

AO2 The Business Plan

Lucy's Ledgers

Summary of the Plan

What is the business?

I intend to start up as a sole trader working from home running my own bookkeeping service. My service will involve completing the financial transactions for business enabling them to get on with other jobs, and have better financial control over their business.

What is the market?

From my research I have decided to target my services at people who are just about to start up their own business or become self employed. I intent to initially target the Hedge End and West End section of Southampton.

Potential for business?

I have decided that the most potential for my business to try and attract customers from people who have not yet used the services of a bookkeeper or accountant. From my initial research 43% of respondents stated they would be interested in a bookkeeping service. The people questioned were already established businesses.

Forecast Profit

Within the main body of this business plan you will see my financial strategy. My forecast profit is £10,596 for the first year of trading.

How much money do I want to borrow?

I am looking for an initial investment of £5,000 in order to purchase a car, office equipment, computer and computer software.

Prospects for the investor

The amount requested is relatively small and therefore I feel would not be a major risk to the investor. I wish to retain my status as a sole trader and therefore do not wish to allow the bank to have a stake in my business. Due to my young age my parents are prepared to act as guarantors to this loan application.

The Service

I propose to offer the following services

Initially – bookkeeping service to businesses. The businesses will either drop their books off to me or I can pick the up and delivery them back. I will also offer businesses the opportunity to allow me to work on their premises.

Within two years – offer businesses training on how to keep their books using the accounts package Sage.

Within five years – having gained my formal AAT qualifications I will be able to extend my services to include more complex work.

The unique selling point of my service is that I am only offering a bookkeeping service. This service is offered by my competitors but may be more expensive per hour or per job as the businesses also offer accountancy services as well. The competition is mainly based in offices which will give them a higher unit cost as they will have higher overheads than myself.

I intent to target my service in two areas Hedge End and West End. The competition in these areas consist of 3 main competitors. However, there are many competitors that are only within a 10 mile radius of where my business will be located.

Marketing Strategy

Product

My primary research showed me that 48% of those questioned were already in business would be interested in the services of a bookkeeper. My one to one interview with an accountant suggested that I should try and target people are just starting up their own business or becoming self employed.

Secondary statistics show that there has been a 9.3% rise in part time self employed people and 8.8% for full time workers. This illustrates growth in this type of employment which I am hoping to tap into.

Through my primary research I found out that 86% of those questioned were interested in the collection and delivery service being offered. I will therefore make this my initial unique selling point. My research also showed that 71% of those questioned would be interested in evening appointments. This is another facility that I will build into my service.

Although only 14% of those questioned were interested in receiving training to keep their books this is still an area that I am going to investigate further in the future. It could have more potential if I am asked to work within businesses premises I might be able to train up existing staff to cover that work that I am undertaking. This will only be a good strategy if I have a steady flow of new customers.

Price

83% of respondents were in favour of a set rate for the completion of books rather than being charged an hourly rate. The price of the service will be based on the amount of transactions the customer is going to make per year and this will have to be discussed with the customer before I start the job. In the contract I will include a clause stating that if the customer is going to make a big change to the amount of transactions they are making in the year then a new fixed rate will have to be agreed. In order to compile my price list I discovered that accountants on average charge between £30 and £40 per hour.

In order to establish a fixed rate fee I will have to discuss each customer's exact requirements. From this information I will then be able to calculate how long each job will take me. I have decided to base my fixed rates of £20 per hour. I will then charge 40p per mile travelling if I have to provide the collection and delivery service. Using this method of costing means that I will have to cost each customer's accounts individually.

