerators*

Tempting though it might be to believe that business accelerators are an internet phenomenon, incubators, science parks, innovation centres, technology parks and a whole variety of other names have been coined over the years to describe the task that accelerators and incubators perform.

The first serious attempt at incubation is credited to a near-derelect building near New York. The name came into common usage more by way of a joke than as a serious description of the task in hand. One of the incubators' first tenants was involved in incubating real chickens. Several waves of accelerators followed this inauspicious start and by the 1980s several hundred such facilities were scattered around the US, Canada, Europe and Australia. Later incubator progressions took in the developing economies and the internet variation, which came into being in the mid-1990s, swept across the US, Europe, India, China, Malaysia, Singapore, the Philippines and elsewhere, bringing the total to some 4,000 facilities worldwide.

The terms *incubator* and *accelerator* are often used interchangeably, and although you can get funding from both, incubators are most useful in the idea or pre-start stage. An accelerator is helpful to speed up your growth using funding, education, learning, mentoring and showcasing.

An *accelerator* provides services to support your business, often in return for equity, as your business begins to scale and grow. *Incubators* focus on very early-stage, small companies that have an idea that needs developing into more of a business.

### INCUBATORS

While there is no single model for business incubators, in most cases the concepts go beyond the simple provision of a shared office or workspace

facility for small business clients. The hallmark of any effective business incubator programme should be its focus on the added value that it brings to small business ‘tenants’ in terms of strengthened business skills; access to business services; improved operating environment; and opportunities for business networking, etc, to nurture early-stage small businesses, increasing the prospects for business survival and growth compared with the situation outside the incubator.

#### ACCELERATORS

The McKinsey Accelerators was a response to the challenges of the first wave of internet businesses. Their service set out to turbocharge the launch and growth of new e-businesses worldwide. They aimed to offer access to their extensive network of ‘best in class’ third-party service providers and their Fortune 500 client and alumni database. McKinsey’s Accelerators offered four main types of assistance, which is very much the model adopted as standard:

- *Intensive business building* (six to 12 months). For ventures that need to move at maximum speed McKinsey offers a large team to provide day-to-day execution of the marketing plan, including product launch itself;
- *Targeted projects* (one to six months). Accelerator teams provide in-depth analytical services to enable start-ups to pinpoint their market opportunities, position and vulnerabilities. They can also screen merger and acquisition projects;
- *Burst services* (two days to two months). Based on the hypothesis that few start-ups have the resources for lengthy analysis and drawn-out marketing studies, McKinsey consultants can provide rapid-fire market data and other short-term targeted analysis needed for short-term decision making;
- *Senior counselling* (as needed). Access to McKinsey partners for open, unbiased dialogues on any key business issues.

The National Business Incubation Association (NBIA) is the world’s leading organization advancing business incubation and entrepreneurship. It has 1,900 members in 60 countries.

#### *Free money*

Depending on the industry sector, stage and location of your business, a *grant* or an *award* can be a terrific way to get some fairly free cash into your business, especially at the very early stages when cash is generally in short



supply. You can also use such monies to widen your network, boost your company profile and potentially enable your business to do some good or make a positive difference to a deprived or marginalized area of society.

Given that some of the more traditional forms of finance may be beyond your current reach, a *research grant* to develop a new product or service, or a *proof of concept grant* to prove that your product or service is viable, for example, may seem like manna from heaven.

#### APPLYING FOR AWARDS

Even though it can be a time-consuming process to hunt them down and fill in the forms, applying for and winning awards can be a great source of additional cash. Winning an award – or even being shortlisted for one – often carries other benefits as part of the prize, including business support, mentoring, free workspace and, of course, potentially very useful publicity and networking.

Certain sectors, such as technology, biology and life sciences, green energy, long-term healthcare, education, socially minded businesses, manufacturing and certain regional businesses, have more grant funding available from both UK and EU organizations than other sectors. In fact, a number of *evergreen programmes* – awards that roll over each year – may be relevant to you and your business, even in its early stages.

Grant programmes are listed on the Innovate UK website. If you're serious about applying for grants and awards, visiting the site can pay dividends. Some of the awards you can find on Innovate UK cover:

- feasibility studies for cleaner, more efficient fuels;
- the agri-tech industry;
- supply chain integration for the construction industry;
- enhancing the user experience in retail.

A regular visit to the Innovate UK website is worthwhile to see what's current – and critically, when the deadlines are!

Most of these applications are complex and lengthy, so do *not* leave them until the night before. Be aware that they can put a strain on the twin resources of time and people, and plan accordingly. Set strict project management timelines and deadlines if you want to have half a chance of success.

#### CHECKING ON GRANTS

Nearly every country or region has an agenda and aims that it wants to promote and develop, and using grants to encourage businesses to help them

achieve their objectives is very common now. That's great news, we hear you say, and it is. However, locating the application forms, understanding the criteria, taking the time to complete the forms, applying at the right time and understanding how to utilize the money for a commercial proposition can have you spending many precious hours working on something that may or may not give you a positive result. Be prepared to trawl through the mire of dozens of websites, racking up loads of hours and often taxing your brain to understand how you fit into the scheme, with the knowledge that you have a relatively slim chance of success. Although it's tempting to apply for free money, think long and hard before you start off down the grant road. It may well be a long and frustrating journey, with an uncertain destination.

Stay informed about current programmes:

- The business centre in the British Library Business and IP Centre in London has low-cost workshops, events, free access to databases on available funding and staff to help you research and identify appropriate grants for your business. They also partner with organizations that may be able to help you identify and apply for grants.
- The UK government site covers a variety of funding options, including grants, and has a handy search function on the site, as well as links to the grants it lists.
- The website F6S is another good source of information, and has some applications on its site as well. F6S is a leading portal for start-ups to find and discuss information on funding, start-up business support programmes, jobs and events. Some grant-awarding programmes use the F6S portal as an entry point to providing you with information and the initial stages of an application for funding.

Grants and awards come and go on a regular basis. If you're serious about trying to attract some of this money, register on sites such as F6S – and regularly check sites that aggregate grant data, so you can receive regular newsletters, updates, changes, notices and so on. You don't want to miss out on an opportunity because you didn't know the deadline had passed.

If you're successful in your grant applications, you won't have to chase anyone to get the cash, and as grants are different from debt, you don't have to repay them. They differ from equity as well in that you don't have to provide a return to the investor. In general, they're non-refundable chunks of money, doled out over a predetermined period of time – usually linked to achieving milestones – and are offered as an incentive to entrepreneurs and businesspeople to develop something innovative or positive for

the community at large. As such, a grant can provide a very welcome boost to your cash flow.

Grants aren't all good news, though, as they usually have very detailed terms and conditions that you must strictly adhere to, including regular financial updates, quarterly reporting on progress and updates on whether or not you are achieving your aims and objectives. They give with one hand and take with the other.

#### PAYING FOR APPLICATION HELP

A number of professional advisers specialize in grant applications. These people charge a fee, but they take a good deal of the pain away from making grant applications.

As with other advisers, it's essential that you check the person's track record and the integrity of the service before you sign on the dotted line. Use your network, rating sites, reviews and past clients to make sure the company is legitimate, relatively successful and good value for your money.

Beware anyone who guarantees success or refuses to explain his or her process. Grant funding is a highly competitive and complex arena, and no one can guarantee success.

#### WORKSHEET FOR ASSIGNMENT 21: ESTIMATING FINANCING REQUIREMENTS

Based on your financial projections, state how much cash you need to raise to set up your business, and how and when you propose to repay it. Use the questions below as the format for your worksheet:

- 1 Based on the maximum figure in your cash-flow forecast, how much money do you need and what do you need it for?
- 2 How does this compare with the sum that you and your partners or shareholders are putting in (i.e. level of gearing)?

$$\text{Gearing} = \frac{\text{Total funds required for business}}{\text{Money put in by you + shareholders}}$$

For example, if you already have £/\$/€1,000 of assets and are looking for a loan of £/\$/€5,000, the funds required are £/\$/€6,000. If you have already invested £/\$/€500 and plan to put in a further £/\$/€2,500, then your gearing is:

$$\frac{6,000}{500 + 2,500} = \frac{6,000}{3,000} = 2:1$$

- 3 Where do you expect to raise the funds you need to finance your business?
- 4 Prepare a schedule showing when you need these funds.
- 5 How and when will any borrowing be repaid? Do a list like this:

<i>Source of repayment</i>	<i>Amount £/\$/€</i>	<i>Date</i>
Total £/\$/€		

- 6 What percentage of your venture would you be prepared to sell to raise the required funds?
- 7 What exit route(s) could be open to potential investors?
- 8 What security, if any, is available as collateral for any loan?

<i>Security</i>	<i>Value £/\$/€</i>
Total £/\$/€	

- 9 Will you be receiving any grants or loans to help to finance your business (other than from the organization to which you are now applying)?

