THE FINANCIAL PLAN

buildingbathurst

The financial plan should relate to the business plan and should list the key financial objectives which are essential for your business to achieve.

The document should explain the basic financial needs of the business, starting with the initial capital and your expected cash needs.

For example:

- To reduce the overdraft from $250,000 to $150,000.
- To reduce debtor days from 60 days to 45 days in the next quarter.
- To increase gross margin from 12% to 15%.

The financial plan should also dovetail with the marketing plan. The plan needs to include establishment costs which indicate the total funds required to set up your business and cover its operating costs until it becomes profitable.

Establishment costs include:

- Exploratory costs such as business planning, market research and product sample costs.
- Initial operating costs such as lease, computer software, licenses and permits and insurances.
- Capital costs such as office equipment, plant & machinery, building costs, shop fittings.

The financial plan should include a profit & loss projection including sales forecasts, cost budgets and profit targets for the start up period.

Always consult your accountant and business advisor to get an independent review of your financial plan.

When starting a business, one of the first and most critical points to address is identifying all the potential costs you will face. These include both the start-up costs and the ongoing costs.

Start up and ongoing costs:

Start-up costs are the initial outlays when setting up your business. These are one-off costs that occur before your business begins trading. Typical start-up costs include shop fit-outs, factory and office setup, equipment and machinery purchases, office supplies, business and other registrations, licence and permit fees, along with any legal costs.

Ongoing costs are the recurring costs necessary to run and maintain the business. These costs include items such as wages and on-costs, mortgage/rent, electricity expenses, insurance and advertising costs.

It is also very important to consider including an allowance or "float" as working capital for the early stages where you may not necessarily be generating enough revenue to cover all your costs.

Once you have obtained this information, you will be able to prepare a detailed budget that covers the start-up costs, ongoing costs and initial working capital requirements so you can calculate your overall financing requirements.

Sources of Finance:

There are various sources of finance available to small businesses, each carrying different benefits and costs. It is important to carefully evaluate your specific requirements and determine which sources of finance are best suited to the needs of your business.

Typical sources of finance include:

- Personal savings.
- Credit cards.
- Friends and relatives.
- Angel Investors.
- Leases.
- Bank Loans.

Based on a review of your financing needs and the various costs and benefits of different sources available, you can determine from which source to seek your finance. Financing the start-up of a business yourself by using your personal savings, taking out an equity loan on your home or through credit cards is usually the easiest and sometimes the cheapest financing option. However investing your own funds involves a level of personal risk that you need to carefully consider.

Obtaining finance from friends and relatives also presents a cheap and flexible alternative. However, it is important to remember that involving friends and relatives as investors can get complicated and end up affecting your relationship with them. Business angel investors provide financing in return for an equity stake or a share in your business. Selling equity in your business generally triggers various legal, taxation and accounting consequences, so you may wish to seek professional advice before accepting financing from an investor.

Leasing involves a financier purchasing the equipment that you require and then leasing it to you in return for regular rental payments for the duration of the lease term. At the completion of the lease term, you are offered the option of purchasing the equipment at an agreed residual value.

Bank loans are the most common source of funding for a small business. Examples of bank loans include:

- **Term loans:** A loan paid back over an agreed period (term) where principal and interest are paid off in monthly repayments.
- **Mortgages:** used to finance the purchase of land and buildings. It is generally repaid by regular instalments including principal and interest.
- **Bank overdrafts:** borrowing up to a certain amount from your bank when the need arises, allowing for flexibility and convenience.

Grants and Assistance:

Grants and other funding programs are available from the federal, state and territory governments and in some cases from local councils. Generally there are no grants available for starting a business, however, there are grants and other assistance available activities such as expanding your business, training, research and development, innovation and exporting.

More Information:

Federal and state government grants and assistance:

- The Australian Government Principal Business Resource:
  www.business.gov.au/BusinessTopics/Grantsandassistance/Pages/default.aspx
- Department of Regional Australia, Local Government, Arts and Sport:
  www.grantslink.gov.au
- NSW Department of Regional and State Development, for information on NSW government initiatives:
  www.smallbiz.nsw.gov.au/run/hr/employment/recruitment/pages/incentivessupport.aspx
- Department of Innovation, Industry, Science and Research, for information on federal government initiatives:
  www.innovation.gov.au/SmallBusiness/Pages/default.aspx
- Start up cost calculator:
  www.finance.gov.au/obpr/bcc/index.html

Other funding resources:

- Our Community Funding Resource link:
  www.ourcommunity.com.au/

www.bathurstregion.com.au/building-bathurst/

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