Place

My business will be located at home, which is within Grange Park, Hedge End. This is a central location to my target market of Hedge End and West End. My home is located near to the motorway and many new businesses. The channels of distribution will be one of three options:

- customer delivers and collects books
- I collect and delivery back to the customer their books
- I will work within the customer's premises

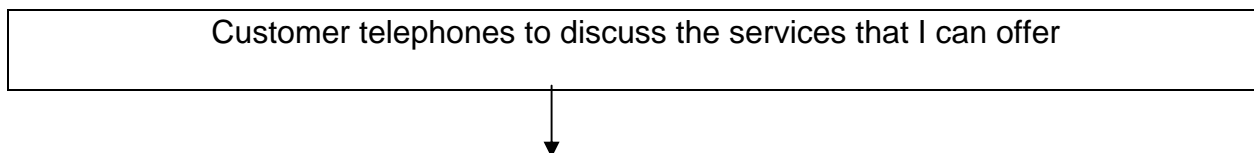
Promotion

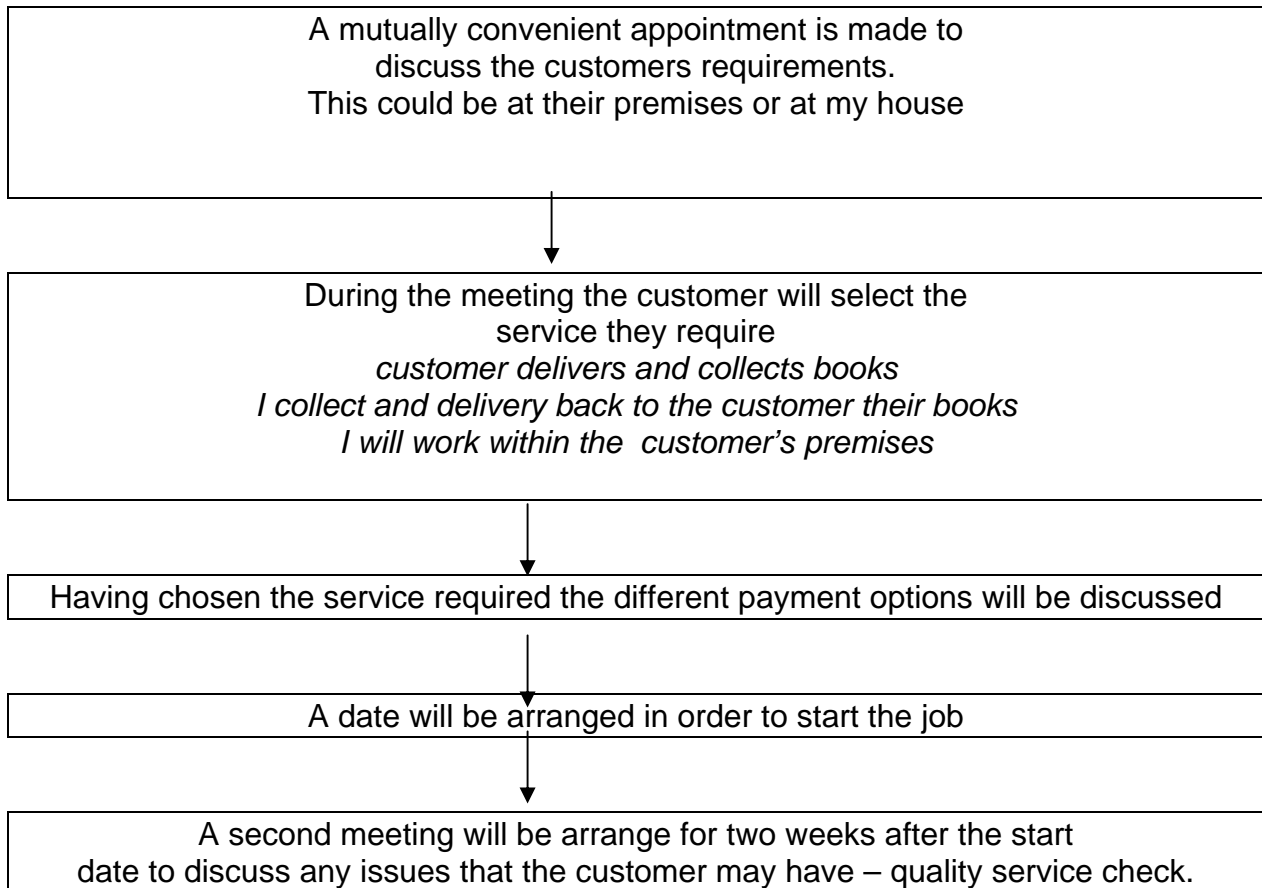
I will advertise my services on flyers which will be placed within the Advertiser a free local paper which is delivered to the Hedge End and West End district. . I will also deliver them personally to small businesses. I will also place a small advertisement in the business section of the Echo which is a daily paper with a business section every Friday night.