<i>Source</i>	<i>Date</i>	<i>Funds provided</i>	<i>Amount £/\$/€</i>
Total £/\$/€			

- 10 What further private cash, if any, is available to invest in the business?

<i>Source</i>	<i>Date</i>	<i>Funds provided</i>	<i>Amount £/\$/€</i>
Total £/\$/€			

- 11 What are the key risks that could adversely affect your projections? (These could include technical, financial and marketing risks.)

<i>Risk area</i>	<i>Financial impact on:</i>
<i>Sales</i>	<i>Profits</i>

- 12 What contingency plans do you have to either manage or minimize the consequences of these risks?

<i>Risk area</i>	<i>Plan</i>	<i>Effect</i>
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### Suggested further reading

Barrow, C (2018) *Understanding Business Accounting for Dummies*, 4th edn, Wiley, New York

Barrow, C (2023) *The 30 Day MBA in Business Finance: Your fast track guide to business success*, Kogan Page, London

# ASSIGNMENT 22

## Stress testing your business projections

While you may have been realistic in preparing your forecasts of sales and related costs, it is highly probable that during year 1 especially, your actual performance will not be as expected. This could be for one or more reasons, such as resistance to innovation (if a new product), overestimate of market size, change in consumer demand, slow take-up of product – or worse still, you could hit a period when a pandemic or financial meltdown strikes. All these could mean that sales forecasts are significantly wrong. It is advisable to pre-empt any potential investor's question, such as 'What happens if your sales are reduced by 20, 30 or even 40 per cent?', by asking yourself the question first and quantifying the financial effects in your business plan.

By way of example, Next, a British multinational clothing, footwear and home products retailer, has been wargaming for years. Until March 2020, the retailer's worst case scenario was a 25 per cent sales reduction. Since April 2020, they have drawn up a new set of stress tests in which the drop is as much as 40 per cent. Next's forecasts for 2025/26 made in January 2025 were for a 3.5 per cent rise in sales to £5.22 billion and profit before tax was expected to increase by 3.6 per cent to £1,046 million. The market has good reason for confidence in their projections.

### Building 'what ifs' into your cash flow projections

The questions at the front of your mind when making any kind of projection usually take the form of probing for risk factors: things that could work against you under certain circumstances. What if the economy turns sour; your patent takes longer to come through; you can't recruit staff as quickly as you had hoped; sales take longer to build up than you have forecasted;

and a lot more similar ‘what ifs’. The best framework for stress testing your business model is the cash-flow forecast checking the impact of your key business assumptions being disrupted.

### *Stress testing the revenue model*

It is unlikely that anyone will take your sales revenue at face value. The norm in business is for something not to go to plan. Either you have fewer customers, the mix of customers changes, say, from cash to credit, less repeat business occurs, your prices don’t hold as expected or you get more returns or defects. The list of reasons that could adversely hit your sales receipts is endless. Figure 22.1 shows the effect on cash flow for an example where sales revenue is 20 per cent adrift from the figures projected in the business plan. It is always prudent to leave payments broadly similar despite a drop in sales, although logic suggests that some costs would fall. Variable costs (see Chapter 20) such as materials should go down with sales volumes, but in practice you may buy in materials to meet the planned sales. In such cases, you will use fewer materials and carry them over in stock for a later period. Nevertheless, your cash position will be much as if you had actually used those materials.

Here you can see that under this ‘what if’ scenario funding requirements goes up from 25,000 to 45,000.

### *Stress testing the payments model*

As with sales revenue, payments can take an unexpected turn for the worse. Inflationary pressures can push up wages and material costs. Utilities and motoring costs increased by nearly 40 per cent in the UK between 2008 and 2010. Figure 22.2 shows what would happen to cash flow if costs rise and sales revenue remains static. In this example, an additional £17,000 would be required to fund the venture, so the business plan would be looking to support a £42,000 investment, rather than just £25,000 before stress testing.

## Testing to destruction

Calamitous accidents happen when two relatively unexpected events occur at the same time. On 5 November 2010, a cement lorry fell from Warren Lane Bridge at Oxshott onto the sixth and seventh coaches of an eight-car passenger service, derailing the train, seriously injuring the lorry driver and two passengers and causing days of major traffic disruption. Had the lorry fallen a couple of seconds later it would have missed the train completely.

FIGURE 22.1    Testing the revenue model


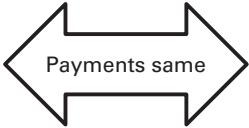

Category	Initial projection	What if projection	
<b>Sales receipts</b>			
Cash sales	50,000		40,000
Credit sales	<u>50,000</u>		<u>40,000</u>
<b>Total cash in</b>	100,000		80,000
<b>Payments</b>			
Salary and wages	25,000		25,000
Utilities	10,000		10,000
Rent and rates	15,000		15,000
Materials	35,000		35,000
Equipment	<u>40,000</u>		<u>40,000</u>
<b>Total cash out</b>	125,000		125,000
<b>Net cash flow</b>	<u>-25,000</u>		<u>-45,000</u>
<b>Funding needs</b>	-25,000		-45,000

FIGURE 22.2    Testing the payments model

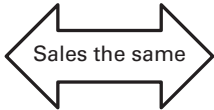



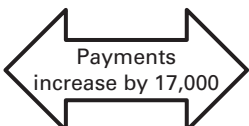
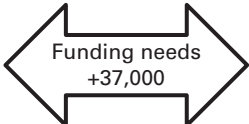
Category	Initial projection	What if	Revenue
<b>Sales receipts</b>			
Cash sales	50,000		50,000
Credit sales	<u>50,000</u>		<u>50,000</u>
<b>Total cash in</b>	100,000		100,000
<b>Payments</b>			
Salary and wages	25,000		35,000
Utilities	10,000		15,000
Rent and rates	15,000		12,000
Materials	35,000		40,000
Equipment	<u>40,000</u>		<u>40,000</u>
<b>Total cash out</b>	125,000		142,000
<b>Net cash flow</b>	<u>-25,000</u>		<u>-42,000</u>
<b>Funding needs</b>	-25,000		-42,000

FIGURE 22.3 Testing to destruction

Category	Initial projection	What if	Revenue
<b>Sales receipts</b>			
Cash sales	50,000		40,000
Credit sales	<u>50,000</u>		<u>40,000</u>
<b>Total cash in</b>	100,000		80,000
<b>Payments</b>			
Salary and wages	25,000		35,000
Utilities	10,000		15,000
Rent and rates	15,000		12,000
Materials	35,000		40,000
Equipment	<u>40,000</u>		<u>40,000</u>
<b>Total cash out</b>	125,000		142,000
<b>Net cash flow</b>	<u>-25,000</u>		<u>-62,000</u>
<b>Funding needs</b>	-25,000		-62,000

From a business perspective it is more likely that a couple of things will go wrong over the planning horizon than with this type of railway disaster. Using the cash-flow model, check out a number of possible problem areas and see at what point these problems would cause you or your financial backers sleepless nights. For example, what would the effect be of a major customer going bust, a supplier putting their prices up and a key employee leaving unexpectedly, all in the same quarter? (See Figure 22.3.)

The funding needs projected in your business plan should accommodate a realistic amount of revenue shortfall and cost overrun. 'Realistic' is not an easy word to define, but the volatility of your business sector and the prevailing economic climate should be taken into account. Launching almost any new business in 2020 would have posed some challenges to cash flow that would not have been evident in the preceding decade.

#### WORKSHEET FOR ASSIGNMENT 22: STRESS TESTING YOUR BUSINESS PROJECTIONS

- 1 List the key assumptions that underpin the projections for your business.
- 2 List five factors that could adversely affect your sales projections.



- 3 List five factors that could adversely affect your costs and expense projections.
- 4 Under which of these circumstances would your plans be unviable?
- 5 What could be done to mitigate these risks?

### Suggested further reading

Barrow, C (2011) *Practical Financial Management: A guide to budget, balance sheets and business finance*, 8th edn, Kogan Page, London

Barrow, C (2017) *Business Accounting for Dummies*, 4th edn, Wiley, New York

Barrow, C (2018) *Understanding Business Accounting for Dummies*, 4th edn, Wiley, New York

Barrow, C (2023) *The 30 Day MBA in Business Finance: Your fast track guide to business success*, Kogan Page, London

Holbeche, L (2023) *The Agile Organization: How to build an engaged, innovative and resilient business*, 3rd edn, Kogan Page, London

**PHASE SIX**

# Business controls

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# Introduction

No one is likely to take any business proposition seriously unless the founder(s) can demonstrate at the outset that they can monitor and control the venture. Just as your business plan should include a statement of objectives and strategy, it must also contain a brief description of how you will monitor results. Every business needs to monitor financial, sales and market performance. Manufacturing businesses or those involved in research, development and fashion may have to observe results on a much wider scale.

In these assignments you should address the issues of importance to your type of business. If you do not have first-hand experience of working in a similar business, either find someone who has or find a professional adviser, such as an auditor, with that experience. As a minimum, potential financiers will want to see that you have made arrangements to keep the books and analyse and interpret key business ratios.

# ASSIGNMENT 23

## Financial controls

To survive and prosper in business, you need to know how much cash you have and what your profit or loss on sales is. For a business to survive, let alone grow, these facts are needed on a monthly, weekly or occasionally even a daily basis depending on the nature of the business.

While bad luck plays a part in some business failures, a lack of reliable financial information plays a part in most. However, all the information needed to manage well is close at hand. The bills to be paid, invoices raised, petty-cash slips and bank statements between them are enough to give a true picture of performance. All that needs to be done is for the information on them to be recorded and organized so that the financial picture becomes clear. The way financial information is recorded is known as ‘bookkeeping’.

The basic data derived from the bookkeeping process is turned into the historic profit and loss account and balance sheet. Then those accounts are in turn analysed using ratios, the subject of the second part of this chapter.

### Keeping the books

#### *Bookkeeping*

Making Tax Digital (MTD), a UK government initiative, will have transformed the bookkeeping world by the time you are reading this book. Under the guise of speeding up tax collecting, the relatively relaxed world of bookkeeping has been upended.

Businesses must maintain digital records of their income and expenses using HMRC-approved software. This reduces errors and improves reporting accuracy. The pilot phase started in April 2024 and it became mandatory for

self-employed individuals and landlords with annual incomes over £50,000 starting April 2026. The threshold will lower to £30,000 in April 2027. Businesses need to submit quarterly summaries of their income and expenses to HMRC. This replaces the traditional annual self-assessment tax return.

This includes transactional data such as dates, amounts and categories, as well as non-financial data like company type, industry classification and group structure. Companies will also be required to submit quarterly updates of their income and expenses to HMRC using MTD-compatible software. These updates can be summaries or include accounting and tax adjustments. The annual corporation tax return will need to be filed using MTD-compatible software, which will calculate and submit the return based on the digital records kept throughout the year.

SoftwareWorld ([softwareworld.co/accounting-software-uk](https://softwareworld.co/accounting-software-uk)) carries out regular comprehensive reviews of accounting packages.

### *Getting some help*

You don't have to do the bookkeeping yourself, though if you do for the first year or so you will get a good insight into how your business works from a financial perspective. There are a number of ways in which you can reduce or even eliminate the more tedious aspects of the task.

- 1 Employ the services of a bookkeeper. Professional associations such as the International Association of Bookkeepers (IAB) and the Institute of Certified Bookkeepers offer free matching services to help small businesses find a bookkeeper to suit their particular needs. Expect to pay upwards of £20 an hour for services that can be as basic as simply recording the transactions in your books, through to producing accounts, preparing the VAT return or doing the payroll. The big plus here is that professional bookkeepers have their own software.
- 2 If you plan to trade as a partnership or limited company (see Assignment 3) or look as though you will be growing fast from the outset, you may be ready to hire an accountant to look after your books. Personal recommendation from someone in your business network is the best starting point to finding an accountant. Meet the person and if you think you could work with him or her take up references, as you would with anyone you employ, and make sure he or she is a qualified member of one of the professional bodies, such as the Institute of Chartered Accountants.

## Basic business ratios

Just keeping the books and accounts of a business is not of much use in itself if you can't analyse and interpret them. This involves measuring the relationship between various elements of performance to see whether you are getting better or worse. *Ratios* are the tools used here, and they are simply something expressed as a proportion of something else. So miles per gallon, for example, is a ratio showing a measure of the efficiency of fuel consumption.

Ratios are used to compare performance in one period, say last month or year, with another – this month or year. They can also be used to see how well your business is performing compared with another, say a competitor. You can also use ratios to compare how well you have done against your target or budget. In the financial field the opportunity for calculating ratios is great; for computing useful ratios, not quite so great. Here we shall concentrate on explaining the key ratios for a new venture.

### *Levels of profit*

Look back to the profit and loss account and balance sheet for High Note, the example used in Assignments 18 and 19. These figures will be used in calculating the ratios that follow.

#### GROSS PROFIT

This is calculated by dividing the gross profit by sales and multiplying by 100. In this example the sum is  $30,000/60,000 \times 100 = 50$  per cent. This is a measure of the value you are adding to the bought-in materials and services you need to 'make' your product or service; the higher the figure the better.

#### OPERATING PROFIT

This is calculated by dividing the operating profit by sales and multiplying by 100. In this example the sum is  $8,700/60,000 \times 100 = 14.5$  per cent. This is a measure of how efficiently you are running the business, before taking account of financing costs and tax. These are excluded as interest and tax rates change periodically and are outside your direct control.

#### NET PROFIT BEFORE AND AFTER TAX

These are calculated by dividing the net profit before and after tax by the sales and multiplying by 100. In this example the sums are  $8,100/60,000 \times 100 = 13.5$  per cent and  $6,723/60,000 \times 100 = 11.21$  per cent. This is a measure of how

efficiently you are running the business, after taking account of financing costs and tax. The last figure shows how successful you are at creating additional money to either invest back in the business or distribute to the owner(s) as either drawings or dividends. Once again the rule here is the higher the figure the better.

### *Working capital relationships*

The money tied up in day-to-day activities is known as working capital, the sum of which is arrived at by subtracting the current liabilities from the current assets. In the case of High Note there is £/\$/€21,108 in current assets and £/\$/€4,908 in current liabilities, so the working capital is £/\$/€16,200.

#### CURRENT RATIO

As a figure the working capital doesn't tell us much. It is rather as if you knew your car had used 20 gallons of petrol but had no idea how far you had travelled. It would be more helpful to know how much larger the current assets are than the current liabilities. That would give you some idea of whether the funds will be available to pay bills for stock, the tax liability and any other short-term liabilities that may arise. The current ratio, which is arrived at by dividing the current assets by the current liabilities, is the measure used. For High Note this is  $21,108/4,908 = 4.30$ . The convention is to express this as 4.30:1, and the aim here is to have a ratio of between 1.5:1 and 2:1. Any lower and bills can't be met easily; much higher and money is being tied up unnecessarily.

#### AVERAGE COLLECTION PERIOD

We can see that High Note's current ratio is high, which is an indication that some elements of working capital are being used inefficiently. The business has £/\$/€12,000 owed by customers on sales of £/\$/€60,000 over a six-month period. The average period it takes High Note to collect money owed is calculated by dividing the sales made on credit by the money owed and multiplying it by the time period, in days; in this case the sum is as follows:  $12,000/60,000 \times 182.5 = 36.5$  days.

If the credit terms are cash with order or seven days, then something is going seriously wrong. If it is net 30 days then it is probably about right. In this example it has been assumed that all the sales were made on credit.

#### DAYS STOCK HELD

High Note is carrying £/\$/€9,108 stock of sheet music and over the period it sold £/\$/€30,000 of stock at cost. (The cost of sales is £/\$/€30,000 to



support £/\$/€60,000 of invoiced sales as the mark-up in this case is 100 per cent.) Using a similar sum as with average collection period we can calculate that the stock being held is sufficient to support 55.41 days' sales ( $9,108/10,000 \times 182.5$ ). If High Note's suppliers can make weekly deliveries, this is almost certainly too high a stock figure to hold. Cutting stock back from nearly eight weeks (55.41 days) to one week (seven days) would trim 48.41 days or £/\$/€7,957.38 worth of stock out of working capital. This in turn would bring the current ratio down to 2.68:1.

### *Return on investment*

The fundamental financial purpose in business is to make a satisfactory return on the funds invested. Return on investment is calculated as a percentage in the same way as the interest you would get on any money on deposit in a bank would be. In High Note £/\$/€28,700 has been put into the business from various sources including the bank, to generate an operating profit of £/\$/€8,700 – that is, profit before paying the bank interest on money owed or tax. The return is calculated as  $8,700/28,700 \times 100 = 30.31$  per cent.

### APPRECIATING GEARING

The return on investment ratio is arrived at taking into account all the sources of money used. However, High Note's owners only have £/\$/€10,000 of their own money invested and the profit they make after paying bank interest of £/\$/€600 is £/\$/€8,100. So the return on the owner's investment is  $8,100/10,000 \times 100 = 81$  per cent, which by any standards is acceptable.

If the owners had been able to get an overdraft of £/\$/€15,000 rather than the £/\$/€10,000 they secured and so only put in £/\$/€5,000 of their own cash, the return on their investment would have been better still. Interest costs would increase to £/\$/€900 so profit after interest would drop to £/\$/€7,800, but the owners' investment being just £/\$/€5,000 means that the return on their investment would rise to 156 per cent ( $7,800/5,000 \times 100$ ).