Production Plan

Although I will not be producing a product I do have to consider the stages that I will need to go through in order to delivery my service.

Below is a flow diagram of the process that a customer will go through in order to engage my services.





I intend to work on average 37.5 hours per week, but realise that initially my hours may be a lot less. When my business becomes established I might need to work a lot more hours in order to cope with the workload. I envisage being particularly busy at the end of August preparing for the end of September tax submissions to the Inland Revenue. It will also probably be very busy at end of the tax year 3rd April. During these periods I will have to be prepared to work during the evening and weekends.

It is often difficult to assess the quality of the service you are offering your customers. I will use the following techniques to evaluate the customer's perceptions of the services that I am offering.

As illustrated in the flow diagram above I will arrange a second meeting with my clients approximately two weeks from the start of the contract. During this meeting I will discuss with the customer if they are satisfied with the service they are receiving and if there are any improvements that I could make to the service. From this feedback I will endeavour to provide a customer focused service.

A second method of quality control is to measure the increase/decrease in the sales volume. These statistics should also indicate how much new business I have secured and if this was through word of mouth recommendations.

After I have completed a customers books for a year I will send them a questionnaire which will try and establish if they are still happy with the service they are receiving,

what improvements they would like to see and if there are any further services they would like me to offer.

I will need the following equipment in order to get started.

I will need an up to date computer and printer. I will need to install on to the computer Microsoft Office and Sage accounts. I will also need to get an internet provider so that I can communicate with my customers via email for speed and efficiency. I will be able to access the internet in my office upstairs with the use of a wireless internet connector. This service will increase the overall cost of the internet service being used within my house to approximately £29.99 per month against dial up which is only £15.00 per month.

If I attract sufficient customers that want me to work within their premises I might need to invest in a laptop computer so that I can work on a mobile basis.

I will need to finance the installation of a new telephone line into the upstairs office so that I can have a direct line for my business. It would not be very professional to use the current home line.

I will also need to purchase some office furniture. This will consist of a corner table, 2 two draw filing cabinets, and an office chair.

Finance

In order to estimate how much money I need to borrow I have constructed my start up budget. This might also be known as capital budget.

Item	Cost (£)
Office Furniture	1,200
Computer	644
Microsoft Office	175
Sage Accounts	170
Printer – Cannon	89
Car	1,200
Total cost	3,478

In order to make this initial investment I will need to organise a loan. I have a number of choices.

My parents have offered to loan me £5,000 repayable over 36 months with an interest rate of 2.5%. The monthly repayments would be £149.30. The advantages of borrowing from parents are:

- lower interest payments
- will allow me to miss one months payment if I was getting insufficient business

I did investigate different loans from the major banks. Unfortunately I could not get information on the interest rate charged on business loans. Unless you are actually applying this information is not freely available. I did find a general rate quoted on the internet of 10.9%. These are the figures that I have used within my two cash flow forecasts.

My working capital budget will consist of the money that I have in the bank, my debtors and creditors. As I am providing a service it is unlikely that I will have any creditors. I am only going to allow my customers one month's credit. Therefore they will be expected to pay for the services they have received one month after the completion of the contract.

Working capital (based on base case scenario)

	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb
Debtors	400	800	800	1,200	1,600	1,600	1,600	1,600
Bank Balance	781	605	829	1,053	1,462	2,286	3,110	3,934
	<u>1,181</u>	<u>1,405</u>	<u>1,629</u>	<u>2,253</u>	<u>3,062</u>	<u>3,886</u>	<u>4,710</u>	<u>5,534</u>

From the figures above it can be seen that I will not have a working capital problem in the first seven months of trading.

Working capital (based on worse case scenario)

	July	Aug	Sept	Oct	Nov	Dec	Jan
Debtors	400	400	800	800	800	800	800
Bank Balance	781	605	429	653	662	686	710
	<u>1,181</u>	<u>1,005</u>	<u>1,229</u>	<u>1,453</u>	<u>1,462</u>	<u>1,486</u>	<u>1,510</u>

Break even calculations

I have identified my fixed costs as follows:

Rent	720
Telephone	120
Internet	168
Car insurance	689
Computer virus	48
	<u>1,745</u>

My variable costs are:

Motor expenses	540
Stationery	45

585

585 divided by total number of hours 800 hours = 73p (best case scenario)

585 divided by total number of hours 520 = £1.13 (worse case scenario)

Break even for worse case scenario

$$\frac{\text{Fixed costs}}{\text{Sales Price} - \text{variable costs}} = \frac{1745}{20 - 73p} = 91 \text{ hours}$$

This first calculation shows that after 91 hours work I will cover all my fixed costs and begin to make a profit.

Break Even worse case scenario

$$\frac{1745}{20 - 1.13} = 93 \text{ hours in order to break even}$$

Profit and Loss Account for Lucy's Ledgers

	Best case scenario		Worse case scenario	
Sales		16,000		10,000
Less expenses				
Loan repayments	2,220		2,220	
Rent	720		720	
Telephone	120		120	
Internet AOL	14		14	
Stationery	45		45	
Microsoft Office	175		175	
Sage Accounts	170		170	
Virus protection	48		48	
Flyers & Business cards	150		150	
Car insurance	696		696	
Car expenses	45		45	
Depreciation computer	161		161	
Depreciation car	240		240	
Depreciation office furniture	240		240	
		5,044		5,044
Net Profit		10,596		4,956

For the purposes of the profit and loss accounts I have depreciated the computer using 25% straight line and 20% reducing balance for the car and the office furniture.

Cash Flow Forecast July 2006 to June 2007

	July £	August £	Sept £	Oct £	Nov £	Dec £	Jan £	Feb £	Mar £	April £	May £	June £	Totals
Receipts													
Loan	5,000												
Sales		400	800	800	1,200	1,600	1,600	1,600	1,600	1,600	1,600	1,600	
Total Receipts	5,000	400	800	800	1,200	1,600	1,600	1,600	1,600	1,600	1,600	1,600	19,400
Expenditure													
Loan repayments	185	185	185	185	185	185	185	185	185	185	185	185	2,220
Rent	60	60	60	60	60	60	60	60	60	60	60	60	720
Telephone	10	10	10	10	10	10	10	10	10	10	10	10	120
Internet AOL	14	14	14	14	14	14	14	14	14	14	14	14	168
Stationery	15				15				15				45
Office Furniture	1,200												1,200
Computer	644												644
Microsoft Office	175												175
Sage Accounts	170												170
Printer	89												89
Computer virus protection	4	4	4	4	4	4	4	4	4	4	4	4	48

Flyers and Bus Cards	150												150
Car	1,200												1,200
Car Insurance	58	58	58	58	58	58	58	58	58	58	58	58	696
Car expenses	45	45	45	45	45	45	45	45	45	45	45	45	540
Drawings	200	200	200	200	400	400	400	400	500	500	500	500	4,400
Total expenditure	4,219	576	576	576	791	776	776	776	891	876	876	876	12,585
Opening Balance	-	781	605	829	1,053	1,462	2,286	3,110	3,934	4,643	5,367	6,091	
Inflow/outflow	781	- 176	224	224	409	824	824	824	709	724	724	724	
Closing balance	781	605	829	1,053	1,462	2,286	3,110	3,934	4,643	5,367	6,091	6,815	

This first cash flow is based on probably the best case scenario with me being able to increase the amount of contracts that I can undertaken on a monthly basis.