There is a limit to the amount of money banks will put up compared with the amount an owner puts in. Typically banks will look to no more than match the owners' funding, and in any event they will want to secure their loan against some tangible asset such as a property.

## Ratio analysis spreadsheets

Bookkeeping and accounting software often have ‘report generator’ programs that crunch out ratios for you, sometimes with helpful suggestions on areas to be probed further. ExcelDataPro ([exceldatapro.com/ratio-analysis](http://exceldatapro.com/ratio-analysis)) has convenient templates available in Excel, Google Sheet, and OpenOffice Calc that allow you to assess key aspects of financial performance. Simply input data from your financial statements and the template will automatically compute the necessary ratios.

### WORKSHEET FOR ASSIGNMENT 23: FINANCIAL CONTROLS

- 1 What bookkeeping and accounting system have you chosen and why?
- 2 What control information does it produce and with what frequency?
- 3 Who will keep the books and produce the accounts?
- 4 What will your basic business ratios be if you achieve your financial objectives?
- 5 How do those ratios compare with those of either a competitor or your current organization?
- 6 What would you consider changing as a result of carrying out your ratio analysis (for example, collect money in faster, carry less stock)?

## Suggested further reading

Barrow, C (2018) *Understanding Business Accounting for Dummies*, 4th edn, Wiley, New York

Barrow, C (2023) *The 30 Day MBA in Business Finance: Your fast track guide to business success*, Kogan Page, London

# ASSIGNMENT 24

## Sales and marketing controls

In the early weeks and months of any new venture, large amounts of both effort and money will be expended without any visible signs of sales revenue, let alone profits. Even once the business has been trading for some time, the most reliable predictor of likely future results will be the sales and marketing efforts for the immediate past. Your business plan should explain how you intend to monitor and control this activity.

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### REAL-WORLD EXAMPLE

#### *The Supreme Garden Furniture Company*

Gordon Smith set up his business, the Supreme Garden Furniture Company, shortly after being made redundant. Using 800 square feet on the ground floor of an old Lancashire textile mill, he planned to produce a range of one- to four-seat garden benches in an authentic Victorian design, together with matching tables. Each item in the range was manufactured to a very high standard using top-quality materials, such as kiln-dried African Iroko hardwood.

With professional advice he drew up a business plan incorporating cash and profit forecasts, an assessment of the market and his likely competitors, the plant and machinery required and the start-up capital he would need.

His main customers would be garden centres, and he planned to spend a couple of days a week out on the road selling, initially in Lancashire, Yorkshire and Cheshire. He also produced a leaflet and price list which he intended to send to potential customers further afield. These he would follow up later.

Once Smith had gained a number of customers, he found that future sales to existing customers were much easier than constantly seeking new customers. So, he kept records of existing customers, to monitor their purchases and plan follow-up visits.

From an analysis of his customer records Smith was subsequently able to discover that garden centres in the South East placed average orders of £2,000 a time, while in his home area a £500 order was exceptional. In his business plan for his future trading he would be able to incorporate this information and alter his selling strategy accordingly (see Table 24.1).

TABLE 24.1 Sales and marketing controls

Sales and marketing report for July				
Control	Objective	Result	Variance	Action
Sales volume	10	8	(2)	Step up sales activity
Sales value	£5000	£4500	(£500)	Emphasize higher-priced products
New customers	6	5	(1)	Make more calls
Repeat customer purchase – numbers	3	2	(1)	Incentivize existing customers
Average order size – North	£1000	£300	(£700)	Shift emphasis to visiting fewer but bigger accounts
Average order size – South East	£1000	£2000	£1000	Reduce sales activity in the North and do more in the South East
Number of sales visits	20	15	(5)	Plan territory and calls better to fit in more sales visits

Controlling your promotional costs and judging their cost-effectiveness is also an early, vital marketing control task.

#### REAL-WORLD EXAMPLE

##### *Richer Sounds*

Julian Richer opened his first Richer Sounds shop at London Bridge when he was 19. Today he has 53 outlets, and together with his online business generates sales of over £144 million a year. Richer was worth an estimated £115 million in 2014. Performance measurement and control is based on a wide range of financial measures, such as profit, sales, and stock turn, enhanced by measures of customer satisfaction, employee involvement and employee satisfaction. In addition stores are assessed by ‘mystery shoppers’. Employees are given performance information through weekly reports and a monthly video from the chairman relaying facts about company performance on sales, margins, customer satisfaction and proposed changes.

Richer's plan by 2014 was to 'stick to the knitting' by doing more of what they do now – keeping everyone informed.

In May 2017 *Which?* awarded Richer Sounds the accolade of Retailer of the Year 2017 alongside Apple and John Lewis. In May 2019 Richer transferred 60 per cent of the company's shares over to his staff to be held for their benefit in an employee ownership trust. Richer launched the Good Business Charter in 2020 to encourage responsible business practices, help customers identify ethical companies and raise the bar on business behaviour. In January 2025 995 UK businesses were signed up as Accredited Organizations, including Legal & General, the Trades Union Congress, the University of York and TSB.

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Equally, advertising costs per sales lead generated and converted should be recorded, while tear-off coupons, discounts on production or special offer leaflets all help to measure the cost-effectiveness of your promotions.

### Customer relationship management (CRM) and sales force management systems

CRM is the business strategy concerned with identifying, understanding and improving relationships with your customers to improve customer satisfaction and maximize profits. The myriad of facts and figures that need to be assembled have made the subject ideal for software applications.

For example, businesses can maintain a database of which customers buy and what type of product, and when, how often they make that purchase, what type of options they choose with their typical purchase, their colour preferences and whether the purchase needed financing. This information will advise the sales team on what products, services or messages are likely to be the most effective and when would be a good time to target each customer.

While CRM systems put customers at the centre of the data flow, sales force management systems capture, track and manage sales enquiries in a central database that track leads throughout the sales cycle from lead generation to closed sale. Tech Radar, who provide insights for business users in this area produce a regular 'Best CRM software' review ([www.techradar.com/uk/best/best-crm-software](http://www.techradar.com/uk/best/best-crm-software)).

### WORKSHEET FOR ASSIGNMENT 24: SALES AND MARKETING CONTROLS

- 1 Describe your records for monitoring sales activities.
- 2 Draw up a customer record card for your business, or show your existing one.
- 3 What other marketing records do you plan to keep, e.g. for advertising costs and results?
- 4 Explain the relationship between any sales activity and the results expected. For example: 'We expect to open one new account for every ten we cold-call; or for every 10,000 cold emails sent out.'

### Suggested further reading

- Barnes, C, Blake, H and Howard T (2017) *Selling Your Value Proposition*, Kogan Page, London
- Cook, S (2011) *Customer Care Excellence: How to create an effective customer focus*, Kogan Page, London
- Jobber, D and Lancaster, G (2012) *Selling and Sales Management*, Pearson Education, London
- McClay, R (2014) *The Art of Modern Sales Management: Driving performance in a connected world*, American Society for Training and Development, Alexandria, VA
- Tiffany, J (2025) *Marketing Strategy: Implementing and measuring a successful marketing strategy*, 2nd edn, Kogan Page, London

# ASSIGNMENT 25

## Other business controls

Depending on the nature of your venture, your business plan will have to show how you plan to control other aspects of the firm's performance. These could include:

- manufacturing and production;
- personnel records/accident reports;
- quality and complaints;
- new product development/design.

Stock cards for the different stages of your production process (raw materials, work-in-progress, finished goods) are particularly important to help you identify fast- and slow-moving items and to help you identify correct safety stock levels. Equally, to permit customers to complain (better than them voting with their feet, without telling you) you will need to provide customer suggestion boxes or explanations as to how to contact key managers, e.g. by giving a name and contact address on a restaurant menu.

### WORKSHEET FOR ASSIGNMENT 25: OTHER BUSINESS CONTROLS

- 1 What other business controls do you plan to introduce into your business at the outset?
- 2 Why do you consider them important?

### Suggested further reading

- Charles, V (Ed.) (2023) *Business Performance Measurement and Management*, Cambridge Scholars Publishing, Newcastle upon Tyne
- Clark, B (2019) *Measuring Marketing Performance: Research, practice and challenges*, Northeastern University Press, Boston, MA
- Lambert, D and Knemeyer, M (2018) *Measuring Performance in Supply Chain Management*, Ohio State University Press, Columbus, OH
- Meyer, M (2017) *Finding Performance: The new discipline in management*, Wharton School Press, Philadelphia, PA
- Neely, A (Ed.) (2020) *Business Performance Measurement: Unifying theory and integrating practice*, 2nd edn, Cambridge University Press, Cambridge
- Tiffany, J (2025) *Marketing Strategy: Implementing and measuring a successful marketing strategy*, 2nd edn, Kogan Page, London



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## PHASE SEVEN

# Writing up and presenting your business plan

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# Introduction

This section is in effect the culmination of your work to date. Inevitably everything you have been preparing should be seen as 'work in progress'. At each stage you may well have had to go back and review an earlier one. For example your mission may change in the light of market research uncovering different needs or unexpected competitors. Your marketing strategy or sales projections may in turn be modified as a result of concerns about the amount and type of money that you could realistically raise.

Now, however, all strands need to be pulled together into a coherent whole, perhaps using one of the many free business plan writer templates now available.

# ASSIGNMENT 26

## Writing up and presenting your business plan

Up to now, the workbook assignments have focused on gathering data needed to validate a business idea, to confirm the business team's capability to implement their chosen strategy and to quantify the resources needed in terms of 'men, machinery, money and management'. Now this information has to be assembled, collated and orchestrated into a coherent and complete written business plan aimed at a specific audience.

In this assignment we shall examine the six activities that can make this happen:

- dividing up the task;
- packaging;
- layout and content;
- writing and editing;
- who to send it to;
- the oral presentation.

### Dividing up the task

The preceding chapters, as well as having a practical logic to their sequence, will provide you with manageable 'chunks' of material to write up either yourself, or better still to delegate to partners and professional advisers. The niceties of grammar and style can be resolved later.

While it is useful to make use of as much help as you can get in preparing the groundwork, you should orchestrate the information and write up the business plan yourself. After all, it is your future that is at stake – and every prospective financier will be backing you and your ability to put this plan into action, not your scriptwriter.

Different people in your team will have been responsible for carrying out the work involved in answering the questions posed in the chapter checklists and in writing up different section(s) of the business plan. This information should be circulated to ensure that:

- Everyone is still heading in the same direction. Inevitably, thinking will change as result of discussions and debate. For example, the cash-flow stress tests may cause significant alterations to an original strategy.
- Nothing important has been missed out. Two or more sets of eyes are always better at spotting any gaps. Also, as the business plan's originator and champion you will be close to the subject and as such are in danger of taking for granted how much an outside reader really knows and understands.
- A timetable is established for when each section of the business plan should be ready in draft form, showing who is responsible for each task and when it should be ready.

Using a group writing tool such as the Track Changes facility in Microsoft Word will help to ensure that everyone involved can see who said or changed what and when changes were made.

If any of your team need a tutorial on business writing, there is one in the Index of key organizations and resources for business planning under Business writing guide.

## Delivery and packaging

Today, business plans are typically sent to prospective investors through a variety of digital methods. Here are some of the most common approaches:

- *Email.* Business plans are often sent as attachments or links to cloud storage in professional emails.
- *Online platforms.* Entrepreneurs use platforms like AngelList, SeedInvest or EquityNet to connect with investors and share their business plans.

- *Investor portals.* Some companies have dedicated investor relations portals on their websites where they upload business plans and other important documents.
- *Video presentations.* Alongside the written plan, entrepreneurs might create video pitches or presentations to provide a more dynamic overview of their business.
- *Virtual meetings.* Tools like Zoom, Google Meet and Microsoft Teams are used for virtual meetings where business plans can be shared and discussed in real time.

These methods make it easier to reach a wider audience and provide investors with the necessary information in a convenient and accessible format.

While the majority of business plans are shared digitally, physical copies haven't completely vanished. Here are some scenarios in which physical copies might still be used:

- *Formal presentations.* During in-person meetings or pitches, entrepreneurs might hand out printed copies to investors for a tangible overview.
- *Investor requests.* Some traditional or high-profile investors might prefer reviewing hard copies.
- *Special documents.* For highly confidential or sensitive information, physical copies can sometimes be perceived as more secure.
- *Marketing materials.* Alongside digital versions, printed business plans can be part of comprehensive marketing packages to give a professional touch.

It's less common than it used to be, but there are still situations where a well-presented physical business plan can make a strong impression.

Every product is enhanced by appropriate packaging, and a business plan is no exception. The panellists at Cranfield's enterprise programmes prefer a simple spiral binding with a plastic cover on the front and back. This makes it easy for the reader to move from section to section, and it ensures the plan will survive frequent handling. Stapled copies and leather-bound tomes are viewed as undesirable extremes.

A near-letter-quality (NLQ) printer will produce a satisfactory type finish, which, together with wide margins and double spacing, will result in a pleasing and easy-to-read document.

## Layout and content

There is no such thing as a ‘universal’ business plan format. That being said, experience at Cranfield has taught us that certain layouts and contents have gone down better than others. These are our guidelines to producing an attractive business plan, from the investor’s point of view. Not every subheading will be relevant to every type of business, but the general format should be followed, with emphasis laid as appropriate.

First, the cover should show the name of the company, its address and phone number and the date on which this version of the plan was prepared. It should confirm that this is the company’s latest view on its position and financing needs. Remember that your business plan should be targeted at specific sources of finance. It’s highly likely, therefore, that you will need to assemble slightly different business plans, highlighting areas of concern to lenders as opposed to investors, for example.

Second, the title page, immediately behind the front cover, should repeat the above information and also give the founder’s name, address and phone number. He or she is likely to be the first point of contact and anyone reading the business plan may want to talk over some aspects of the proposal before arranging a meeting.

### *The cover sheet*

The cover sheet includes your venture’s full legal name, address, phone and fax numbers, web address and name and title of the person to contact and their email and phone contact information. Also state who the business plan is going to. While you may well be sending your plan out to several organizations and those copies of the plan may be identical, it is always helpful to make readers feel that the plan is addressed personally to them. Ideally, place each piece of information on a separate line and centre it in the middle of your cover page using large font. Include your logo, strap line or an image that you use to convey what you do.

Lower down the page put the date of the business plan and its version number; this is important as people receiving your plan could be working from an earlier version if the approval process is drawn out, as is virtually inevitable if you are raising venture capital. Include some information showing that the information is provided in confidence, whether or not you



require a confidentiality agreement. It will at least put people on their guard before passing on or discussing any aspect of your business plan.

### *Protecting your plan*

Before you show or discuss your business plan with anyone outside your organization you should consider getting them to sign an NDA (non-disclosure agreement). NDAs are confidentiality agreements that bind recipients to maintain your 'secrets' and not to take any action that could damage the value of any 'secret'. This means that they can't share the information with anyone else or act on the idea themselves, for a period of time at least. NDAs are a helpful way of getting advice and help while protecting you from someone using your information to compete against you. The UK Government produces a guide to NDAs (see under Non-disclosure agreements in the Index of key organizations and resources for business planning at the end of the book), which gives information and guidance about what you need to consider when disclosing an invention, including example NDA templates.

### *The executive summary*

Ideally one but certainly no longer than two pages, this should follow immediately behind the title page. Writing up the executive summary is not easy but it is the most important single part of the business plan; it will probably do more to influence whether or not the plan is reviewed in its entirety than anything else you do. It can also make the reader favourably disposed towards a venture at the outset – which is no bad thing.

These two pages must explain:

- the current state of the company with respect to product/service readiness for market, trading position and past successes if already running, and key staff on board;
- the products or services to be sold and to whom they will be sold, including details on competitive advantage;
- the reasons customers need this product or service, together with some indication of market size and growth;

- the company's aims and objectives in both the short and the longer term, and an indication of the strategies to be employed in getting there;
- a summary of forecasts, sales, profits and cash flow;
- how much money is needed, and how and when the investor or lender will benefit from providing the funds.

Obviously, the executive summary can only be written after the business plan itself has been completed.

### *The table of contents*

After the executive summary follows a table of contents. This is the map that will guide the new reader through your business proposal and on to the 'inevitable' conclusion that they should put up the funds. If a map is obscure, muddled or even missing, then the chances are you will end up with lost or irritated readers unable to find their way around your proposal.

Each of the main sections of the business plan should be listed and the pages within that section indicated. There are two valid schools of thought on page numbering. One favours a straightforward sequential numbering of each page, 1, 2, 3 . . . 9, 10 for example. This seems to us to be perfectly adequate for short, simple plans, dealing with uncomplicated issues and seeking modest levels of finance.

Most proposals should be numbered by section. In the example that follows, the section headed 'The Business and Its Management' is Section 1, and the pages that follow are listed from 1.1 to 1.7 in the table of contents, so identifying each page as belonging within that specific section. This numbering method also allows you to insert new material without upsetting the entire pagination during preparation. Tables and figures should also be similarly numbered.

Individual paragraph numbering, much in favour with government and civil service departments, is considered something of an overkill in a business plan and is to be discouraged, except perhaps if you are looking for a large amount of government grant.