My second cash flow is based on decreased sales. It predicts July's figures remaining stable through to the end of August. In September there is an increase in sales – 10 hours per week. The final increase is in March when my work increases to 15 hours per week

Cash Flow Forecast Number two
Cash Flow Forecast July 2006 to June 2007

	July £	August £	Sept £	Oct £	Nov £	Dec £	Jan £	Feb £	Mar £	April £	May £	June £	Totals
Receipts													
Loan	5,000												
Sales		400	400	800	800	800	800	800	800	1,200	1,200	1,200	1,600
Total Receipts	5,000	400	400	800	800	800	800	800	800	1,200	1,200	1,200	14200
Expenditure													
Loan repayments	185	185	185	185	185	185	185	185	185	185	185	185	2220
Rent	60	60	60	60	60	60	60	60	60	60	60	60	720
Telephone	10	10	10	10	10	10	10	10	10	10	10	10	120
Internet AOL	14	14	14	14	14	14	14	14	14	14	14	14	168
Stationery	15				15				15				45
Office Furniture	1,200												1200
Computer	644												644
Microsoft Office	175												175
Sage Accounts	170												170
Printer	89												89
Computer virus		4								4		4	48

protection	4		4	4	4	4	4	4	4		4		
Flyers and Bus Cards	150												150
Car	1,200												1200
Car Insurance	58	58	58	58	58	58	58	58	58	58	58	58	696
Car expenses	45	45	45	45	45	45	45	45	45	45	45	45	540
Drawings	200	200	200	200	400	400	400	400	500	500	500	500	4400
Total expenditure	4,219	576	576	576	791	776	776	776	891	876	876	876	12585 0
Opening Balance	-	781	605	429	653	662	686	710	734	643	967	1,291	
Inflow/outflow	781	176	176	224	9	24	24	24	91	324	324	324	
Closing balance	781	605	429	653	662	686	710	734	643	967	1,291	1,615	

Start up Balance Sheet for Lucy's Ledgers

Fixed Assets	£
Computer	644
Office furniture	1,200
Printer	89
Car	1,200
	<hr/>
	3,133
Current Assets	
Bank	1,867
	<hr/>
	5,000
Financed by	
Loan	5,000

Human Resource Plan

Currently my business does not require any additional labour. I will need to spend at least the next two years developing contacts and attracting customers before I can consider employing anybody else.

When I reach the point that I am between 50/60 hours a week I will consider taking on a part time employee. This will also allow me to take some time away from the business to start my official AAT training on a day release basis.

Skills and Competencies

When I do consider taking on an employee I will want to take the opportunity of training the new employee. Therefore I do not require them to have more than 5 GCSEs including Maths and English. They would need to be confident when dealing with the general public. I would like them to have had some customer service experience. Potential candidates would also need to demonstrate basic computer skills.

Training needs of employees

I will train the employee to use the Sage accounting course. I will also pay for the employee to attend a night class to gain some basic bookkeeping qualifications. If I had sufficient work I would then consider offering the employee the chance to participate in day release in order to gain their AAT qualifications. If the part time employee was interested in undertaking this level of study they would have to attend college in their own time but I would be prepared to pay their course fees.

Recruitment methods

In order to employ a part time semi skilled employee I would place a small advertisement in the local paper – The Echo. I would invite the applicants to

telephone in for an application form. I would then shortlist potential applicants comparing their application form to the job description and personal specification. I would then call the best six for an interview. The interview would last approximately half an hour and would consist of a face to face interview and a short computer test. I would then telephone the successful applicant and if they accept the post put the offer of employment in writing. I would then have to write to the unsuccessful applicants.