The table of contents in Table 26.1 shows both the layout and the content that in our experience are most in favour with financial institutions. Unsurprisingly, the terminology is similar to that used throughout this work-book. For a comprehensive explanation of what should be included under each heading, look back to the appropriate assignments throughout this book.

Appendices

While a business plan is not a work of literature it should read well. Anything essential that could impede a smooth flow should be consigned to an appendix and either summarized or referenced in the main body of the business plan.

TABLE 26.1 Sample table of contents

Section		Page
Executive Summary		i, ii
1	The Business and Its Management	
	History and Position to Date	1.1
	Current or New Mission	1.2
	Objectives, Near Term	1.3
	Objectives, Long Term	1.4
	The Management Team	1.5
	Legal Structure	1.6
	Professional Advisers	1.7
2	The Products or Services	
	Descriptions	2.1
	Readiness for Market	2.2
	Applications	2.3
	Proprietary Position	2.4
	Comparison with Competition, Performance and Economics	2.5
	Guarantees and Warranties	2.6
	Future Potential/Product Development	2.7
	Sources of Supply (if not a manufacturing/assembling business)	2.8
3	Market and Competitors	
	Description of Customers	3.1
	Customer Needs and Benefits	3.2
	Market Segments	3.3
	Customer Decision Criteria	3.4
	Market and Segment Size and Growth	3.5
	Market Projections	3.6
	Competition	3.7

(continued)

TABLE 26.1 (Continued)

Section	Page
4	Competitive Business Strategy
	Pricing Policy 4.1
	Promotional Plans 4.2
	Choice of Location and Premises 4.3
	Distribution Channels 4.4
	Anticipated Mark-up 4.5
	Competitor Response 4.6
	Market Share Projection 4.7
	Economic, Political, Social, Legal Factors that Affect Strategy 4.8
5	Selling
	Current Selling Method(s) 5.1
	Proposed Selling Method(s) 5.2
	Sales Team 5.3
	In-house support 5.4
6	Manufacturing
	Make or Buy Considerations 6.1
	The Manufacturing Process 6.2
	Facilities Needed 6.3
	Equipment and Machinery Needed 6.4
	Output Limitation, if any, and Scale-Up Possibilities 6.5
	Engineering and Design Support 6.6
	Quality Control Plans 6.7
	Staffing Requirements 6.8
	Sources of Supply of Key Materials 6.9
7	Forecasts and Financial Data
	Summary of Performance Ratios, ROI, etc 7.1
	Sales Forecasts 7.2
	Assumptions Underpinning Financial Forecasts 7.3
	Profit and Loss Accounts 7.4
	Cash-flow Forecasts 7.5
	Balance Sheets 7.6
	Break-even Analysis 7.7
	Sensitivity Analysis 7.8

(continued)

TABLE 26.1 (Continued)

Section		Page
8	Financing Requirements	
	Summary of Operations Prior to Financing	8.1
	Current Shareholders, Loans Outstanding, etc	8.2
	Funds Required and Timing	8.3
	Use of Proceeds	8.4
	The Deal on Offer	8.5
	Anticipated Gearing and Interest Cover	8.6
	Exit Routes for Investor	8.7
9	Business Controls	
	Financial	9.1
	Sales and Marketing	9.2
	Manufacturing	9.3
	Other Controls	9.4

Items best included in an appendix include:

- CVs of key staff;
- detailed market research studies, surveys, questionnaires and findings;
- competitors’ literature, accounts and related information;
- full financial projections – balance sheets, profit and loss accounts, cash-flow projections, ‘what if’ analysis, break-even calculations and detailed ratio analysis;
- patent and other IP currently owned or being applied for;
- website screenshots;
- literature, brochures, product specifications and designs.

Writing and editing

A ‘prospectus’, such as a business plan seeking finance from investors, can have a legal status, turning any claims you may make for sales and profits (for example) into a ‘contract’. Your accountant and legal adviser will be able to help you with the appropriate language that can convey your projections without giving them contractual status.

This would also be a good time to talk over the proposal with a ‘friendly’ banker or venture capital provider. They can give an insider’s view as to the strengths and weaknesses of your proposal.

When your first draft has been revised, then comes the task of editing. Here the grammar, spelling and language must be carefully checked to ensure that your business plan is crisp, correct, clear and complete – and not too long. If writing is not your trade, once again this is an area in which to seek help. Your local college or librarian will know of someone who can produce ‘attention-capturing’ prose, if you yourself don’t.

However much help you get with writing up your business plan, it is still just that – your plan. So, the responsibility for the final proofreading before it goes out must rest with you. Spelling mistakes and typing errors can have a disproportionate influence on the way your business plan is received.

The other purpose of editing is to reduce the business plan to between 20 and 40 pages. However complex or sizeable the venture, outsiders won’t have time to read it if it is longer – and insiders will only succeed in displaying their muddled thinking to full effect. If your plan includes volumes of data, tables, graphs, etc, refer to them in the text, but confine them to an appendix.

### *Getting the layout right*

Your business plan should be visually appealing. Dense text, poor layout and clutter all serve to put your reader off. Create a favourable impression from the outset and you will have them on side. These are the most important guidelines to make your written business plan stand out from the crowd.

- *Layout.* The reasoning behind good layout is to entice the reader to read your words and take the action you want – back your proposition. Give your text room to breathe by leaving plenty of white space around it. You can achieve this by having wide margins. Use headlines to break up the text and different font sizes and styles to differentiate between sections of your business plan.
- *Font.* Don’t be tempted to use a fancy font in the body of the business plan. Stick to serif fonts, those with slight ‘tails’ on the letters that lead the eye from letter to letter. Times New Roman, Book Antiqua and Century are good examples of texts that cause less eye strain. Sans-serif fonts – Arial, Calibri and Helvetica, for example – can cause eye fatigue when used in text so are best used in headlines, bullets or short paragraphs

outside the main body of your text. Never use a font smaller than 10-point, unless your readership is mostly under 30. For over 70s the recommended size to cause the least pain is 14-point; however, most business plan writers settle on 12-point as the preferred size.

- *Pictures.* Images, charts, tables, graphs and pictures are powerful ways to convey large amounts of information quickly and efficiently. A picture, so the saying goes, is worth a thousand words. Which is excellent as they usually only need the space of 200. This is also a great way to break up the text and retain reader attention.

### Who to send it to

Now you are ready to send out your business plan to a few carefully selected financial institutions that you know are interested in proposals such as yours.

This will involve some research into the particular interests, foibles and idiosyncrasies of the institutions themselves. If you are only interested in raising debt capital, the field is narrowed to the clearing banks for the main part. If you are looking for someone to share the risk with you, then you must review the much wider field of venture capital. Here, some institutions will only look at proposals over a certain capital sum, such as £250,000, or will only invest in certain technologies.

It is a good idea to carry out this research before the final editing of your business plan, as you should incorporate something of this knowledge into the way your business plan is presented. You may find that slightly different versions of Section 8.5, 'The deal on offer', have to be made for each different source of finance to which you send your business plan.

Do not be disheartened if the first batch of financiers you contact don't sign you up. One Cranfield enterprise programme participant had to approach 26 lending institutions, 10 of them different branches of the same organization, before getting the funds she wanted. One important piece of information she brought back from every interview was the reason for the refusal. This eventually led to a refined proposal that won through.

It is as well to remember that financial institutions are far from infallible, so you may have to widen your audience to other contacts.

Finally, how long will it all take? This also depends on whether you are raising debt or equity, the institution you approach and the complexity of the deal on offer. A secured bank loan, for example, can take from a few days to a few weeks to arrange.

Investment from a venture capital house will rarely take less than three months to arrange, and will more usually take six or even up to nine months. Although the deal itself may be struck early on, the lawyers will pore over the detail for weeks. Every exchange of letters can add a fortnight to the wait. The ‘due diligence’ process in which every detail of your business plan is checked out will also take time – so this will have to be allowed for in your projections.

## The oral presentation

If getting someone interested in your business plan is half the battle in raising funds, the other half is the oral presentation. Any organization financing a venture will insist on seeing the team involved presenting and defending their plans – in person or via Teams or a similar online tool. They know that they are backing people every bit as much as the idea. You can be sure that any financiers you are presenting to will be well prepared. Remember that they see hundreds of proposals every year, and either have or know of investments in many different sectors of the economy. If this is not your first business venture, they may even have taken the trouble to find out something of your past financial history.

Keep these points in mind when preparing for the presentation of your business plan:

- Find out how much time you have, then rehearse your presentation beforehand. Allow at least as much time for questions as for your talk.
- Use visual aids and if possible bring and demonstrate your product or service. A video or computer-generated model is better than nothing.
- Explain your strategy in a businesslike manner, demonstrating your grasp of the competitive market forces at work. Listen to comments and criticisms carefully, avoiding a defensive attitude when you respond.
- Make your replies to questions brief and to the point. If members of the audience want more information, they can ask. This approach allows time for the many different questions that must be asked, either now or later, before an investment can proceed.
- Your goal is to create empathy between yourself and your listeners. While you may not be able to change your personality, you could take a few tips on presentation skills. Eye contact, tone of speech, enthusiasm and body language all have a part to play in making a presentation successful.



- Smart casual is never likely to upset anyone. Shorts and sandals could just set the wrong tone! Serious money calls for serious people.
- Be prepared. You need to have every aspect of your business plan in your head and know your way around the plan forwards, backwards and sideways! You never know when the chance to present may occur. It's as well to have a 5-, 10- and 20- minute presentation ready to run at a moment's notice.

### *The elevator pitch*

Often the person you are pitching your proposal to is short of time. As a rough rule of thumb, the closer you get to an individual with the power to make decisions, the less time you will get to make your pitch. So you need to have a short presentation to hand that can be made in any circumstance – in a plane, at an airport or between floors in a lift, hence the name 'elevator pitch'.

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#### REAL-WORLD EXAMPLE

##### *Lara Morgan*

Lara Morgan, founder of Pacific Direct, the hotel toiletries supplier, had come a long way from the garage in Bedford, England, where she started up her business, when she had the opportunity to pitch for a strategic alliance with one of the most influential players in her market. The scene was set for her to make a relaxed pitch over coffee at the Dorchester Hotel in Park Lane, when at a moment's notice the situation changed dramatically. Lara was told that due to a diary change she had 15 minutes in a chauffeur-driven limousine en route to Harrods to make her proposition.

She was prepared, made her presentation and secured a deal that was instrumental in creating Pacific's unique 5\* hotel strategy. Pacific now has Penhaligon's, Elemis, Ermenegildo Zegna, Nina Campbell, Floris, The White Company and Natural Products in its world-class product portfolio.

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### *Taking professional advice*

There is a tendency towards secrecy among innovators, and those starting new ventures are no exception to this rule. However, with an NDA in place there is no reason not to take outside advice, and indeed every reason to do so. Anyone reading your business plan will draw comfort from the fact that they are not the first, and that your ideas have been honed on the wisdom and experience of others.

In fact the more qualified, experienced and prestigious your advisers, the more their input will enhance your business plan, in the eyes of the reader. After all, rather than being the untested ideas of one or two people, they have been validated by professionals. If an accountant has looked over the figures, a lawyer the intellectual property rights, an engineer your prototype design and a software consultant your website plans, then real value will have been added to your proposition.

If you know or have access to people with a successful track record in your area of business who have time on their hands, you can invite them to help.

### *Using business planning software*

There are a number of software packages, some free, that will help you through the process of writing your business plan. The ones listed below include some useful resources, spreadsheets and tips that may speed up the process, but are not substitutes for finding out the basic facts about your market, customers and competitors.

You can find reviews of current business planning software on several reputable websites. Forbes Advisor, TechRadar and PCMag all regularly offer insights on the best business plan software available, including options for different needs and budgets.

### *Using AI*

When writing a business plan, leveraging AI can be incredibly helpful in a number of ways.

- *Market research and analysis.* Gather and analyse data about your target market, industry trends and competitive landscape. Understand market size, growth potential and customer segments.
- *Financial projections.* Create detailed financial projections, including revenue forecasts, expense estimates and cash flow statements. Input relevant data to generate comprehensive financial models.
- *SWOT analysis.* Facilitate SWOT analysis. Identify internal strengths and weaknesses and external opportunities and threats to your business.
- *Business model generation.* Brainstorm and refine your business model, exploring different revenue streams, cost structures and value propositions.

- *Writing and editing.* Generate content for various sections of your business plan, such as the executive summary, company description, marketing strategy and operational plan. Enhance readability and suggest improvements.
- *Presenting to potential backers.* Support by creating compelling presentations for potential investors:
  - *Presentation content.* Generate and refine content for slides covering the problem statement, solution, market opportunity, competitive landscape and financial projections.
  - *Storytelling.* Craft a compelling narrative, highlighting your unique value proposition, growth potential and scalability.
  - *Financial justification.* Explain financial figures like revenue projections, profit margins and return on investment, justifying your assumptions.
  - *Q&A preparation.* Simulate potential investor questions and provide well-reasoned answers, helping you anticipate and address their concerns.

Remember, language models can make mistakes. Responses are based on patterns in the data and there may be errors or oversights. Always review and verify the information provided.

#### TEN TELLTALE SIGNS THAT CONTENT MIGHT BE GENERATED BY AN AI MODEL

While you will almost certainly use AI when researching and writing up your business plan and preparing for presentations, you want content to blend seamlessly. AI is a tool, not a crutch. Watch out for these pitfalls:

- 1 Content often repeats phrases or ideas, resulting in a redundant feel.
- 2 Models can produce content that seems knowledgeable but lacks deep understanding, leading to general or surface-level explanations.
- 3 There is often a consistent tone and style throughout the text, lacking the nuanced shifts found in human writing.
- 4 Sometimes, content includes awkward phrasing or unusual word choices that might not feel natural.
- 5 Specific words or phrases may be overused, relying on patterns from training data.
- 6 There may be a lack of personal touch with no genuine personal anecdotes, experiences or emotions, making it less relatable.

- 7 Despite training on vast amounts of data, the content can sometimes include factual inaccuracies or outdated information.
- 8 The content alternates between overly detailed descriptions and vague statements, lacking the balance a human writer would achieve.
- 9 Sentences and paragraphs tend to be more uniform in length and structure, following learnt patterns.
- 10 The content can feel too polished or structured, missing the imperfections and variations typical of human writing.

### *Dealing with rejection*

Don't be either surprised or disheartened if your business plan doesn't get the reception you hope for. Anita Roddick's Body Shop proposition was turned down flat. It was only when a local garage owner, Ian McGlinn, advanced her £4,000 in return for 25 per cent of her company that she got the money to open a second shop; a deal that netted him a couple of hundred million pounds and her considerably more. Tim Waterstone's business plan was turned down by bank after bank, for being too ambitious. They wanted him to open a book-shop, while he had set his sights on a chain. Eventually he got backing and went on to build his chain, change the shape of book retailing in the UK and sell his business to his former employers, WH Smith, for £47 million.

There are hundreds of reasons why business plans are turned down. According to venture capitalists, who turn down 95 propositions for every 100 they receive, they are just not convinced by the proposition. That is, convinced that the plan has been well thought through, properly researched and that the person or team are up to the task.

These measures will help you to refine your business plan and minimize the chances of ultimate rejection.

- Listen carefully to criticisms when you are presenting your business plan. If it is clear at the time that you are going to be turned down ask two questions: why; and what can you do to improve your proposition?
- Go back over your business plan and see if there is anything you can change to make the financial proposition look less risky. High burn rate, that is cash pouring out in the early weeks and months on staff, offices and PR without any significant sales revenue coming in, is a big turn-off for financiers.

- If your credibility is questioned it may be time to consider strengthening your team, taking in a non-executive director or building a strategic alliance with an organization that can plug the gap in question.
- Consider whether you are pitching your proposition to the right audience. Risky technology-based ventures are more likely to appeal to VCs and corporate venture firms. Bankers are more interested in putting up cash for tangible assets, such as property, elements of working capital including stock in trade, and financing quality customers taking credit.
- If your business proposition is challenged, get out and secure some initial business. If that is impossible get some customers to agree to try out your product, perhaps agreeing to be a trial or demonstration site in return for a reduced price. You can then build in their acceptance as proof that your ideas have potential.
- See if there are elements of cost that can be eliminated, reduced or postponed. For example, a state-of-the-art website may be desirable, but a more basic site at a much reduced cost may be enough for the first few weeks and months.
- Is there a radically different approach to delivering your product that could work as a bridge between where you are and where you want to be? For example, one entrepreneur who wanted to open a bagel shop started out with a stall in a street market. Once that was a proven success he went on to launch his shops.
- Government guide to non-disclosure agreements can be found at: ([www.gov.uk/government/publications/non-disclosure-agreements](http://www.gov.uk/government/publications/non-disclosure-agreements)).

#### WORKSHEET FOR ASSIGNMENT 26: WRITING UP AND PRESENTING YOUR BUSINESS PLAN

- 1 Who do you propose to send your business plan to first, and why have you chosen them?
- 2 Write a first draft of your business plan along the lines recommended.
- 3 Who can help you to edit and rewrite the final version of your plan?
- 4 Prepare and rehearse a presentation of your business plan.
- 5 Who aside from your team can you enlist to advise on your business plan?

## Suggested further reading

- Barker, A (2025) *How to Improve Your Communication Skills: How to build trust, be heard and communicate with confidence*, 7th edn, Kogan Page, London
- Forsyth, P (2022) *How to Write Reports and Proposals: Create attention-grabbing documents that achieve your goals*, 6th edn, Kogan Page, London
- Harvard Business School Press (2007) *Giving Presentations*, Harvard Business School, Boston, MA
- Harvard Business School Press (2007) *Writing for Business*, Harvard Business School, Boston, MA
- Talbot, F (2023) *How to Write Effective Business English: Your guide to excellent professional communication*, 4th edn, Kogan Page, London

## INDEX OF KEY ORGANIZATIONS AND RESOURCES FOR BUSINESS PLANNING

These are the principal sources of help and advice for anyone writing a business plan. This index also contains a collation of all the resources mentioned throughout the book.

### Essential resources for business planners

ACCA ([www.accaglobal.com](http://www.accaglobal.com) (archived at <https://perma.cc/RM8M-U4CV>))  
Access to 2,400+ technical articles on business start-up topics, including recruiting, advertising, grants, market research and sales.

British Business Bank ([www.british-business-bank.co.uk](http://www.british-business-bank.co.uk) (archived at <https://perma.cc/Z35Y-X8PQ>)) Government-owned economic development bank providing finance and support for UK businesses.

British Chambers of Commerce ([www.britishchambers.org.uk](http://www.britishchambers.org.uk) (archived at <https://perma.cc/TW8X-2Q4J>)) Connects businesses locally, nationally and internationally.

British Library Business & IP Centre ([www.bl.uk/bipc](http://www.bl.uk/bipc) (archived at <https://perma.cc/YFN8-RQVF>)) Extensive business research sources covering manufacturing, retail and financial services.

British Standards Institution (BSI) ([www.bsigroup.com/en-GB/small-business/](http://www.bsigroup.com/en-GB/small-business/) (archived at <https://perma.cc/V8CE-RSH5>)) Information on introducing quality standards such as ISO 9000.

Business Writing Guide ([libguides.tamusa.edu/businesswriting](http://libguides.tamusa.edu/businesswriting) (archived at <https://perma.cc/VCZ8-V6GW>)) Writing resources for business plans and proposals.

The CIA World Factbook ([www.cia.gov/the-world-factbook](http://www.cia.gov/the-world-factbook) (archived at <https://perma.cc/8CLF-E8WV>)) Up-to-date economic, political and demographic information for 233 countries.

Companies House ([www.companieshouse.gov.uk](http://www.companieshouse.gov.uk) (archived at <https://perma.cc/2KPW-7LFY>)) Official UK business registry with free company name and address searches.

- Corporate Finance Institute (CFI) ([www.corporatefinanceinstitute.com](http://www.corporatefinanceinstitute.com) (archived at <https://perma.cc/4947-DR24>)) Explanations of financial ratios and business financial analysis.
- Crowdcube ([www.crowdcube.com](http://www.crowdcube.com) (archived at <https://perma.cc/6UP4-KFJ9>)) Equity crowdfunding platform connecting start-ups with investors.
- Department for Business & Trade (DBT) ([www.gov.uk/government/organisations/department-for-business-and-trade](http://www.gov.uk/government/organisations/department-for-business-and-trade) (archived at <https://perma.cc/B5BE-3F77>)) Resources for UK businesses engaging in international trade.
- Enterprise Nation ([www.enterprisenation.com](http://www.enterprisenation.com) (archived at <https://perma.cc/U328-PSTF>)) Business start-up support, podcasts and guides for entrepreneurs.
- Every Woman ([www.everywoman.com](http://www.everywoman.com) (archived at <https://perma.cc/JPD5-V8XT>)) Networking and resources for women entrepreneurs.
- Exporting is GREAT ([www.great.gov.uk](http://www.great.gov.uk) (archived at <https://perma.cc/3EMY-KGEH>)) UK government initiative helping businesses expand internationally.
- The Federation of Small Businesses (FSB) ([www.fsb.org.uk](http://www.fsb.org.uk) (archived at <https://perma.cc/P7C8-ZTNM>)) Provides legal, financial and business support to small enterprises.
- Finance & Business Support (GOV.UK) ([www.gov.uk/business-finance-support](http://www.gov.uk/business-finance-support) (archived at <https://perma.cc/2A3S-4UX6>)) Financial support, loans, and grants available to UK businesses.
- Fiverr ([www.fiverr.com](http://www.fiverr.com) (archived at <https://perma.cc/49AN-S4XY>)) Freelance marketplace for business services and gig economy professionals.
- The Institute of Directors (IoD) ([www.iod.com](http://www.iod.com) (archived at <https://perma.cc/GQH9-XXAY>)) Networking, business advice and professional development for company directors.
- The King's Trust ([www.kings-trust.org.uk](http://www.kings-trust.org.uk) (archived at <https://perma.cc/D32Q-ZL7X>)) Funding and mentoring for entrepreneurs aged 18–30.
- LexisNexis Business Insights ([bis.lexisnexis.co.uk/research-and-insights/nexis](http://bis.lexisnexis.co.uk/research-and-insights/nexis) (archived at <https://perma.cc/SR2J-NYU8>)) Global collection of business news, company profiles and industry insights.
- Market Research Society (MRS) ([www.mrs.org.uk](http://www.mrs.org.uk) (archived at <https://perma.cc/388G-TS68>)) UK's largest professional body for market research and analysis.



National Statistics (UK) ([www.statistics.gov.uk](http://www.statistics.gov.uk) (archived at <https://perma.cc/TTV5-NXJJ>)) Official UK economic and industry data.

Non-Disclosure Agreements (NDAs) (GOV.UK) ([www.gov.uk/government/publications/non-disclosure-agreements](http://www.gov.uk/government/publications/non-disclosure-agreements) (archived at <https://perma.cc/AN6J-MNRW>)) Legal templates and guidance on protecting business ideas.

PeoplePerHour ([www.peopleperhour.com](http://www.peopleperhour.com) (archived at <https://perma.cc/BWR9-LHH8>)) Freelancer marketplace for business tasks and project-based work.

Seedcamp ([www.seedcamp.com](http://www.seedcamp.com) (archived at <https://perma.cc/97US-PXYD>)) European start-up accelerator providing mentoring and investment.

The UK Business Angels Association (UKBAA) ([www.ukbaa.org.uk](http://www.ukbaa.org.uk) (archived at <https://perma.cc/CP82-GWVN>)) Early-stage investment network connecting start-ups with business angels.

The UK Government Business Hub ([www.gov.uk/browse/business](http://www.gov.uk/browse/business) (archived at <https://perma.cc/2QT2-GAX3>)) Comprehensive A–Z guide to government business resources.

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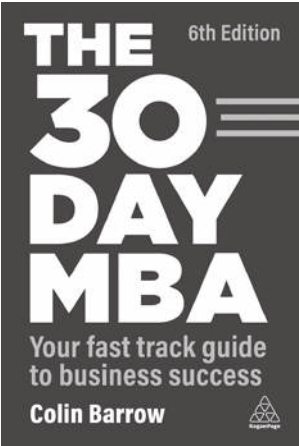
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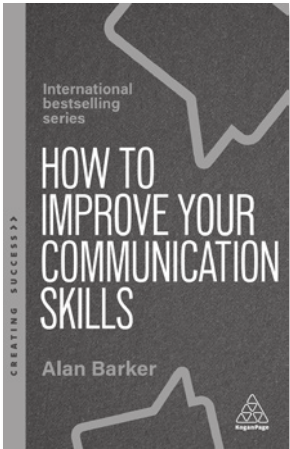


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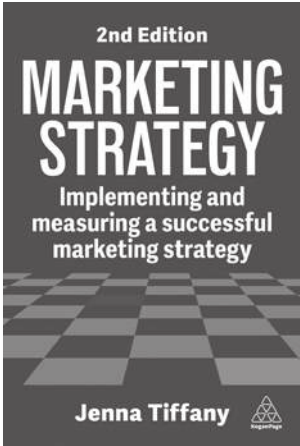
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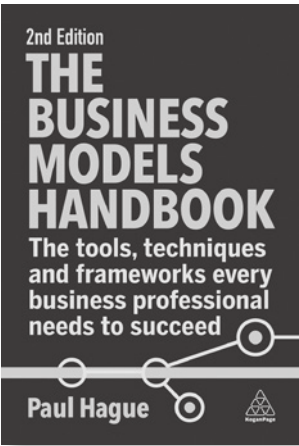
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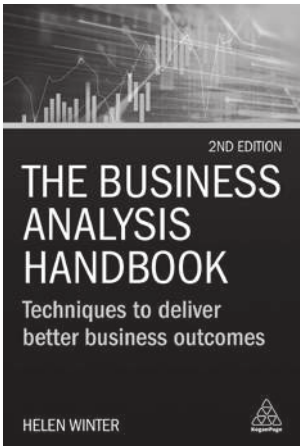
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